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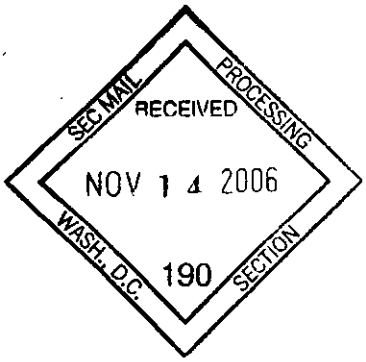
biosciences monogram

The Mark of
Individualized Medicine



2005 ANNUAL REPORT

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

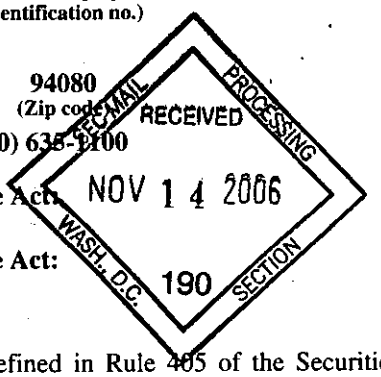
For the Transition Period From to

Commission file No. 000-30369

MONOGRAM BIOSCIENCES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**94-3234479**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer identification no.)**
345 Oyster Point Blvd South San Francisco, California	**94080**
(Address of principal executive offices)	**(Zip code)**



Registrant's Telephone Number, Including Area Code: (650) 635-1100

Securities Registered Pursuant to Section 12(b) of the Act:
None

Securities Registered Pursuant to Section 12(g) of the Act:
Common Stock, $0.001 Par Value
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ☒.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2005 was $222,288,106.*

The number of shares outstanding of the Registrant's Common Stock was 130,139,635 as of March 9, 2006.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant's Definitive Proxy Statement, to be filed with the Securities and Exchange Commission (the "Commission") pursuant to Regulation 14A in connection with the 2006 Annual Meeting of Stockholders (the "2006 Annual Meeting"), is incorporated by reference into Part III of this Report.

* Excludes 36,704,822 shares of Common Stock held by directors, officers and stockholders whose beneficial ownership exceeds 5% of the Registrant's Common Stock outstanding. The number of shares owned by such persons was determined based upon information supplied by such persons and upon Schedules 13D and 13G, if any, filed with the SEC. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the Registrant, that such person is controlled by or under common control with the Registrant, or that such persons are affiliates for any other purpose.

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This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 including, without limitation, statements regarding development and commercialization of our proposed products and services, our anticipated rate of capital usage and the possible growth of our business into new markets. These statements, which sometimes include words such as "expect," "goal," "may," "anticipate;" "should," "continue," or "will," reflect our expectations and assumptions as of the date of this Annual Report based on currently available operating, financial and competitive information. Actual results could differ materially from those in the forward-looking statements as a result of a number of factors, including our ability to successfully complete the development and clinical validation of eTag assays and commercialize these assays for guiding treatment of cancer patients, the potential role of our assays in the development and use of new classes of HIV drugs such as CCR5 inhibitors, the market acceptance of our products, the effectiveness of competitive products, new products and technological approaches, the potential impact of the Contingent Value Rights on our financial position, the risks associated with our dependence on patents and proprietary rights, the possible infringement of the intellectual property rights of others, and our ability to raise additional capital if needed. These factors and others are more fully described in "Risk Factors" and elsewhere in this Form 10-K. We assume no obligation to update any forward-looking statements.

PART I

Item 1. *Business*

Overview

We are a life sciences company committed to advancing personalized medicine and improving patient outcomes through the development of innovative molecular diagnostic products that guide and target the most appropriate treatments. Through a comprehensive understanding of the genetics, biology and pathology of particular diseases, we have pioneered and are developing molecular diagnostics and laboratory services that are designed to:

- enable physicians to better manage infectious diseases and cancers by providing the critical information that helps them prescribe personalized treatments for patients by matching the underlying molecular features of an individual patient's disease to the drug expected to have maximal therapeutic benefit; and
- enable pharmaceutical companies to develop new and improved anti-viral therapeutics and targeted cancer therapeutics more efficiently and cost effectively by providing enhanced patient selection and monitoring capabilities throughout the development process.

We are a leader in developing and commercializing innovative products that help guide and improve the treatment of infectious diseases, cancer and other serious diseases. Our goal with personalized medicine is to enable the management of diseases at the individual patient level through the use of sophisticated diagnostics that permit the targeting of therapeutics to those patients most likely to respond to or benefit from them, thereby offering *the right treatment* to *the right patient* at *the right time*.

Monogram's PhenoSense™ and GeneSeq™ products provide a practical method for measuring the impact of genetic mutations on human immunodeficiency virus, or HIV, drug resistance. This information is used to optimize various treatment options for the individual patient. We currently market several products directed at patients with HIV infection and have a number of additional assays that are in use by pharmaceutical companies in their clinical trials of new drugs that could, in time and if these new drugs are approved for use, provide additional valuable information to physicians in aiding the management of their patients' disease progression.

Over the last several years, we have built a business based on the personalized medicine approach in HIV drug resistance testing. We now seek to leverage the experience and infrastructure we have built in the HIV market to the potentially larger market opportunity of cancer utilizing our proprietary *eTag*™ technology, acquired through our merger with ACLARA Biosciences, Inc. or ACLARA, that was completed in December 2004. In the future, we plan to seek opportunities to address an even broader range of serious diseases.

New targeted drug therapies are being introduced for the treatment of cancer. Our proprietary *eTag* technology provides an assay platform for analyzing very small amounts of tumor samples recovered and prepared in a variety of methods, including formalin fixation, the current standard technique in hospital pathology laboratories. This analytical platform is expected to be particularly well suited for the next generation of targeted cancer therapeutics. We believe the likelihood of a patient's cancer responding to a given therapy can be predicted with a high degree of accuracy utilizing *eTag* assays, facilitating the selection of more precise and effective therapeutic options. We are developing Epidermal Growth Factor Receptor, or EGFR/HER, *eTag* assays that we believe will enable physicians to identify the appropriate course of treatment for cancers that have a particular molecular profile. While our initial focus is on drugs that target the EGFR/HER receptor family, we intend to develop *eTag* assays that target other protein drug targets and signaling pathways that are key drivers of proliferation or survival in cancer cells.

We were incorporated in the state of Delaware in November 1995 and commenced commercial operations in 1999. Our principal executive offices are located at 345 Oyster Point Blvd., South San Francisco, CA 94080. Further information can be found on our website: *www.monogrambio.com*. Information found on our website is not incorporated by reference into this report.

Background

Personalized Medicine

There is growing evidence that while many serious diseases, such as HIV and cancer, can be characterized at the molecular level, many drugs simply do not work optimally for an entire population of patients in these broad disease categories. The biopharmaceutical industry is witnessing two mutually dependent innovations:

- targeted therapies that act on very specific disease mechanisms that may not be present in all patients with a broadly defined disease; and
- molecular diagnostic tests that may be able to predict in advance if a patient is likely to respond to a certain drug.

Based on these innovations, a new approach to disease management is emerging—*Personalized Medicine*—in which the most effective treatment options for the individual patient can be identified using specific diagnostic tests. The ideal of personalized medicine is to move from the so-called "one size fits all" method of drug treatment, to providing "the right treatment to the right patient at the right time."

Infectious Diseases

Viruses are microorganisms that must infect living cells to reproduce or replicate. These viruses infect human cells and replicate, making new viruses that can infect other cells. There are many different types of viruses, but all viruses share structural and functional characteristics associated with their ability to replicate. During the replication cycle, all types of virus often change slightly, or mutate. This is particularly true of viruses such as HIV and hepatitis C virus, or HCV. For example, in an untreated HIV-infected patient, HIV generates virus variants with genetic mutations at every possible nucleotide position, causing billions of new viruses to be produced each day. At any given time there can be many different variants of the virus present within the infected patient's body, each with a slightly different genetic sequence. This large number of virus variants allows HIV to adapt very rapidly and develop resistance to drugs. As a consequence of drug resistance, HIV continues to cause a large number of infections and deaths despite the availability and introduction of new and effective treatments.

Viral drug resistance refers to a reduction in the ability of a particular drug or combination of drugs to block replication of the virus. Drug resistance typically occurs as a result of mutations that accumulate in the viral genome as it replicates. As the virus replicates and creates a multitude of mutations, the drug resistant mutations become more prominent. For people infected with HIV, drug resistance can render drugs less effective or even

completely ineffective, thus significantly reducing treatment options. The emergence and spread of strains of virus with drug resistance means that the ability to treat infections and save lives has become increasingly difficult.

There are approximately 40,000 new diagnoses of HIV infection in the United States each year. In time most of these progress to AIDS, which is one of the leading causes of death worldwide. It is estimated that approximately one million individuals in the United States are currently living with this disease. While once considered a fatal disease, with the advent of 20 FDA-approved anti-viral drugs for treatment of HIV and over 60 more in development, HIV infection increasingly can be treated as a chronic disease.

The Viral Drug Resistance Crisis

While more effective combination treatment regimens have been introduced for HIV, e.g. HAART (highly active antiretroviral therapy), over time the virus often develops resistance to the administered drugs, requiring a change in the combination of anti-viral agents prescribed. Selecting the right combination of drugs for optimal treatment of HIV patients is often difficult when physicians have limited information about the susceptibility of the patient's HIV to specific anti-viral drugs. Each treatment failure increases the risk that the next drug combination will not work or work for a shorter period of time leaving the patient with fewer effective future treatment options. Physicians are faced with the challenge of tailoring therapy to individual patients numerous times over the course of the disease.

Resistance to anti-viral drugs is one of the most serious impediments to successful treatment of HIV/AIDS patients. In response to the problem of anti-viral drug resistance, physicians use combinations, or cocktails, of anti-viral drugs, attacking different targets within the virus simultaneously. However, even combination therapy eventually fails in a great majority of patients, due in large part to the fact that the virus becomes resistant to some or all of the drugs used in combination.

Anti-viral drugs approved by the U.S. Food and Drug Administration, or FDA, are generally used in various combinations to treat HIV infected patients. Combination therapy requires each drug in the combination to be active, interfering with key viral functions, for the therapy to be most effective. If any of the drugs are not active, the combination therapy will likely fail more quickly. Each treatment failure leaves the patient with fewer future treatment options. Drug resistant viruses can also be transmitted to newly infected individuals, increasing the risk that initial treatment for those individuals will not work.

There are 20 drugs approved by the FDA for treatment of HIV. These generally fall into four classes of drug. These are nucleoside reverse transcriptase inhibitors, non-nucleoside reverse transcriptase inhibitors, protease inhibitors and entry inhibitors. Most currently approved HIV therapeutics are in the first three classes. There is one approved entry inhibitor, although many are in development including those targeting the use by HIV of the CCR5 co-receptor, which are the most advanced in clinical trials. In addition, other new classes of drug, such as integrase inhibitors and assembly inhibitors, are evolving. These new drug classes may be expected to add to the richness of available therapeutic choices for physicians and patients, but they also add to the complexity of the choices and increase the need for sophisticated techniques for choosing among those potential therapies.

While new anti-viral drugs with increased potency and activity against drug resistant viruses are under development, the ability of HIV to mutate and replicate continues to challenge physicians, who are faced with the challenge of identifying the most appropriate therapy for the individual patient.

Viral Resistance Testing

In response to the challenge posed by drug resistant viruses and the complexity provided by multiple choices of therapeutic, tests have been developed to assess the resistance of viruses to particular drugs. Simple tests based on an analysis of the genetic composition of the virus are now quite common. In addition, more

sophisticated tests focused on more direct, or phenotypic, measurement of drug resistance are also available. The technologies available for resistance testing are:

- Phenotypic Assays—based on direct measurements of anti-viral susceptibility in cell culture assays in the presence of all commercially available drugs, and
- Genotypic Assays—based on scanning the viral genome to identify known mutations associated with resistance to particular drugs.

Both types of test may improve treatment response and can be used either to realign existing therapy or to help selection of the best initial therapy for a patient. Resistance testing has emerged as the "standard of care" in the management of patients with HIV. Current treatment guidelines from the U.S. Department of Health and Human Services, the International AIDS Society-USA and the EuroGuidelines Group recommend resistance testing to identify new potent drug combinations after therapy failure. Phenotypic testing provides the most direct measure of drug resistance and, when combined with genotypic testing, provides the most comprehensive view of a patient's situation. The ultimate goal of resistance testing is to optimize therapies for the individual patient. Increasingly, the complexity of the virus, the sophistication of available testing, and the cost to the patient both in terms of lost future treatment options as well as funds spent on expensive but ineffective therapies, make it more and more critical that physicians have access to as much information as possible when they determine therapy for their patients.

Oncology

Over one million new cases of solid tumor cancer are diagnosed each year in the United States, with three cancer types (breast, lung and colorectal) accounting for over 500,000 of these. While the incidence of lung cancer is declining slightly, the incidence of breast and colorectal cancer is believed to be increasing at approximately five percent annually.

Although there are often several therapeutic options for a given indication, treatment is typically expensive and accompanied by a host of adverse side effects that are detrimental to patients' quality of life. In many cases, treatments are effective in only a small percentage of the total patient population and so multiple treatment options must be pursued sequentially until an effective one is found. Often, relatively non-specific broader acting cancer therapeutic agents, including various chemotherapies and radiotherapy are used as first-line and second-line therapies, before more specific, targeted therapeutics are used. These broader agents often have serious debilitating side effects associated with them. Typically, not until a patient has "failed" these treatments either because of intolerable or adverse side effects or because their cancer does not respond or has progressed are newer targeted therapies tried. These targeted therapies are often used in third-line treatment because the percentage of patients in the overall population for whom they are effective is relatively low (10%-20%). For patients with a life threatening disease, the sequential approach to the selection of therapies is not optimal but is a consequence of the limited information available to physicians. Despite many years of clinical studies, physicians still have inadequate information on which to base many treatment decisions and many newer targeted drugs have low levels of response in the general disease population, even though in a subset of the patient population they can be extremely effective. The consequences of suboptimal or inappropriate therapies include poor patient outcomes, both from side effects and lack of activity, as well as an economic burden on the healthcare system—the added costs of the physician's time, wasted drugs and increased hospitalization.

Patient Selection Testing

There is growing acknowledgement that the current methods of classifying different types of cancer by the tissue of origin (e.g. breast cancer or lung cancer), are relatively imprecise, and that better methods of categorizing an individual's cancer or tumor may be possible. In fact, it is now believed that individual tumors of different types (e.g. lung cancer and breast cancer) from different patients may be more closely related at the molecular level, and more likely to respond to a particular targeted therapy, than two lung tumors or two breast tumors. Separate lung cancer tissues may appear to be the same, but at the molecular level they may display very

different biological processes. For a treatment to be optimally effective in killing or controlling cancer cells in an individual patient, it is desirable to have diagnostic tests that are able to "see" at this level, determine what is driving the growth of the cancer cells in that individual patient, and which drug will affect that particular process.

Cancer cells proliferate through the activation and interaction of complex biological pathways, stimulated by both extracellular signals and intracellular changes. In order to cure a patient's cancer, or to control it and limit its progression, physicians must have an understanding of these complex processes, and which particular pathways have been activated and are driving cancer cell growth in each particular patient. New molecular methods and analytical techniques are attempting to provide this information. These new technologies hold the potential for revolutionizing cancer diagnosis and treatment, enabling physicians to make decisions on what treatment options are best suited for an individual patient.

Recently there has been scientific debate about the predictive nature of particular genetic markers or genomic structures, such as the identification of specific gene mutations present in the tumor tissue of certain patients. While this information is extremely useful in some cases, the biological patterns that result in uncontrolled cell growth and cancer are much more complex, and are influenced by many additional factors, than can be communicated in simple gene mutations. We believe that a more comprehensive understanding of the biology involved in cancer cell growth and drug response, especially at the level of proteins, protein complexes and signaling pathways, where most drugs work, is required to enable physicians to select the right therapy. In our view, effective diagnostic tests are those that can identify the presence of the proteins and protein complexes that are the targets of the drugs in question. Even greater predictive power would likely accrue to those diagnostic tests able to measure the targets in their activated state, i.e., those target proteins actively involved in the disease process or mechanism attacked by the drug.

There are many cellular pathways, which when activated, cause proliferation of cancer cells. One of these, on which substantial drug development activity has been targeted, is the EGFR/HER pathway. The four receptors in the EGFR/HER family—HER1, HER2, HER3 and HER4—are present on the surface of many cells and when activated can combine with other HER family receptors to form a protein "dimer". These dimers initiate pathways that can cause proliferation of cancer cells. Four drugs approved by the FDA target various elements of this family of pathways. These are Herceptin®, Iressa®, Tarceva®, Erbitux®. Many more drugs targeting this pathway are in development. The protein complexes targeted by these drugs are not present in all patients and when present, are present in different proportions. Accordingly, the ability to detect and quantify the presence of the relevant activated drug targets is important to understanding whether particular drugs are likely to be effective. Simple analysis of whether certain proteins are present is not sufficient without the additional information as to their activation status.

Monogram's Solution

Our solution to these challenges is based on molecular diagnostic tools that are designed to aid drug development and guide patient therapy by:

- enabling physicians to better manage infectious diseases and cancers by providing the critical information that helps them prescribe personalized treatments for patients by matching the underlying molecular features of an individual patient's disease to the drug expected to have maximal therapeutic benefit; and
- enabling pharmaceutical companies to develop new and improved anti-viral therapeutics and targeted cancer therapeutics more efficiently and cost effectively by providing enhanced patient selection and monitoring capabilities throughout the development process.

Infectious Diseases

Our proprietary technology identifies drug resistance in viruses that cause serious infectious diseases. Our products are used primarily in the management of patients with HIV/AIDS, and our technologies could also be

readily applied to other serious infectious diseases. We make our tests available both to physicians to guide the management of patients' treatment and to pharmaceutical companies to aid in the development and clinical evaluation of new drugs.

The following table sets out the products that are offered to physicians in guiding the selection of therapy from among approved drugs and the tests available to pharmaceutical and biotechnology companies for use in drug development and clinical trial patient recruitment:

Products for HIV Testing

Product	Description	Target Customer	
		Physicians	Pharmaceutical Companies
PhenoSense HIV	Directly and quantitatively measures resistance of a patient's HIV to anti-viral drugs	✓	✓
GeneSeq HIV	Examines and evaluates the genetic sequences of a patient's HIV	✓	✓
PhenoSense GT	Combination product of the PhenoSense HIV and GeneSeq HIV tests integrated into one report	✓	✓
Replication Capacity HIV (1)	Measures viral fitness, or the ability of a virus to reproduce and infect new cells	✓	✓
PhenoScreen	High-throughput screening for the identification of potential clinical drug candidates	N/A	✓
PhenoSense HIV Entry	Directly and quantitatively measures resistance of a patient's HIV to entry inhibitors	✓	✓
GeneSeq HIV Entry	Examines and evaluates the genetic sequences of a patient's HIV for evidence of resistance to entry inhibitors		✓
Co-Receptor Tropism	Identifies the co-receptor the patient's virus uses to enter cells – tropism, may be a prognostic factor in the pace of HIV disease progression	(2)	✓
PhenoSense and GeneSeq HIV Integrase	Measures HIV resistance to integrase inhibitors for use in research and drug development		✓
PhenoSense HIV Antibody Neutralization	Tests patients' blood samples for the presence of antibodies that neutralize the HIV virus preventing the virus from infecting other cells (used in vaccine development programs)		✓

(1) The Replication Capacity HIV test data is provided with the PhenoSense HIV and PhenoSense GT test data.

(2) The Co-Receptor Tropism assay is Clinical Laboratory Improvement Amendments of 1988, or CLIA approved and could be made available to physicians but is not currently made available as there are no relevant drugs approved for commercial use.

In addition to the HIV testing products detailed above, we have PhenoSense HCV and GeneSeq HCV assays that we make available to pharmaceutical companies for use in their drug discovery and development programs.

The products that are currently used in pharmaceutical company testing may represent potential future new products for the patient testing aspect of our business as clinical utility is established and as additional drugs are commercialized.

Physicians

Utilizing the information from the various products that we have developed, physicians are able to manage the treatment of HIV and prescribe personalized treatments for patients.

Our GeneSeq test determines the genetic sequence of HIV and provides physicians with a prediction of expected drug resistance based on the particular mutations present in the individual patient's virus. Our PhenoSense technology, rather than relying on known genotypic associations to make predictions of drug resistance, provides a direct measurement of the activity of each of the currently available anti-retroviral drugs against the patient's individual virus. By directly measuring the interaction of drug with viral enzyme, it avoids the need to rely on predictions when knowledge of genotypic resistance is lacking. The direct and quantitative nature of the phenotypic information that is provided facilitates a more useful characterization of the continuum of resistance than can be derived from basic genotypic tests. In addition, our tests can be automated and performed in large numbers, making them practical for routine use in the clinical management of patients.

Our Co-Receptor Tropism Assay identifies the co-receptor that the patient's HIV uses to enter the cell. For the new class of CCR5 inhibitor drugs, it is important to know which co-receptor is being accessed by the virus for entry into cells. This test is currently being used to select patients for clinical trials of CCR5 inhibitors in development and may be used, once the drugs are approved, to aid physicians in prescribing the drugs.

We believe the information generated by our technology supports and guides the decision making process for physicians to identify optimal therapeutic treatment regimens for each patient. Through our genotypic and phenotypic tests, we provide a comprehensive report to the physician outlining the likely response of the patient's disease to all 20 approved drugs. To provide more cost effective and timely data to the physician, we utilize an online test reporting system for our comprehensive portfolio of HIV drug resistance assays, PhenoSense GT, PhenoSense HIV and GeneSeq HIV. Our secure online system facilitates data analysis, allowing examination of historical patient resistance data to help identify resistance patterns in patients over time, and it helps decrease the time between sample submission and reporting the results of the assays to physicians.

Pharmaceutical Companies

Pharmaceutical companies are under significant pressure to increase the productivity of their research and development functions. Significant impact on revenue for a pharmaceutical company can be derived from accelerating the progress of existing drugs in development through clinical trials, as well as by enhancing drug discovery programs.

Increasing the speed and probability of success of clinical trials and accelerating the commercialization of drug candidates can be achieved through the advent of tests that are based on a personalized medicine approach. By identifying patients utilizing biomarkers that are predictive of response to the drug under investigation, we believe clinical trials can be shorter, smaller and less costly, and have a higher probability of successful completion. In addition, the drug can be prescribed with a higher degree of expected effectiveness, be brought to market more rapidly, and potentially be positioned as a first- or second-line treatment rather than a second- or third-line treatment.

Our products can be utilized by drug developers to:

- Predict novel compounds' potential benefits based on activity against a wide range of actual patient viruses and specific mutational patterns compared with other drugs in the same class, and
- Prioritize and optimize drug candidates based on identification of compounds with the best resistance profiles, allowing companies to invest resources in the most promising drug candidates.

Clinical trials are the most expensive part of drug development and pharmaceutical companies are now utilizing the information from pharmacogenomics, the scientific discipline focused on how genetic differences

among patients determine or predict responsiveness or adverse reactions to particular drugs, to improve the outcomes of clinical trials. In a similar way, pharmaceutical companies are applying our PhenoSense technology to help select and monitor suitable patients for clinical trials and optimize background therapy prior to treatment with the investigational compound. This selection process may allow pharmaceutical companies to guide important drug development decisions before large resource commitments are made. To date, we have provided testing services to almost all the pharmaceutical companies with drugs in development for treatment of HIV/AIDS and our tests have been used in the development of every drug approved for treatment of HIV in the past five years. Importantly, the FDA has endorsed and emphasized the importance of resistance testing in drug development.

Oncology

Utilizing the *eTag* technology, acquired in our merger with ACLARA, we plan to expand our franchise into oncology. We aim to leverage our commercial experience to develop molecular diagnostic tests that will differentiate those patients who are likely to respond to new targeted therapies from those patients who are not likely to respond. We are currently completing the development of our proprietary *eTag* assays that measure specific activated proteins and protein complexes and utilize tumor samples obtained from a patient's biopsy, to aid in prescribing the new targeted cancer drugs for these patients.

Our *eTag* assays require only a very small amount of biological sample and are designed to be performed directly on fresh, frozen and the standard clinical format—formalin-fixed paraffin-embedded clinically derived patient samples. This ability to utilize small amounts of human clinical samples in a wide range of formats, without extensive and time-consuming sample preparation, makes *eTag* assays well suited to diagnostic applications in human disease management.

Importantly, *eTag* assays can detect proteins and protein complexes that are not readily discernible with other technologies, especially in formalin-fixed human clinical samples. These analytes are expected to provide valuable information with respect to the activation states of key signaling pathways that drive cell proliferation and survival in tumors, and serve as biomarkers that indicate the likelihood of response to particular targeted therapeutics in individual patients and specific patient sub-groups.

Physicians

We intend to complete the development of our first commercial *eTag* assay product, an Epidermal Growth Factor Receptor, or EGFR/HER, receptor assay panel that will enable physicians to identify the appropriate course of treatment for cancers that have characteristic profiles of receptors in the EGFR/HER receptor family. These assays have been developed and utilized in a research setting and have been evaluated by several pharmaceutical companies. We are completing the development of these assays and their transfer into our Clinical Laboratory Improvement Amendments of 1988, or CLIA, certified clinical laboratory so that, after validation in accordance with CLIA standards, commercial tests can be launched. Retrospective clinical studies are being conducted to further evaluate and confirm the clinical utility of our assays. In these studies, we are accessing previously collected tumor samples, performing our *eTag* assays on those samples and comparing the results and predictions obtained from our assays with the known patient response data. A number of studies are in progress and planned to generate this information. These studies involve a number of leading cancer centers, which have provided tissue samples and will collaborate with us to correlate the identified markers with clinical response.

Pharmaceutical Companies

Several cancer drugs that target the EGFR/HER pathway have been approved for marketing (Herceptin®, Iressa®, Tarceva®, Erbitux®) with many more in development. As pharmaceutical companies continue to develop these targeted cancer therapies, there is an urgent need to be able to distinguish those patients who are likely to respond to these treatments from those who will not.

eTag assays are made available to pharmaceutical and biotechnology companies under collaborative agreements through which they can access our proprietary assay systems and development expertise for use in clinical development programs. These assays and services can be a critical aide in patient selection in clinical trials of targeted therapies that may be highly efficacious in selected patient populations while only minimally effective in the general patient population. We have conducted, and are conducting, evaluations with several pharmaceutical and biotechnology companies and intend to develop expanded collaborations with these companies.

On-Going Clinical Studies

We are currently conducting validation studies in conjunction with independent clinical collaborators at leading cancer centers around the world. In these studies we are accessing tissue samples and identifying various activated proteins and protein complexes using the *eTag* assays and correlating these markers with clinical response. For example, at the American Association for Cancer Research (AACR) / National Cancer Institute (NCI) / European Organization for Research and Treatment of Cancer (EORTC) meeting in November 2005, we reported on a study of tissue samples from 55 patients who had been treated with Iressa and in which correlations were identified between activated protein dimers and clinical response. A positive predictive value of 79% was reported in this study. Additional studies are under way, involving different cancer types and different drugs targeting the EGFR/HER pathway. In these studies, we seek to refine the correlations and to establish algorithms that can be applied predictively to larger data sets. Upon satisfactory completion of these additional studies, we will be working with our collaborators to have the studies published to provide a basis for a commercial testing product.

Monogram's Strategy

Our objective is to be a world leader in developing and commercializing innovative products to help guide and improve the treatment of infectious diseases, cancer and other serious diseases. We have focused on developing products that meet the treatment needs for infectious diseases, primarily HIV/AIDS and believe that we have built the leading franchise in this area. We now seek to expand into the area of cancer therapy and in the future will seek opportunities to address an even broader range of serious diseases.

Our strategy for addressing these objectives is two-fold: to support drug development and guide patient therapy. Specifically, key elements of our strategy are to:

- *Leverage the Increasing Trend Towards Personalized Medicine.* Our innovative technologies are developed to facilitate guiding treatment regimens for specific patients. There is a growing need for technologies that identify those particular patients so that the drugs can be prescribed for the appropriate patient groups allowing for a personalized approach to therapy, by getting the right treatment to the right patient at the right time.
- *Maintain and Enhance Our Leadership Position in Drug Resistance Testing for Viral Diseases.* We believe we are the leading provider of sophisticated tests for HIV drug resistance and have established ourselves as a leader in this field. We plan to maintain our leadership position by continuing a strong emphasis on the scientific basis for our products and applying our scientific expertise to other infectious diseases.
- *Develop a Leadership Position in Products to Guide Cancer Treatments.* We intend to develop a market position in oncology that mirrors the leadership position we have built in infectious disease, through our proprietary *eTag* technology. New targeted cancer drugs that are approved for marketing provide an outstanding opportunity for our expertise in developing tools that can differentiate likely responders and non-responders in a large patient population.
- *Leverage Our Relationships with the Pharmaceutical/Biotechnology Industry.* We believe we are the partner of choice for pharmaceutical companies seeking resistance testing for HIV drugs in development. Our drug resistance tests have been used in the development of every drug approved for

treatment of HIV in the past five years and we are currently working with almost every company with a significant HIV drug development program. We intend to leverage our expertise and position by enhancing our product portfolio for patient testing as these drugs are approved and brought to market. In addition, several of the leading HIV drug developers are also leaders in the development of cancer therapies and we intend to leverage our existing relationships by offering a more comprehensive set of capabilities to pharmaceutical and biotechnology companies initially in oncology and subsequently in other serious diseases.

- *Provide Broad, Convenient Access to our Products on a Worldwide Basis.* We have created broad access to our current commercial products in the United States by focusing on reimbursement and distribution. In the U.S., we have relationships, providing broad access to our HIV tests, with Quest Diagnostics and Laboratory Corporation of America, the two largest national networks of clinical reference laboratories in the United States and will continue to seek the broadest and most optimal distribution structure for our products. We intend to access major international markets, either directly or through partnerships, to support the worldwide marketing of drug therapies for which our tests are relevant, specifically where those drugs have been approved based on clinical trials in which our tests played a pivotal role.
- *Develop strategic partnerships to optimize the development of our business.* We will seek partnerships related to technologies, products and commercialization approaches where these can enhance our technology platforms or our market position.
- *Maintain a Strong Intellectual Property Portfolio.* We have a significant portfolio of patents and patent applications related to our products and technologies. We intend to continue to enhance this portfolio to maintain a strong proprietary position.

Sales & Marketing

We market our HIV drug resistance tests to physicians and pharmaceutical customers through both a direct and indirect sales organization. We have built an efficient commercial infrastructure to support the industry's most comprehensive line of drug resistance tests currently available. Our commercial organization is composed of approximately 50 people in sales, marketing, customer service, payor relations and sales management functions.

We market our resistance tests to physicians in the United States directly to physician offices and indirectly through national, regional and hospital laboratories. We have contracts and alliances with Quest Diagnostics and Laboratory Corporation of America, the two largest national networks of laboratories in the United States. These alliances allow for streamlined collection of blood specimens as well as convenience for physicians who desire to consolidate testing for payors. In 2005, 27% of our resistance tests came from third party reference laboratories.

We expect to leverage our existing experience and infrastructure to commercialize products for the oncology market. As we will be marketing to a separate physician group, we expect to hire sales personnel dedicated to the oncology market. We have hired a senior executive to lead this effort and expect to hire additional personnel in 2006 in anticipation of commercial introduction of products for the oncology market.

Our marketing strategies focus on physician, patient and payor education in order to increase market awareness of our resistance testing products. We routinely sponsor and participate in conferences and scientific meetings, sponsor educational forums for physicians, and advertise in relevant journals and publications. Additionally, we target patients directly through educational programs. As part of our effort to maintain scientific leadership within the clinical community, which represents our customer base, we have a clinical advisory board consisting of leading clinicians.

We have an active reimbursement strategy, and educate both private and public payors concerning the benefits of our molecular diagnostic testing services in an effort to maximize reimbursement. We believe that over 75% of HIV/AIDS patients in the United States now have access to coverage for resistance testing. At the end of 2005, 49 state Medicaid programs, including California, Florida, New Jersey and New York, the states

with the largest HIV/AIDS patient populations, had favorable coverage policies for drug resistance testing. Medicare and nearly all private payors, including Aetna, the Blue Cross Blue Shield Association, Humana and United Health Care, pay for HIV resistance testing. We intend to leverage this experience as we introduce molecular diagnostic testing products for oncology.

Research & Development

Research and development expenditures were $19.0 million, $7.8 million and $4.7 million in 2005, 2004 and 2003, respectively. In addition, in 2004, we recorded a non-cash charge of $100.6 million as an allocation of the purchase price of ACLARA to in-process research and development programs. This reflects the proprietary *eTag* technology, based on which, we are developing products for therapy guidance in oncology for use by pharmaceutical companies and physicians.

As of February 8, 2006 we had 70 employees in research and development, of whom approximately 40% were primarily focused on infectious disease programs, and 60% were primarily focused on oncology programs.

We maintain an active effort to seek grant funding in support of research programs. Revenue from grants was $2.3 million, $2.0 million and $1.2 million in 2005, 2004 and 2003, respectively. These grants will help support the development of analytical and database tools to facilitate the identification and characterization of drug resistant strains of HIV, and assays that will aid in the pre-clinical and clinical evaluation of the next generation of anti-viral therapeutics and vaccines.

Competition

The markets for life science research and diagnostic products are highly competitive and are subject to rapid technological change. In particular, approaches to personalized medicine are rapidly evolving and there are many companies attempting to establish their technological approaches and products as the standard of care.

For our HIV testing products, the principal competitors include Tibotec-Virco, a division of Johnson & Johnson, Specialty Laboratories, Applied Biosystems Group, Visible Genetics, a division of Bayer Diagnostics, and reference and academic laboratories performing genotypic testing.

For diagnostic testing for cancer therapies, we expect to compete with companies that are developing alternative technological approaches for patient testing in the cancer field. There are likely to be many competitive companies and many technological approaches in the emerging field of testing for likely responsiveness to the new class of targeted cancer therapies, including companies such as DakoCytomation A/S, Genzyme and Abbott Laboratories that currently commercialize testing products for guiding therapy of cancer patients. Established diagnostic product companies such as Abbott Laboratories, Roche Diagnostics and Bayer Diagnostics and established clinical laboratories such as Quest Diagnostics and Laboratory Corporation of American may also develop or commercialize services or products that are competitive with those that we anticipate developing and commercializing. In addition, there are a number of alternative technological approaches being developed by competitors and evaluated by pharmaceutical and biotechnology companies and being studied by the oncology community. In particular, while our anticipated oncology testing products will be based on the identification of protein-based differences among patients, there is significant interest in the oncology community in gene-based approaches that may be available from other companies.

We believe that the principal competitive factors in our markets are product capability supported by clinical validation, scientific credibility and reputation, customer service, cost effectiveness of the technology and the sales and marketing strength of the supplier.

Many of our competitors and potential competitors in these markets have substantially greater market presence and substantially greater financial, technical and human resources than we do. We cannot assure you that they will not succeed in developing technologies and products that would render our technologies and

products obsolete and noncompetitive. We also cannot assure you that we will be able to compete effectively with these competitors' greater marketing presence and financial strength.

Operations

We perform our HIV drug resistance testing in South San Francisco, California. Our clinical laboratory is accredited by the College of American Pathologists and our facility is subject to stringent CLIA operating regulations. Patient samples for testing are delivered by courier and treated as infectious specimens. After processing of the samples with our proprietary technology, results are reported to the customer. The CLIA regulations require that we meet certain quality and personnel standards and undergo proficiency testing and inspections.

We are in the process of transferring our *eTag* assays from the research setting to our CLIA certified clinical laboratory in South San Francisco, California. Our *eTag* assays are currently being run in our clinical laboratory to demonstrate reproducibility and establish standardized formats that can be validated in accordance with CLIA standards and procedures, including documentation and quality procedures comparable to those applicable to our HIV testing products.

While initial products for the cancer market will be introduced through our CLIA certified clinical laboratory, future cancer testing products may include test kits that may be subject to the regulatory authority of the Food and Drug Administration, or the FDA. The FDA regulatory framework is complicated, and we have limited experience at managing FDA compliance issues. If we develop cancer test kits, the kits could be subject to premarket FDA approval requirements, which would be expensive and time-consuming, and could delay or prevent us from marketing these tests. In addition, the production of the future cancer test kits may be subject to Good Manufacturing Practice Regulation, or GMP, under the auspices of the FDA. Our facilities are not GMP compliant. If the manufacture of the proposed kits is subject to GMP regulation, we will be required to establish a GMP compliant facility, or to enter into a relationship with a third party manufacturer that operates a GMP compliant facility. We do not have experience with GMP compliance. GMP compliance, or entry into a manufacturing relationship with a third party manufacturer, would be time-consuming and expensive.

Patents and Proprietary Rights

Our Intellectual Property Strategy

We will be able to protect our technology from unauthorized use by third parties only to the extent that our proprietary rights are covered by valid and enforceable patents or are effectively maintained as trade secrets. Patents and other proprietary rights are an essential element of our business. Our policy is to file patent applications and to protect technology, inventions and improvements to inventions that are commercially important to the development of our business. Our commercial success will depend in part on obtaining this patent protection.

With respect to our viral disease portfolio, we currently have approximately 192 granted, issued, allowed, and pending patent applications in the United States and in other countries, including 40 issued patents. With respect to our potential oncology products and eTag technology, we currently have approximately 168 granted, issued, allowed, and pending patent applications in the United States and in other countries, including 17 issued patents. We have 138 granted, issued, allowed, and pending patent applications in the United States and in other countries, including 74 issued or allowed patents, relating to the historic microfluidics business of ACLARA. We have licensed certain patents and technologies as described below.

Our patents and patent applications related to our *eTag* technology and products in development address the following essential areas: Biomarkers identified by *eTag* technology, including the recognition, determination and quantification of protein-protein complexes, such as cell-surface receptor dimers and intracellular factors, to indicate disease status, particularly in the cancer field; and *eTag* technology, including compositions, methods and applications related to gene expression and recognition, determination and quantification of protein-protein

interactions, post-translational modification of proteins and/or protein activation, particularly as those processes relate to cell-based assays for quantification of dimerized receptors and analysis of signal transduction pathways. Patents related to ACLARA's historic microfluidics business address microfluidic and nanofluidic instruments and devices, their fabrication and their applications.

Our patents and patent applications related to our viral disease portfolio address the following essential areas: 1) assessment of patient resistance to treatment regimens, including phenotypically assessing whether a patient is likely to respond to treatments targeted to viral protein targets, such as protease inhibitors or reverse transcriptase (RTs), or whether a patient is likely to respond to a treatments targeted to viral processes more generally, such as viral entry or incorporation of nucleotide analogues into the viral coding sequence; and 2) genotypic assessment of patient resistance to treatment regimens, including a comprehensive proprietary database of mutations in viral proteins and an assessment of whether patients harboring mutations will respond to current treatment regimens.

These patents and patent applications cover a broad range of technology applicable across our entire current and planned product line. We cannot assure you that any of the currently pending or future patent applications will be issued as patents, or that any patents issued to us will not be challenged, invalidated, held unenforceable or circumvented. Further, we cannot assure you that our intellectual property rights will be sufficiently broad to prevent third parties from producing competing products similar in design to our products.

In addition to patent protection, we also rely on protection of trade secrets, know-how and confidential and proprietary information. We generally enter into confidentiality agreements with our employees, consultants and our collaborative partners upon commencement of a relationship with us. However, we cannot assure you that these agreements will provide meaningful protection against the unauthorized use or disclosure of our trade secrets or other confidential information or that adequate remedies would exist if unauthorized use or disclosure were to occur. The exposure of our trade secrets and other proprietary information would impair our competitive advantages and could have a material adverse effect on our operating results, financial condition and future growth prospects. Further, we cannot assure you that others have not or will not independently develop substantially equivalent know-how and technology.

Further, there is a risk that some of our confidential information could be compromised during the discovery process of any litigation. During the course of any lawsuit, there may be public announcements of the results of hearings, motions and other interim proceedings or developments in the litigation. If securities analysts or investors perceive these results to be negative, it could have a substantial negative effect on the trading price of our stock.

Intellectual Property of Others

Our commercial success also depends in part on avoiding the infringement of other parties' patents or proprietary rights and the breach of any licenses that may relate to our technologies and products. Third parties may have patents or patent applications relating to products or processes similar to, competitive with or otherwise related to our products. These products and processes may include technologies relating to HIV, hepatitis B and C, other viruses and oncology technologies. Third parties have from time to time threatened to assert infringement or other intellectual property rights against us based on their patents or other intellectual property rights.

We have had to, and expect to continue to have to, enter into licenses covering the rights at issue. Unless we are able to expand our existing licenses and obtain additional licenses, patents covering these technologies may adversely impact our ability to commercialize one or more of our potential products. We are aware of various third-party patents that may relate to our technology. We believe that we do not infringe these patents but cannot assure you that we will not be found in the future to infringe these or other patents or proprietary rights of third parties, either with products we are currently developing or with new products that we may seek to develop in the future. If third parties assert infringement claims against us, we may be forced to enter into license arrangements

with them. Further, we may be prohibited from selling our products before we obtain a license, which, if available at all, may require us to pay royalties. Even if infringement claims against us are without merit, defending a lawsuit will take significant time, and may be expensive and divert management attention from other business concerns. For instance, we have been informed by Bayer Diagnostics that it believes we require one or more licenses to patents controlled by Bayer in order to conduct certain of our current and planned operations and activities. We, in turn, believe that Bayer may require one or more licenses to patents controlled by us. Although we believe we do not need a license from Bayer for our HIV products, we initiated discussions with Bayer concerning the possibility of entering into a cross-licensing or other arrangement in 2004. During 2005 the Bayer patents at issue in these discussions became the subject of an interference action at the United States Patent and Trademark Office. We believe that if necessary, licenses from Bayer would be available to us on commercially acceptable terms. However, in the future, we may have to pay damages, possibly including treble damage, for infringement if it is ultimately determined that our products infringe a third party's patents.

We cannot assure you that we could enter into the required licenses on commercially reasonably terms, if at all. The failure to obtain necessary licenses or to implement alternative approaches may prevent us from commercializing products under development and would impair our ability to be commercially competitive. We may also become subject to interference proceedings conducted in the U.S. Patent and Trademark Office to determine the priority of inventions.

The defense and prosecution, if necessary, of intellectual property suits, U.S. Patent and Trademark Office interference proceedings and related legal and administrative proceedings will result in substantial expense to us, and significant diversion of effort by our technical and management personnel. An adverse determination in litigation or interference proceedings to which we may become a party could subject us to significant liabilities to third parties, could put our patents at risk of being invalidated or interpreted narrowly and could put our patent applications at risk of not issuing.

License Agreements

Historically, we have licensed technology from Roche that we use in our PhenoSense and GeneSeq tests. We held a non-exclusive license for the life of the patent term of the last licensed Roche patent. We were notified by Roche that the license had terminated in March 2005 because the last licensed patent had expired. However, Roche advised us that additional licenses may be necessary for certain other patents and has offered us a license to these patents. We are in the process of reviewing whether additional licenses are necessary or useful for our operations. We believe such licenses are available on commercially acceptable terms.

We license certain technologies from Third Wave Technologies, Inc. pursuant to a License Agreement signed by ACLARA in October 2002 and assigned to us as a result of the merger. Under the License Agreement and a related Supply Agreement, we have rights to incorporate Third Wave's Invader technology and Cleavase enzyme with our *eTag* technology to offer the *eTag* Assay System for multiplexed gene expression applications for the research market. In addition to licensing the Invader technology platform to us, Third Wave will supply Cleavase enzyme to us for incorporation into *eTag*-Invader gene expression assays. For 2005, the royalty payment was fixed in amount and thereafter is computed as a percentage of sales of licensed products.

In addition, we also license technology from other third parties, including the National Institutes of Health, or NIH. We recorded aggregate royalty expense of $1.7 million, $1.6 million and $1.1 million for the years ended December 31, 2005, 2004 and 2003, respectively.

Regulation and Reimbursement

Regulation of Clinical Laboratory Operations

The Clinical Laboratory Improvement Amendments of 1988 (CLIA) extends federal oversight to virtually all clinical laboratories by requiring that laboratories be certified by the federal government, by a federally approved accreditation agency or by a state that has been deemed exempt from the regulation's requirements. We

currently offer our viral disease assays, including our PhenoSense and PhenoSense GT, under the standards of these regulations. Pursuant to these federal clinical laboratory regulations, clinical laboratories must meet quality assurance, quality control and personnel standards. Labs also must undergo proficiency testing and inspections. Standards are based on the complexity of the method of testing performed by the laboratory.

These regulations categorize our laboratory as high complexity, and we believe we are in compliance with the more stringent standards applicable to high complexity testing for personnel, quality control, quality assurance and patient test management. Our clinical laboratory holds a Certificate of Registration under these regulations. Our clinical laboratory has been surveyed by the College of American Pathologists, a federally approved accreditation agency, which has accredited our clinical laboratory. In order to offer *eTag* assays in our clinical laboratory for patient use we will be required to validate those assays and related systems in accordance with our quality control, quality assurance and patient test management protocols and for specificity and reproducibility pursuant to the CLIA standards.

In addition to the Federal laboratory regulations, states, including California, require laboratory licensure and may adopt regulations that are more stringent than federal law. We believe we are in material compliance with California and other applicable state laws and regulations.

The sanctions for failure to comply with federal or state clinical laboratory regulations, or accreditation requirements of federally approved agencies, may be suspension, revocation or limitation of a laboratory's certificate or accreditation. There also could be fines and criminal penalties. The suspension or loss of a license, failure to achieve or loss of accreditation, imposition of a fine, or future changes in applicable federal or state laws or regulations or in the interpretation of current laws and regulations, could have a material adverse effect on our business.

Under our current labeling and marketing plans, our phenotypic products have not been subject to FDA regulation, although we are aware of increasing activity by the FDA in regards to regulating homebrew HIV genotypic resistance testing such as ours. We cannot predict the extent of future FDA regulation, and all of our products, including our planned *eTag* oncology products, might be subject in the future to greater regulation, or different regulations, that could have a material effect on our finances and operations.

Regulation for Manufacture and Sale of Kit based Assays

The *eTag* assays that we currently make available for research purposes and that we plan to make available through our clinical laboratory are not subject to oversight by, nor does their sale require prior approval by the FDA. However, we may be subject to FDA and other regulation with regard to future diagnostic kits and services that we may develop. Under the Federal Food, Drug and Cosmetic Act and related regulations, the FDA regulates the design, development, manufacturing, labeling, sale, distribution and promotion of drugs, medical devices and diagnostics. Before a new drug, device or diagnostic product can be introduced in the market, the product must undergo rigorous testing and an extensive regulatory approval process implemented by the FDA under federal law. In addition, the FDA imposes additional regulations on manufacturers of approved products. We have limited experience with obtaining FDA approvals and developing, manufacturing, distributing or selling products within FDA requirements. Any failure to obtain FDA and other requisite governmental approvals with regard to any future products that we may develop could have a material adverse affect on our business, results of operations and financial condition.

Medical Waste and Radioactive Materials

We are subject to licensing and regulation under federal, state and local laws relating to the handling and disposal of medical specimens and hazardous waste and radioactive materials as well as to the safety and health of laboratory employees. Our clinical laboratory facility in South San Francisco, California is operated in material compliance with applicable federal and state laws and regulations relating to disposal of all laboratory

specimens. We utilize outside vendors for disposal of specimens. Our research and development and manufacturing processes at the former ACLARA facilities in Mountain View, California involved the use of hazardous materials, including chemicals and biological materials. Our ongoing operations also produce hazardous waste products.

We cannot eliminate the risk of accidental contamination or discharge and any resultant injury from these materials. Federal, state and local laws and regulations govern the use, manufacture, storage, handling and disposal of these materials. We could be subject to damages in the event of an improper or unauthorized release of, or exposure of individuals to, hazardous materials. In addition, claimants may sue us for injury or contamination that results from our use, or the use by third parties, of these materials, and our liability may exceed our total assets. Compliance with environmental laws and regulations is expensive, and current or future environmental regulations may impair our research, development or production efforts.

Occupational Safety

In addition to its comprehensive regulation of safety in the workplace, the Federal Occupational Safety and Health Administration has established extensive requirements relating to workplace safety for healthcare employers, including clinical laboratories, whose workers may be exposed to blood-borne pathogens such as HIV and the hepatitis virus. These regulations, among other things, require work practice controls, protective clothing and equipment, training, medical follow-up, vaccinations and other measures designed to minimize exposure to chemicals and transmission of the blood-borne and airborne pathogens. Although we believe that we are currently in compliance in all material respects with such federal, state and local laws, failure to comply could subject us to denial of the right to conduct business, fines, criminal penalties and other enforcement actions.

Specimen Transportation

Regulations of the Department of Transportation, the International Air Transportation Agency, the Public Health Service and the Postal Service apply to the surface and air transportation of clinical laboratory specimens.

Regulation of Coverage and Reimbursement

Revenues for clinical laboratory testing services come from a variety of sources, including Medicare and Medicaid programs; other third-party payors, including commercial insurers, health maintenance and other managed care organizations; and patients, physicians, hospitals and other laboratories. We are a Medicare laboratory services provider. Medicare has issued coverage policies and payment guidelines for resistance testing, including phenotypic and genotypic testing. Currently, nearly all public and a majority of private payors have approved the reimbursement of our existing HIV products. While recently issued guidelines of the Department of Health and Human Services recommend drug resistance testing for HIV patients, this does not assure coverage or level of coverage, by state, Medicare or any other payors. However, the majority of our payors are currently reimbursing our products at varying levels from 70% to 100% of our list prices. Coverage has not been established for any of our *eTag* products under development.

Since 1984, Congress has periodically lowered the ceilings on Medicare reimbursement for clinical laboratory services from previously authorized levels. In addition, state Medicaid programs are prohibited from paying more than Medicare for clinical laboratory tests. In some instances, they pay significantly less. Similarly, other payors, including managed care organizations, have sought on an ongoing basis to reduce the costs of healthcare by limiting utilization and payment rates. Actions by Medicare or other payors to reduce reimbursement rates or limit coverage or utilization of resistance testing would have a direct adverse impact on our revenues and cash flows. We cannot predict whether reductions or limitations will occur, though we feel some reductions are likely.

Our agreements with third-party payors, including Medicare and Medicaid, require that we identify the services we perform using industry standard codes known as the Current Procedural Terminology, or CPT,

codes, which are developed by the American Medical Association, or AMA. Most payors maintain a list of standard reimbursement rates for each such code, and our ability to be reimbursed for our services is therefore effectively limited by our ability to describe the services accurately using the CPT codes. From time to time, the AMA changes its instructions about how our services should be coded using the CPT codes. If these changes leave us unable to accurately describe our services or are not coordinated with payors such that corresponding changes are made to the payors' reimbursement schedules, we may have to renegotiate our pricing and reimbursement rates, the changes may interrupt our ability to be reimbursed, and/or the overall reimbursement rates for our services may decrease dramatically.

Significant uncertainty exists as to the reimbursement status of new medical products such as our *eTag* products for oncology and our Co-Receptor Tropism assays for HIV drug resistance testing which we are currently developing, particularly if these products fail to show demonstrable value in clinical studies. If government and other third-party payors do not provide adequate coverage and reimbursement for our planned products, our revenues will be reduced.

Fraud and Abuse Regulation

Existing federal laws governing Medicare and Medicaid and other federal healthcare programs, as well as similar state laws, impose a variety of broadly described fraud and abuse prohibitions on healthcare providers, including clinical laboratories. Multiple government agencies enforce these laws. The Health Insurance Portability and Accountability Act of 1996 provides for the establishment of a program to coordinate federal, state and local law enforcement programs. Over the last several years, the clinical laboratory industry has also been the focus of major government enforcement actions.

One set of fraud and abuse laws, the federal anti-kickback laws, prohibits clinical laboratories from, among other things, making payments or furnishing other benefits intended to induce the referral of patients for tests billed to Medicare, Medicaid, or certain other federally funded programs. California also has its own Medicaid anti-kickback law, as well as an anti-kickback law that prohibits payments made to physicians to influence the referral of any patients. California laws also limit the ability to use a non-employee sales force.

Under another federal provision, known as the "Stark" law or "self-referral" prohibition, physicians who have an investment or compensation relationship with a clinical laboratory may not, unless a statutory exception applies, refer Medicare or Medicaid patients for testing to the laboratory. In addition, a laboratory may not bill Medicare, Medicaid or any other party for testing furnished pursuant to a prohibited referral. There is a California self-referral law, as well, which applies to all patient referrals.

Currently, we have a financial relationship with one referring physician, who serves as part-time medical director at our clinical laboratory. Very few of this physician's patients, if any, are federal healthcare program patients. In addition, we do not bill for services furnished to any patients referred by this physician. The California anti-kickback law may have exceptions applicable to our relationship with this physician. We have requested a written opinion from California officials to determine whether this relationship is appropriate, but have not received any response to our request.

There are a variety of other types of federal and state anti-fraud and abuse laws, including laws prohibiting submission of false or otherwise improper claims to federal healthcare programs, and laws limiting the extent of any differences between charges to Medicare and Medicaid and charges to other parties. We seek to structure our business to comply with the federal and state anti-fraud and abuse laws. We cannot predict, however, how these laws will be applied in the future, and we cannot be sure arrangements will not be found in violation of them. Sanctions for violations of these laws may include exclusion from participation in Medicare, Medicaid and other federal healthcare programs, criminal and civil fines and penalties, and loss of license. Any of these could have a material adverse effect on our business.

Patient Privacy

The Department of Human Health and Services, or HHS, has issued final regulations under the Health Insurance Portability and Accountability Act of 1996, or HIPAA, designed to improve the efficiency and effectiveness of the health care system by facilitating the electronic exchange of information in certain financial and administrative transactions, while protecting the privacy and security of the information exchanged. Three principal regulations have been issued:

- Privacy regulations
- Security regulations; and
- Standards for electronic transactions, or transaction standards.

The privacy regulations prohibit the use or disclosure of "protected health information" except for certain purposes or unless specific conditions are met. Protected health information is information transmitted or maintained in any form—by electronic means, on paper, or through oral communications that: (1) relates to the past, present, or future physical or mental health or condition of an individual, the provision of health care to an individual, or the past, present, or future payment for the provision of health care to an individual; and (2) identifies the individual or with respect to which there is a reasonable basis to believe the information can be used to identify the individual. Data that have been de-identified in accordance with the Privacy regulation's stringent de-identification standard are not considered protected health information and are not subject to the regulation. We have implemented privacy and security changes that we believe comply with these standards. In addition, we implemented measures we believe will reasonably and appropriately meet the specifications of the security regulations and the transaction standards.

The HIPAA regulations on transaction standards establish uniform standards for electronic transactions and code sets, including the electronic transactions and code sets used for claims, remittance advices, enrollment and eligibility. These standards are complex, and subject to differences in interpretation. We cannot guarantee that our compliance measures will meet the specifications for any of these regulations. In addition, certain types of information, including demographic information not usually provided to us by physicians, could be required by certain payors. As a result of inconsistent application of requirements by payors, or our inability to obtain billing information, we could face increased costs and complexity, a temporary disruption in receipts and ongoing reductions in reimbursements and net revenues.

HHS issued additional guidance on July 24, 2003 stating that it will not penalize a covered entity for post-implementation date transactions that are not fully compliant with the transactions standards, if the covered entity can demonstrate its good faith efforts to comply with the standards. HHS' stated purpose for this flexible enforcement position was to "permit health plans to mitigate unintended adverse effects on covered entities' cash flow and business operations during the transition to the standards, as well as on the availability and quality of patient care."

On September 23, 2003, the Centers for Medicare and Medicaid Services ("CMS") announced that it will implement a contingency plan for the Medicare program to accept electronic transactions that are not fully compliant with the transaction standards after the October 16, 2003 compliance deadline. CMS' contingency plan allows Medicare carriers to continue to accept and process Medicare claims in the traditional electronic formats now in use in order to give its healthcare providers additional time to complete the testing process, provided they are making a good faith effort to comply with the new standards. As part of its plan, CMS is expected to regularly reassess the readiness of its healthcare providers to determine how long the contingency plan will remain in effect. In its announcement, CMS encouraged other payors to assess the readiness of their trading partners and to implement contingency plans, if appropriate. A number of other major payors have announced they intend to follow CMS' lead, but we cannot assure you that all payors will develop similar contingency plans. We have experienced payment delays related to payors inability to timely process claims submitted in the new HIPPA complaint format. At this time, we cannot estimate the potential impact of payors implementing, or failing to implement, the HIPAA transaction standards on our cash flows and results of operations.

In addition to the HIPAA provisions described above, there are a number of state laws regarding the confidentiality of medical information, some of which apply to clinical laboratories. These laws vary widely, and new laws in this area are pending, but they most commonly restrict the use and disclosure of medical information without patient consent. Penalties for violation of these laws include sanctions against a laboratory's state licensure, as well as civil and/ or criminal penalties. Compliance with such rules could require us to spend substantial sums, which could negatively impact our profitability.

Employees

As of February 8, 2006, we had 291 employees, of whom 35 hold Ph.D. or M.D. degrees and 46 hold other advanced degrees. Approximately, 142 employees are engaged in clinical laboratory and supporting operations, 70 employees are engaged in research and development, and 50 employees are engaged in sales and marketing and 29 are engaged in general and administrative functions.

Available Information

We file electronically with the Securities and Exchange Commission, or SEC, our annual reports on Form 10-K, quarterly interim reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. We maintain a site on the worldwide web at *www.monogrambio.com*; however, information found on our website is not incorporated by reference into this report. We make available free of charge on or through our website our SEC filings, including our annual report on Form 10-K, quarterly interim reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Further, a copy of our filings is located at the Securities and Exchange Commission's Public Reference Room at 450 Fifth Street, N.W., Washington, D. C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission maintains a website that contains reports, proxy and information statements and other information regarding our filings at http://www.sec.gov.

Item 1A. ***Risk Factors***

Except for the historical information contained or incorporated by reference, this annual report on Form 10-K and the information incorporated by reference contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed here. Factors that could cause or contribute to differences in our actual results include those discussed in the following section, as well as those discussed in Part I, Item 1 entitled "Business", Part II, Item 7 entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere throughout this annual report and in any other documents incorporated by reference into this annual report. You should consider carefully the following risk factors, together with all of the other information included in this annual report on Form 10-K. Each of these risk factors could adversely affect our business, operating results and financial condition, as well as adversely affect the value of an investment in our common stock.

We have not achieved profitability and we anticipate continuing losses, which may cause our stock price to fall.

We have experienced significant losses each year since inception, and we expect to continue to incur additional losses as we complete the development of the *eTag* technology and commercialize products for oncology. We have experienced losses applicable to common stockholders of $37.7 million for the year ended December 31, 2005. As of December 31, 2005, we had an accumulated deficit of approximately $225.3 million, including a charge in 2004 of $100.6 million for in-process research and development related to our merger with ACLARA. Though we recorded a net profit in the second quarter of 2005, due to the favorable adjustment to the Contingent Value Rights, or CVRs, liability, we have not achieved profitability on an annualized basis. We expect to continue to incur losses, primarily as a result of expenses related to:

- research and product development costs, including the continued development and validation of the *eTag* technology and products based on that technology;
- clinical studies to validate the effectiveness of *eTag* assays as tests for responsiveness of cancer patients to particular cancer therapies;
- sales and marketing activities related to existing and planned products, including the development of a sales organization focused on the oncology market;
- development of operational and sales and marketing infrastructure to support the availability of our Co-receptor Tropism Assay outside of the U.S.;
- additional clinical laboratory and research space and other necessary facilities;
- general and administrative costs to support growth of the business;
- potential charges related to marking to market the liability for the CVRs;
- charges for stock based compensation related to assumed ACLARA options and the related CVRs issuable upon their exercise;
- charges for stock based compensation resulting from the implementation of SFAS 123R in the first quarter of 2006; and
- charges for vacating and subleasing the former ACLARA facility in Mountain View, California that are in excess of the restructuring liability at December 31, 2005.

If our losses continue, our liquidity may be impaired, our stock price may fall and our stockholders may lose part or all of their investment.

Our potential payments to holders of contingent value rights, which may be greater than currently estimated, would decrease our liquidity, could cause dilution to our stockholders and may cause the market price of our common stock to fall.

Under the terms of the contingent value rights, we are obligated to make a payment to the holders of contingent value rights on June 10, 2006 if the volume weighted mean of the sales prices of our common stock

for the 15 trading days prior to June 10, 2006 is less than $2.90 (unless the CVRs have been automatically extinguished earlier, in accordance with their terms). The maximum aggregate amount payable by us under the contingent value rights is currently estimated to be approximately $55.1 million, based on approximately 62.7 million CVRs outstanding as of December 31, 2005. If the total amount becomes due, we must pay the first $31.3 million in cash, and may, at our option but subject to certain limitations, pay the remaining $23.8 million balance in cash, shares of our common stock or a combination of the two. In addition, the maximum amount payable under the CVRs will increase by $5.2 million if all assumed ACLARA stock options are exercised. We can make no assurances as to the timing or extent of any option exercise activity. If the conditions requiring us to make payments to the holders of contingent value rights are satisfied and all assumed ACLARA options are exercised, we would be required to pay up to approximately $60.3 million, which would result in a decrease in liquidity, which may adversely impact our ongoing business.

If we are required to make the maximum payment under the CVRs, we may have insufficient cash balances to make this entire payment in cash, and if we did have sufficient cash balances and elected to make part or all of the payment in cash our liquidity would be significantly and adversely affected. If we elected to make a portion of any CVR payment in shares of our common stock, existing stockholders could suffer significant dilution of their Monogram Biosciences holdings. In addition, a large volume of the shares issued as a portion of the CVR payment could be sold in a short period of time, which would cause the price of our common stock to decline. Even if we are not required to make the maximum payment, we may be required to make a substantial payment in cash and such payment would have a significant adverse effect on our liquidity.

New entry inhibitor drugs for treatment of HIV may not be successful in clinical trials, trials may be terminated and if successful, the drugs may not require our testing services when approved. If the drugs are approved by FDA and require our testing services, we may not be able to adequately meet the demand for these services in all markets.

Our testing services, including our HIV Co-Receptor Tropism Assay, have been used by certain pharmaceutical company customers in phase III clinical trials of the new class of CCR5 Entry Inhibitor drugs. One of these trials was initiated by a pharmaceutical company customer in late 2004 and has been a significant source of revenue in 2005. This trial is ongoing. An additional phase III trial was initiated by a second pharmaceutical company customer in July 2005, although in October 2005 this trial was terminated as a result of observed liver toxicity in the Phase III trial and related Phase II trial. Testing for a third phase III trial sponsored by a third pharmaceutical company customer was anticipated in the fourth quarter of 2005, although in this case a related phase II trial was terminated in October 2005 by the same customer due to a return of detectable virus in some patients late in therapy compared to the control regimen, and the timing for the phase III trial is not known. The use of our testing services in these programs has generated additional pharmaceutical testing revenues in 2005. Pfizer, the customer whose phase III trial was initiated in late 2004 and is ongoing, accounted for 19% of our total revenue for the year ended December 31, 2005 including revenue related to the phase III trial. As additional patients are screened and enrolled in these trials, this could continue to be an important source of pharmaceutical testing revenues and if the drugs get approved this could also be a source of future patient testing revenues. However, the progress of such clinical trials and the likelihood of trials being successful and the drugs receiving FDA approval are subject to significant uncertainty and are determined by factors outside of our control. Difficulties encountered by our pharmaceutical company customers related to patient enrolment, drug performance, regulatory considerations and other factors could cause the trials to be delayed or terminated, as has already happened as described above. If additional such events occurred, our pharmaceutical testing revenues would be adversely affected and could decline. If safety or efficacy concerns arise related to the entire class of CCR5 Entry Inhibitor drugs, all clinical trials related to this class of drugs could be terminated, which would abruptly and negatively impact our revenues. There is also no guarantee that our testing services will be required or used by physicians if the drugs are approved by the FDA. If such use does not develop after approval then these drugs will not generate significant future patient testing revenues. If the drugs are approved and our testing services are required for these drugs, we may not be able to deliver our testing services on a global basis in support of the drugs, which could damage our market position, adversely affect our business, and cause our revenues to decline.

We derive a significant portion of our revenues from a small number of customers and our revenues may decline significantly if any major customer cancels, reduces or delays a purchase of our products.

Our revenues to date consist, and are anticipated to consist in 2006, largely of sales of HIV testing products. We have significant customer concentration and the loss of any major customer or the reduced use of our products by a major customer could have a significant negative impact on our revenue. In 2005, 2004 and 2003, approximately 22%, 31% and 29%, respectively of our revenues were derived from tests performed for the beneficiaries of the Medicare and Medicaid programs. Additionally, in 2005, 2004 and 2003, Pfizer Incorporated represented approximately 19%, 7% and 8%, Quest Diagnostics Incorporated represented approximately 11%, 12% and 9% and GlaxoSmithKline represented approximately 10%, 4% and 6% of our total revenue, respectively. Gross accounts receivable balances from Medicare and Medicaid represented 33% and 35% of gross accounts receivable balance at December 31, 2005 and 2004, respectively. It is likely that we will have significant customer concentration in the future. Although certain of our agreements with pharmaceutical company customers have provisions for minimum purchases, these provisions are generally subject to annual renewal or cancellation provisions. The loss of any major customer, a slowdown in the pace of increasing physician and physician group sales as a percentage of sales, cancellation or non-renewal of agreements with pharmaceutical company customers, the delay of significant orders from any significant customer, even if only temporary, or delays or terminations of clinical trials by pharmaceutical company customers, could have a significant negative impact on our revenues and our ability to fund operations from revenues, generate cash from operations or achieve profitability.

Proposed new products based on the *eTag* technology could be delayed or precluded by regulatory, clinical or technical obstacles, thereby delaying or preventing the development, introduction and commercialization of these new products and adversely impacting our revenue and profitability.

We are developing testing products for use in connection with the treatment of cancer patients. These products will be based on the proprietary *eTag* technology and are expected to leverage our experience in patient testing for HIV. We expect that the development and commercialization of *eTag* assays for use in clinical trials by pharmaceutical and biotechnology customers could exceed one year. In addition, we expect to commercialize clinical assays for diagnostic use in patient testing, upon the successful completion of product development and automation for high throughput, validation of assays in a Clinical Laboratory Improvement Amendments, or CLIA, certified laboratory format, and attainment of clinical validation through clinical trials, which could also exceed one year, and successful leveraging of research and development planned to be expended on clinical assays for use in clinical trials by pharmaceutical and biotechnology companies. The completion of these research and development activities is subject to a number of risks and uncertainties including the extent of clinical trials required for regulatory and marketing purposes, the timing and results of clinical trials, failure to validate the technology in clinical trials and failure to achieve necessary regulatory approvals. These factors make it impossible to predict with any degree of certainty whether we will be able to complete the development of commercial products utilizing *eTag* technology or if we are able to do so what the cost and timing of such completion may be.

The FDA may impose medical device regulatory requirements on our tests, including possibly premarket approval requirements, which could be expensive and time-consuming and could prevent us from marketing these tests.

In the past, the FDA has not required that genotypic or phenotypic testing conducted at a clinical laboratory be subject to premarketing clearance or approval, although the FDA has stated that it believes its jurisdiction extends to tests generated in a clinical laboratory. We received a letter from the FDA in September 2001 that asserted such jurisdiction over in-house tests like ours, but which also stated the FDA was not currently requiring premarket approval for HIV monitoring tests such as ours provided that the promotional claims for such tests are limited to its analytical capabilities and do not mention the benefit of making treatment decisions on the basis of test results. The FDA letter to us also asserted that our GeneSeq™ test had been misbranded due to the use of purchased analyte specific reagents, or ASRs, if test reports do not include a statement disclosing that the test has

not been cleared or approved by the FDA. Since 2002, we have utilized in-house prepared ASRs in our products. The FDA has indicated in discussions that the focus of the letter was our genotypic tests and not our phenotypic tests, but there is no certainty its focus will remain narrow.

We have had several discussions with the FDA related to its positions set forth in the letter. We do not at this point believe the FDA will require us to take steps that materially affect our business or financial performance, but cannot guarantee this will remain the case.

We cannot be sure that the FDA will accept the steps we take, or that the FDA will not require us to alter our promotional claims or undertake the expensive and time-consuming process of seeking premarket approval with clinical data demonstrating the sensitivity and specificity of our currently offered tests or tests in development, including tests for oncology based on our *eTag* technology. If premarket approval is required, we cannot be sure that we will be able to obtain it in a timely fashion or at all; and in such event the FDA would have authority to require us to cease marketing tests until such approval is granted.

In addition, the production of the future cancer test kits may be subject to Good Manufacturing Practice Regulation, or GMP, under the auspices of the FDA. Our facilities are not GMP compliant. If the manufacture of the proposed kits is subject to GMP regulation, then we will be required to establish a GMP compliant facility, or to enter into a relationship with a third party manufacturer that operates a GMP compliant facility. We do not have experience with GMP compliance. GMP compliance, or entry into a manufacturing relationship with a third party manufacturer, would be time-consuming and expensive. We anticipate that if we are required to establish our own GMP compliant facility, or we elect to enter into a relationship with a GMP compliant third party, either process would be completed in parallel with developing the proposed testing products, could take over one year, and would require significant start-up costs and would significantly increase on-going overhead costs.

In general, we cannot predict the extent of future FDA regulation of our business. We might be subject in the future to greater regulation, or different regulations, that could have a material effect on our finances and operations. If we fail to comply with existing or additional FDA regulations, it could cause us to incur civil or criminal fines and penalties, increase our expenses, prevent us from increasing revenues, or hinder our ability to conduct our business.

With the broadening of our business from infectious disease to oncology, we are a larger and broader organization. If our management is unable to adequately manage the company, our operating results will suffer.

As a result of our merger with ACLARA, we hired approximately 35 of the 55 employees based at ACLARA's facility in Mountain View, California before the merger. Currently, our total number of employees is approximately 290. Our proposed testing products using the *eTag* technology and our commercialization infrastructure have not yet been developed, and the two will need to be integrated as a necessary part of the development process. We do not have experience in commercializing testing products for use in the oncology field. We face challenges inherent in efficiently managing an increased number of employees and addressing new markets, including the need to implement appropriate systems, policies, benefits and compliance programs and the need to build a sales organization focused on oncologists.

Difficulties or delays in successfully managing the substantially larger and broader organization could have a material adverse effect on our business and, as a result, on the market price of our common stock.

We could lose key personnel, which could materially affect our business and require us to incur substantial costs to recruit replacements for lost personnel.

We consider William D. Young, Chairman and Chief Executive Officer, Christos J. Petropoulos, Ph.D., Vice President, Research and Development and Chief Scientific Officer, Michael Bates, M.D., Vice President, Clinical Research, and Jeannette Whitcomb, Ph.D., Vice President, Operations, to be key to the management of our business and operations.

Any of our key personnel could terminate their employment at any time and without notice. We do not maintain key person life insurance on any of our key employees. Any failure to attract and retain key personnel could have a material adverse effect on our business.

Charges to operations resulting from the possible future impairment of goodwill and intangible assets may adversely affect the market value of our common stock.

If we are unable to successfully develop products based on the eTag technology, acquired in our merger with ACLARA, our financial results, including earnings (loss) per common share, could be adversely affected. In accordance with United States generally accepted accounting principles, we have accounted for the merger as a business combination. We have allocated the total purchase price to the acquired net tangible assets, amortizable intangible assets, and in-process research and development based on their fair values as of the date of completion of the merger, and have recorded the excess of the purchase price over those fair values as goodwill. In addition, we have capitalized certain patent costs related to our infectious disease technologies and products.

To the extent the value of goodwill or intangible assets become impaired, we may be required to incur material charges relating to the impairment of those assets. The additional charges could adversely affect our financial results, including earnings (loss) per common share, which could cause the market price of our common stock to decline.

Holders of our contingent value rights, or CVRs, will not be able to determine the payment to be received under the contingent value rights until June 10, 2006, and the CVRs may expire or be extinguished without any payment thereunder.

Holders of our CVRs will not know the amount of payment, if any, that a contingent value right will receive until either June 10, 2006, or such earlier time as the contingent value rights are automatically extinguished. The payment, if any, that each contingent value right will entitle its holder to receive will depend on the average volume weighted mean of the sales prices of our common stock for the 15 trading days ending on and including June 10, 2006. For every cent that the 15 day average is below $2.90, the contingent value right will have the right to a payment of $0.01 per CVR, with a maximum payment of $0.88 per CVR. If we are required to make any payment to the holders of CVRs, the first $0.50 per CVR of any such payment must be made in cash. The balance of any such payment, up to $0.38 per CVR, may, at our election, be made in cash, shares of our common stock or a combination of the two. If we elect to make any portion of a payment to holders of CVRs through the issuance of shares of our common stock then, as a condition precedent, such shares must, among other things, be issued either in a transaction that is exempt from registration under the Securities Act through satisfaction of the requirements of Section 3(a)(9) of the Securities Act, or pursuant to an effective registration statement under the Securities Act. If these conditions precedent cannot be satisfied then we must make the entire amount of any payment due under the CVRs in cash.

If at any point during the 18 month period ending on June 10, 2006, the daily volume weighted mean of the sales prices of our common stock is greater than or equal to $3.50 for 30 consecutive trading days, the contingent value rights will be automatically extinguished and no payment will be made on them.

Our financial results and financial position may be adversely impacted by, and may fluctuate as a result of, the contingent value rights.

Until June 10, 2006, or the earlier extinguishment of the contingent value rights in accordance with their terms, we will be required under generally accepted accounting principles to record adjustments in our quarterly statements of operations based on the fair value of our estimated obligation to make payments to the holders of contingent value rights and the variable accounting associated with the stock options that have underlying CVRs. Our estimated obligation to make payments under the CVRs will vary depending, at the time the estimate is made, on the market price, if any, of the contingent value rights and the stock options associated with CVRs, and the extent to which assumed ACLARA stock options are exercised. As a result, our estimated obligation under

the contingent value rights could vary from period to period, resulting in significant fluctuations in our results of operations from quarter to quarter, including our reported earnings or loss per share, which could cause the market price of our common stock to fall abruptly and significantly.

If, at June 10, 2006, we are required to make a payment under the contingent value rights, we will thereafter be obligated to make equivalent payments to holders of assumed ACLARA stock options upon the exercise of those options. The aggregate amount payable upon the exercise of assumed ACLARA stock options will be equal to the number of shares of our common stock subject to those options multiplied by the amount of cash or cash and Monogram Biosciences common stock required to be paid with respect to a single contingent value right. For fiscal periods ending after June 10, 2006, we will be required to record a charge against our statement of operations to reflect the maximum amount payable upon the exercise of assumed ACLARA stock options, based on the number of shares of our common stock for which such options are then exercisable according to their vesting provisions. In addition, we may periodically record a benefit to our statement of operations to the extent that any assumed ACLARA stock options expire prior to exercise. The combination of these charges and benefits could lead to fluctuations in our results of operations from quarter to quarter.

An active public market may not be sustained for the CVRs, or they may trade at low volumes, both of which could depress the resale price, if any, of the securities.

The CVRs are a new security for which there is a limited public trading market. We cannot predict whether an active public trading market for the securities will be sustained. The CVRs are currently quoted on the OTC Bulletin Board ("OTCBB") under the ticker symbol "MGRMR.OB". Because the OTCBB is a quotation service for NASD Market Makers, and not an issuer listing service or securities market, there are no listing requirements that must be met by an OTCBB issuer. There are, however, certain requirements that an issuer must meet in order for its securities to be eligible for a market maker to enter a quotation on the OTCBB. We believe that we satisfy these requirements, and that we will continue to satisfy these requirements for the foreseeable future. Investors should note however, that because issuers are not permitted to submit applications to be quoted on the OTCBB, we cannot guarantee that the CVRs will remain listed on the OTCBB. Continued quotation of the CVRs on the OTCBB will depend on ongoing sponsorship by one or more market makers who demonstrate compliance with SEC Rule 15c2-11.

Even if a public trading market for the CVRs is sustained, there may be little or no market demand for the CVRs, making it difficult or impossible to sell CVRs on the public market, and depressing the resale price, if any, of the CVRs. In addition, holders of CVRs may incur brokerage charges in connection with the resale of the CVRs, which in some cases could exceed the proceeds realized by the holder from the resale of its CVRs. We cannot predict the price, if any, at which the CVRs will trade.

Our obligation to make payments to the holders of CVRs will be unsecured, and holders of CVRs are not assured of receiving any payments owed to them under the CVRs.

Our obligation to make payments under the CVRs, if any, will be unsecured. While we intend to maintain cash resources for potential CVR payments, any amounts owing under the CVRs will be general unsecured obligations. If, at June 10, 2006, we are required to make a payment under the CVRs, holders of the CVRs cannot be assured that we will have sufficient funds or available common stock to do so. If we are unable to make a required payment under the CVRs, the holders of CVRs will have equal priority in making claims against and receiving assets from us as will our general creditors. If we are unable to make payments owing under the CVRs, the holder of a CVR may receive none, or only a portion of, any amount that is owed under the CVRs.

Our current products may not continue to receive market acceptance and our potential future products may not achieve market acceptance, which could limit our future revenue.

Our ability to establish our testing products, both current and potential, as the standard of care to guide and improve the treatment of viral diseases and cancer will depend on continued acceptance and use of our current testing products by physicians and clinicians and pharmaceutical companies, similar acceptance and use of our

potential future products and the development and commercialization of new drugs and drug classes that require or could benefit from testing services such as ours. While certain testing products for viral diseases are established, others are still relatively new, and testing products for the treatment of cancer have not yet been developed. We cannot predict the extent to which physicians and clinicians will accept and use these testing products. They may prefer competing technologies and products. The commercial success of these testing products will require demonstrations of their advantages and potential clinical and economic value in relation to the current standard of care, as well as to competing products. Market acceptance of our products will depend on:

- our marketing efforts and continued ability to demonstrate the utility of PhenoSense in guiding anti-viral drug therapy, for example, through the results of retrospective and prospective clinical studies;
- our ability to demonstrate the advantages and potential economic value of our PhenoSense testing products over current treatment methods and other resistance tests;
- the success of clinical trials of the new class of CCR5 entry inhibitor drugs for HIV in which our testing services are being used, whether those drugs get approved by the FDA and whether our tests are required after the drugs are approved;
- our ability to demonstrate to potential customers the clinical benefits and cost effectiveness of our *eTag* technology, relative to competing technologies and products;
- the extent to which opinion leaders in the scientific and medical communities publish supportive scientific papers in reputable academic journals;
- the extent and success of our efforts to market, sell and distribute our testing products;
- the timing and willingness of potential collaborators to commercialize our PhenoSense and *eTag* products and other future testing product candidates;
- general and industry-specific economic conditions, which may affect our pharmaceutical customers' research and development, clinical trial expenditures and the use of our PhenoSense and *eTag* products;
- progress of clinical trials conducted by our pharmaceutical customers;
- our ability to generate clinical data indicating correlation between data recognized by *eTag* assays and clinical responses to particular drugs;
- changes in the cost, quality and availability of equipment, reagents and components required to manufacture or use our PhenoSense and *eTag* products and other future testing product candidates;
- the development by the pharmaceutical industry of anti-viral drugs and targeted medicines for specific patient populations, the success of these targeted medicines in clinical trials and the adoption of our technological approach in these development activities; and
- our ability to develop new products.

If the market does not continue to accept our existing testing products, such as our PhenoSense products or does not accept our future testing products such as products based on the *eTag* technology, our ability to generate revenue will be limited.

Our revenues will be limited or diminished if changes are made to the way that our products are reimbursed, or if government or third-party payors limit the amounts that they will reimburse for our current products, or do not authorize reimbursement for our planned products.

Government and third-party payors, including Medicare and Medicaid require that we identify the services we perform in our clinical laboratory using industry standard codes known as the Current Procedural Terminology, or CPT, codes, which are developed by the American Medical Association, or AMA. Most payors maintain a list of standard reimbursement rates for each such code, and our ability to be reimbursed for our services is therefore effectively limited by our ability to describe the services accurately using the CPT codes. From time to time, the AMA changes its instructions about how our services should be coded using the CPT

codes. If these changes leave us unable to accurately describe our services or we are not coordinated with payors such that corresponding changes are made to the payors' reimbursement schedules, we may have to renegotiate our pricing and reimbursement rates, the changes may interrupt our ability to be reimbursed, and/or the overall reimbursement rates for our services may decrease dramatically. In addition, we may spend significant time and resources to minimize the impact of these changes on reimbursement.

Government and third-party payors are attempting to contain or reduce the costs of healthcare and are challenging the prices charged for medical products and services. In addition, increasing emphasis on managed care in the United States will continue to put pressure on the pricing of healthcare products. This could in the future limit the price that we can charge for our products or cause fluctuations in reimbursement rates for our products. This could hurt our ability to generate revenues. Significant uncertainty exists as to the reimbursement status of new medical products like the products we are currently developing and that we expect to develop, particularly if these products fail to show demonstrable value in clinical studies. If government and other third-party payors do not continue to provide adequate coverage and reimbursement for our testing products or do not authorize reimbursement for our planned products, our revenues will be reduced.

Billing complexities associated with health care payors could delay our accounts receivable collection, impair our cash flow and limit our ability to reach profitability.

Billing for laboratory services is complex. Laboratories must bill various payors, such as Medicare, Medicaid, insurance companies, doctors, employer groups and patients, all of whom have different requirements. In 2005, 2004 and 2003, approximately 22%, 31% and 29%, respectively of our revenues were derived from tests performed for the beneficiaries of the Medicare and Medicaid programs. In addition, gross accounts receivable balances from Medicare and Medicaid represented 33% and 35% of gross accounts receivable balance at December 31, 2005 and 2004, respectively. Billing difficulties often result in a delay in collecting, or ultimately an inability to collect, the related receivable. This impairs cash flow and ultimately reduces profitability if we are required to record bad debt expense and/or contractual adjustments for these receivables. Our accounts receivable balances have increased during 2005 and 2004. We recorded bad debt expense of $0.8 million and $0.3 million for the years ended December 31, 2005 and 2004, respectively.

Among many other factors complicating billing are:

- complexity of procedures, and changes in procedures, for electronic processing of insurance claims;
- cumbersome nature of manual processes at payors for processing claims where electronic processing is not possible;
- pricing or reimbursement differences between our fee schedules and those of the payors;
- changes in or questions about how products are to be identified in the requisitions;
- disputes between payors as to which party is responsible for payment;
- disparity in coverage among various payors; and
- difficulties of adherence to specific compliance requirements and procedures mandated by various payors.

Ultimately, if all issues are not resolved in a timely manner, our cash flows could be impaired and our ability to reach profitability could be limited

We may encounter problems or delays in processing tests, or in expanding our automated testing systems, which could impair our ability to grow our business, generate revenue and achieve and sustain profitability.

In order to meet future projected demand for our products and fully utilize our current clinical laboratory facilities, we may have to expand the volume of patient samples that we are able to process. We will also need to incorporate the *eTag* assays into our laboratory processes. We will also need to continue to develop our quality-control procedures and to establish more consistency with respect to test turnaround so that results are

delivered in a timely manner. Thus, we will need to continue to develop and implement additional automated systems to perform our tests. We have installed laboratory information systems over the past few years to support the automated tests, analyze the data generated by our tests and report the results. If these systems do not work effectively as we scale up our processing of patient samples, we may experience processing or quality-control problems and may experience delays or failures in our operations. These problems, delays or failures could adversely impact the promptness and accuracy of our transaction processing, which could impair our ability to grow our business, generate revenue and achieve and sustain profitability. We have experienced periods during which processing of our test results was delayed and periods during which the proportion of samples for which results could not be generated were higher than expected. While we are continuing to attempt to minimize the likelihood of any recurrence of these issues, future delays, processing problems and backlog may nevertheless occur, resulting in the loss of our customers and/or revenue and an adverse effect on our results of operations.

We face intense competition, and if our competitors' existing products or new products are more effective than our products, the commercial opportunity for our products will be reduced or eliminated.

The commercial opportunity for our products will be reduced or eliminated if our competitors develop and market new testing products that are superior to, or are less expensive than, the testing products that we develop using our proprietary technology. The biotechnology industry evolves at a rapid pace and is highly competitive. Our competitors for our HIV testing products include manufacturers and distributors of phenotypic and genotypic drug resistance technology, such as Tibotec-Virco, a division of Johnson & Johnson, Specialty Laboratories, Applied Biosystems Group, Visible Genetics, a division of Bayer Diagnostics, and reference and academic laboratories.

We also compete with companies that are developing alternative technological approaches for patient testing in the cancer field. There are likely to be many competitive companies and many technological approaches in the emerging field of testing for likely responsiveness to the new class of targeted cancer therapies, including companies such as DakoCytomation A/S, Genzyme and Abbott Laboratories that currently commercialize testing products for guiding therapy of cancer patients. Established diagnostic product companies such as Abbott Laboratories, Roche Diagnostics and Bayer Diagnostics and established clinical laboratories such as Quest Diagnostics and Laboratory Corporation of American may also develop or commercialize services or products that are competitive with those that we anticipate developing and commercializing. In addition, there are a number of alternative technological approaches being developed by competitors. In particular, while our anticipated oncology testing products will be based on the identification of protein-based differences among patients, there is significant interest in the oncology community in gene-based approaches that may be available from other companies, which may prove to be a superior technology to ours.

Each of these competitors is attempting to establish its test as the standard of care. Our competitors may successfully develop and market other testing products that are either superior to those that we may develop or that are marketed prior to marketing of our testing products. One or more of our competitors may render our technology obsolete or uneconomical by advances in existing technological approaches or the development of different approaches. Some of these competitors have substantially greater financial resources, market presence and research and development staffs than we do. In addition, some of these competitors have significantly greater experience in developing products, and in obtaining the necessary regulatory approvals of products and processing and marketing products.

Various testing materials that we use are purchased from single qualified suppliers, which could result in our inability to secure sufficient materials to conduct our business.

We purchase some of the testing materials used in our laboratory operations from single qualified suppliers. Although these materials could be purchased from other suppliers, we would need to qualify the suppliers prior to using their materials in our commercial operations. Although we believe we have ample inventory to allow validation of another source, in the event of a material interruption of these supplies, the quantity of our inventory may not be adequate.

Any extended interruption, delay or decreased availability of the supply of these testing materials could prevent us from running our business as contemplated and result in failure to meet our customers' demands. If significant customer relationships were harmed by our failure to meet customer demands, our revenues may decrease. We might also face significant additional expenses if we are forced to find alternate sources of supplies, or change materials we use. Such expenses could make it more difficult for us to attain profitability, offer our products at competitive prices and continue our business as currently contemplated or at all.

We may be dependent on licenses for technology we use in our testing products, and our business would suffer if these licenses were terminated or were not available.

Historically, we have licensed technology from Roche that we use in our PhenoSense and GeneSeq tests. We hold a non-exclusive license for the life of the patent term of the last licensed Roche patent. We were notified by Roche that the license had terminated in March 2005 because the last licensed patent had expired. However, Roche advised us that additional licenses may be necessary for certain other patents and has offered us a license to these patents. We are in the process of reviewing whether additional licenses are necessary or useful for our operations. We believe such licenses are available on commercially acceptable terms.

As we develop and begin to commercialize our testing products in oncology, we may encounter the need for licenses to technology owned by others in order to commercialize these products. We believe that if such licenses become necessary that they will be available on commercially acceptable terms.

The intellectual property protection for our technology and trade secrets may not be adequate, allowing third parties to use our technology or similar technologies, and thus reducing our ability to compete in the market.

The strength of our intellectual property protection is uncertain. In particular, we cannot be sure that:

- we were the first to invent the technologies covered by our patents or pending patent applications;
- we were the first to file patent applications for these inventions;
- others will not independently develop similar or alternative technologies or duplicate any of our technologies;
- any of our pending patent applications will result in issued patents; or
- any patents issued to us will provide a basis for commercially viable products or will provide us with any competitive advantages or will not be challenged by third parties.

With respect to our viral disease portfolio, we currently have approximately 192 granted, issued, allowed, and pending patent applications in the United States and in other countries, including 40 issued patents. With respect to our potential oncology products and eTag technology, we currently have approximately 168 granted, issued, allowed, and pending patent applications in the United States and in other countries, including 17 issued patents. We have 138 granted, issued, allowed, and pending patent applications in the United States and in other countries, including 74 issued or allowed patents, relating to the historic microfluidics business of ACLARA. We had licensed certain patents under the Roche license discussed above. These patents covered a broad range of technology applicable across our entire current and planned product line. We have also licensed certain technology from Third Wave Technologies for gene expression based assays for research applications.

Other companies may have patents or patent applications relating to products or processes similar to, competitive with or otherwise related to our current and planned products. Patent law relating to the scope of claims in the technology fields in which we operate, including biotechnology and information technology, is still evolving and, consequently, patent positions in these industries are generally uncertain. We will not be able to assure you that we will prevail in any lawsuits regarding the enforcement of patent rights or that, if successful, we will be awarded commercially valuable remedies. In addition, it is possible that we will not have the required resources to pursue offensive litigation or to otherwise protect our patent rights.

In addition to patent protection, we also rely on protection of trade secrets, know-how and confidential and proprietary information. We generally enter into confidentiality agreements with our employees, consultants and their collaborative partners upon commencement of a relationship with them. However, we cannot assure you that these agreements will provide meaningful protection against the unauthorized use or disclosure of our trade secrets or other confidential information or that adequate remedies would exist if unauthorized use or disclosure were to occur. The unintended disclosure of our trade secrets and other proprietary information would impair our competitive advantages and could have a material adverse effect on our operating results, financial condition and future growth prospects. Further, we cannot assure you that others have not or will not independently develop substantially equivalent know-how and technology.

In addition, there is a risk that some of our confidential information could be compromised during the discovery process of any litigation. During the course of any lawsuit, there may be public announcements of the results of hearings, motions and other interim proceedings or developments in the litigation. If securities analysts or investors perceive these results to be negative, it could have a substantial negative effect on the trading price of our common stock.

Our products could infringe on the intellectual property rights of others, which may cause us to engage in costly litigation and, if we are not successful defending any such litigation or cannot obtain necessary licenses, we may have to pay substantial damages and/or be prohibited from selling our products.

Our commercial success depends upon our ability to develop, manufacture, market and sell our products and use our proprietary technologies without infringing the proprietary rights of others. Companies in our industry typically receive a higher than average number of claims and threatened claims of infringement of intellectual property rights. Numerous U.S. and foreign issued patents and pending patent applications owned by others exist in the fields in which we are selling and/or developing or expect to sell and/or develop products. We may be exposed to future litigation by third parties based on claims that our products, technologies or activities infringe the intellectual property rights of others. Because patent applications can take many years to issue, there may be currently pending applications, unknown to us, which may later result in issued patents that our products or technologies may infringe. There also may be existing patents, of which we are not aware, that our products or technologies may inadvertently infringe. Further, there may be issued patents and pending patent applications in fields relevant to our business, of which we may become aware from time to time, that we believe we do not infringe or that we believe are invalid or relate to immaterial portions of our overall business. We will not be able to assure you that third parties holding any of these patents or patent applications will not assert infringement claims against us for damages or seeking to enjoin our activities. We will also not be able to assure you that, in the event of litigation, we will be able to successfully assert any belief we may have as to non-infringement, invalidity or immateriality, or that any infringement claims will be resolved in our favor. Third parties have from time to time threatened to assert infringement or other intellectual property claims against us based on our patents or other intellectual property rights or informed us that they believe we required one or more licenses in order to perform certain of our tests. For instance, we have been informed by Bayer Diagnostics, or Bayer, that it believes we require one or more licenses to patents controlled by Bayer in order to conduct certain of our current and planned operations and activities. We, in turn, believe that Bayer may require one or more licenses to patents controlled by us. Although we believe we do not need a license from Bayer for our HIV products, we have had discussions with Bayer concerning the possibility of entering into a cross-licensing or other arrangement, and believe that if necessary, licenses from Bayer would be available to us on commercially acceptable terms. However, in the future, we may have to pay substantial damages, possibly including treble damages, for infringement if it is ultimately determined that our products infringe a third party's patents. Further, we may be prohibited from selling our products before we obtain a license, which, if available at all, may require us to pay substantial royalties. Even if infringement claims against us are without merit, defending a lawsuit will take significant time, and may be expensive and divert management attention from other business concerns.

Our business operations and the operation of our clinical laboratory facility are subject to stringent regulations and if we are unable to comply with them, we may be prohibited from accepting patient samples or may incur additional expense to attain and maintain compliance, which would have an adverse impact on our revenue and profitability.

The operation of our clinical laboratory facilities is subject to a stringent level of regulation under the Clinical Laboratory Improvement Amendments of 1988. Laboratories must meet various requirements, including requirements relating to quality assurance, quality control and personnel standards. Our laboratories are also subject to regulations by the State of California and various other states. We have received accreditation by the College of American Pathologists and therefore are subject to their requirements and evaluation. Our failure to comply with applicable requirements could result in various penalties, including loss of certification or accreditation, and we may be prevented from conducting our business as we currently do or as we may wish to in the future.

If we do not comply with laws and regulations governing the confidentiality of medical information, we may lose the state licensure we need to operate our business, and may be subject to civil, criminal or other penalties. Compliance with such laws and regulations could be expensive.

The Department of Human Health and Services, or HHS, has issued final regulations under the Health Insurance Portability and Accountability Act of 1996, or HIPAA, designed to improve the efficiency and effectiveness of the health care system by facilitating the electronic exchange of information in certain financial and administrative transactions, while protecting the privacy and security of the information exchanged. Three principal regulations have been issued:

- privacy regulations;
- security regulations; and
- standards for electronic transactions, or transaction standards.

We have implemented the HIPAA privacy regulations. In addition, we implemented measures we believe will reasonably and appropriately meet the specifications of the security regulations and the transaction standards.

These standards are complex, and subject to differences in interpretation. We will not be able to guarantee that our compliance measures will meet the specifications for any of these regulations. In addition, certain types of information, including demographic information not usually provided to us by physicians, could be required by certain payors. As a result of inconsistent application of requirements by payors, or our inability to obtain billing information, we could face increased costs and complexity, a temporary disruption in receipts and ongoing reductions in reimbursements and net revenues. We cannot estimate the potential impact of payors implementing (or failing to implement) the HIPAA transaction standards on our cash flows and results of operations.

In addition to the HIPAA provisions described above, there are a number of state laws regarding the confidentiality of medical information, some of which apply to clinical laboratories. These laws vary widely, and new laws in this area are pending, but they most commonly restrict the use and disclosure of medical information without patient consent. Penalties for violation of these laws include sanctions against a laboratory's state licensure, as well as civil and/or criminal penalties. Compliance with such rules could require us to spend substantial sums, which could negatively impact our profitability.

We may be unable to build brand loyalty because our trademarks and trade names may not be protected. We may not be able to build brand loyalty around our broader business focus and new name. Our attempts to create a new corporate and brand identity may not be successful and may damage our existing brand loyalty.

Our registered or unregistered trademarks or trade names such as the names PhenoSense, PhenoSense GT, PhenoScreen, GeneSeq, and *eTag* may be challenged, canceled, infringed, circumvented or declared generic or

determined to be infringing on other marks. We may not be able to protect our rights to these trademarks and trade names, which we need to build brand loyalty. Brand recognition is critical to our short-term and long-term marketing strategies especially as we commercialize future enhancements to our products. In particular as we broaden the company's commercial focus from viral diseases to oncology and other serious diseases, we are attempting to establish a corporate identity for that broader business focus and, in September 2005, we changed our name from ViroLogic, Inc. to Monogram Biosciences, Inc. We cannot assure you that we will be successful in establishing brand recognition and loyalty for our new name and our attempts to do so could damage our existing brand loyalty.

Clinicians or patients using our products or services may sue us and our insurance may not sufficiently cover all claims brought against us, which would increase our expenses.

Clinicians, patients and others may at times seek damages from us if drugs are incorrectly prescribed for a patient based on testing errors or similar claims. Although we have obtained product liability insurance coverage of up to $6 million, and expect to continue to maintain product liability insurance coverage, we will not be able to guarantee that insurance will continue to be available to us on acceptable terms or that our coverage will be sufficient to protect us against all claims that may be brought against us. We may not be able to maintain our current coverage, or obtain new insurance coverage for our planned future testing services and products, such as planned testing service and kits for use in connection with the treatment of cancer patients, on acceptable terms with adequate coverage, or at reasonable costs. We may incur significant legal defense expenses in connection with a liability claim, even one without merit or for which we have coverage.

Decreased effectiveness of equity compensation could adversely affect our ability to attract and retain employees, and proposed changes in accounting for equity compensation could adversely affect earnings.

We have historically used stock options and other forms of equity-related incentives as a key component of our employee compensation packages. We believe that stock options and other long-term equity incentives directly motivate our employees to maximize long-term stockholder value and, through the use of long-term vesting, encourage employees to remain with us. The Financial Accounting Standards Board has issued changes to the U.S. generally accepted accounting principles that requires us to record a charge to earnings for employee stock option grants and other option plans commencing in the first quarter of 2006. Moreover, applicable stock exchange listing standards related to obtaining stockholder approval of equity compensation plans could make it more difficult or expensive for us to grant options to employees in the future, which may result in changes in our equity compensation strategy. These and other developments in the provision of equity compensation to employees could make it more difficult to attract, retain and motivate employees, and such a change in accounting rules may adversely impact our future financial condition and operating results.

We may be subject to litigation, which would be time consuming and divert our resources and the attention of our management.

ACLARA, with which we merged in December 2004, and certain of its former officers and directors, referred to together as the ACLARA defendants, are named as defendants in a securities class action lawsuit filed in the United States District Court for the Southern District of New York. This action, which was filed on November 13, 2001 and is now captioned ACLARA BioSciences, Inc. Initial Public Offering Securities Litigation, also names several of the underwriters involved in ACLARA's initial public offering, or IPO, as defendants. This class action is brought on behalf of a purported class of purchasers of ACLARA common stock from the time of ACLARA's March 20, 2000 IPO through December 6, 2000. The central allegation in this action is that the underwriters in the ACLARA IPO solicited and received undisclosed commissions from, and entered into undisclosed arrangements with, certain investors who purchased ACLARA stock in the IPO and the after-market. The complaint also alleges that the ACLARA defendants violated the federal securities laws by failing to disclose in the IPO prospectus that the underwriters had engaged in these allegedly undisclosed arrangements. More than 300 issuers who went public between 1998 and 2000 have been named in similar lawsuits. In July 2002, an omnibus motion to dismiss all complaints against issuers and individual defendants

affiliated with issuers (including ACLARA defendants) was filed by the entire group of issuer defendants in these similar actions. On February 19, 2003, the Court in this action issued its decision on the defendants' omnibus motion to dismiss. This decision dismissed the Section 10(b) claim as to ACLARA but denied the motion to dismiss Section 11 claim as to ACLARA and virtually all of the other defendants. On June 26, 2003, the plaintiffs in the consolidated class action lawsuits announced a proposed settlement with ACLARA and the other issuer defendants. The proposed settlement, which was approved by ACLARA's board of directors, provides that the insurers of all settling issuers will guarantee that the plaintiffs recover $1 billion from non-settling defendants, including the investment banks who acted as underwriters in those offerings. In the event that the plaintiffs do not recover $1 billion, the insurers for the settling issuers will make up the difference. Under the proposed settlement, the maximum amount that could be charged to ACLARA's insurance policy in the event that the plaintiffs recovered nothing from the investment banks would be approximately $3.9 million. We believe that ACLARA had sufficient insurance coverage to cover the maximum amount that we may be responsible for under the proposed settlement. On August 31, 2005, the Court granted unconditional preliminary approval of the proposed settlement. The Court set the settlement fairness hearing for April 24, 2006. At the fairness hearing, the court will decide whether the settlement is fair, reasonable, and adequate for all class members, and whether to grant final approval of the settlement. It is possible that the Court may not give its final approval to the settlement in whole or part. If a final settlement is not reached or is not approved by the court, we believe that we have meritorious defenses and intend to vigorously defend against the suit. As a result of this belief, no liability for this suit has been recorded in the accompanying financial statements. However, we could be forced to incur significant expenses in the litigation, and in the event there is an adverse outcome, our business could be harmed.

Our operating results may fluctuate from quarter to quarter, making it likely that, in some future quarter or quarters, we will fail to meet estimates of operating results or financial performance, causing our stock price to fall.

If revenue declines in a quarter, our losses will likely increase or our earnings will likely decline because many of our expenses are relatively fixed. Though our revenues may fluctuate significantly as we continue to build the market for our products, expenses such as research and development, sales and marketing and general and administrative are not affected directly by variations in revenue. The cost of our product revenue could also fluctuate significantly due to variations in the demand for our products and the relatively fixed costs to produce them. In addition, there could be significant fluctuations in the amounts recorded in our statement of operations for valuation adjustments to the CVRs and stock based compensation. We will not be able to accurately predict how volatile our future operating results will be because our past and present operating results, which reflect moderate sales activity, are not indicative of what we might expect in the future. As a result it will be very difficult for us to forecast our revenues accurately and it is likely that in some future quarter or quarters, our operating results will be below the expectations of securities analysts or investors. In this event, the market price of our common stock may fall abruptly and significantly. Because our revenue and operating results will be difficult to predict, period-to-period comparisons of our results of operations may not be a good indication of our future performance.

In the event that we need to raise additional capital, our stockholders could experience substantial additional dilution. If such financing is not available on commercially reasonable terms, we may have to significantly curtail our operations or sell significant assets and may be unable to continue as a going concern.

We anticipate that our capital resources, together with funds from the sale of our products, contract revenue and borrowing under equipment financing arrangements, will enable us to maintain our current research and development, marketing, production and general administrative activities related to HIV drug resistance in the United States, together with the development and initial commercialization of the *eTag* technology, at least for the next twelve months. The commercialization of the *eTag* technology is expected to include the development of a testing service and possibly test kits for use in connection with the treatment of cancer patients. However, we may need additional funding to accomplish these goals. Further we may have to establish additional

infrastructure to make available our Co-receptor Tropism Assay outside of the U.S. if the CCR5 drugs are approved by the FDA and our tests are required for these drugs after approval. To the extent operating and capital resources are insufficient to meet our obligations, including lease payments and future requirements, we will have to raise additional funds to continue the development, commercialization and expansion of our technologies, including the *eTag* technology and products based on that technology. Our inability to raise capital would seriously harm our business and product development efforts. In addition, we may choose to raise additional capital due to market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans, or to satisfy a portion of the potential payment for the CVR liability. However, we cannot guarantee that additional financing, in any form, will be available at all, or on terms acceptable to us. If we sell equity or convertible debt securities to raise additional funds, our existing stockholders may incur substantial dilution and any shares so issued will likely have rights, preferences and privileges superior to the rights, preferences and privileges of our outstanding common and preferred stock. In the event financing is not available in the time frame required, we could be forced to reduce our operating expenses, curtail sales and marketing activities, reschedule research and development projects or delay, scale back or eliminate some or all of our activities. Further, we might be required to sell certain of our assets or obtain funds through arrangements with third parties that require us to relinquish rights to certain of our technologies or products that we would seek to develop or commercialize on our own. These actions, while necessary for the continuance of operations during a time of cash constraints and a shortage of working capital, could make it difficult or impossible to implement our long-term business plans or could affect our ability to continue as a going concern.

If a natural disaster strikes our clinical laboratory facilities and we are unable to receive and or process our customers' samples for a substantial amount of time, we would lose revenue.

We rely on a single clinical laboratory facility to process patient samples for our tests, which are received via delivery service or mail, and have no alternative facilities. We will also use this facility for conducting other tests we develop, including *eTag* assays, and even if we move into different or additional facilities they will likely be in close proximity to our current clinical laboratory. Our clinical laboratories and some pieces of processing equipment are difficult to replace and could require substantial replacement lead-time. Our facilities may be affected by natural disasters such as earthquakes and floods. Earthquakes are of particular significance because our facilities are located in the San Francisco Bay Area, an earthquake-prone area, and we do not have insurance against earthquake loss. Our insurance coverage, if any, may not be adequate to cover total losses incurred in a natural disaster. However, even if covered by insurance, in the event our clinical laboratory facilities or equipment is affected by natural disasters, we would be unable to process patient samples and meet customer demands or sales projections. If our patient sample processing operations were curtailed or ceased, we would not be able to perform tests, which would reduce our revenues, and may cause us to lose the trust of our customers or market share.

We use hazardous chemicals and biological materials in our business, and any claims relating to any alleged improper handling, storage, use or disposal of these materials could adversely harm our business.

Our research and development and manufacturing processes involve the use of hazardous materials, including chemicals and biological materials. Our operations also produce hazardous waste products. We will not be able to eliminate the risk of accidental contamination or discharge and any resultant injury from these materials. Federal, state and local laws and regulations govern the use, manufacture, storage, handling and disposal of these materials. We do not maintain insurance coverage for damage caused by accidental release of hazardous chemicals, or exposure of individuals to hazardous chemicals off of our premises. We could be subject to damages in the event of an improper or unauthorized release of, or exposure of individuals to, hazardous materials. In addition, claimants may sue us for injury or contamination that results from our use, or the use by third parties, of these materials, and our liability under a claim of this nature may exceed our total assets. Compliance with environmental laws and regulations is expensive, and current or future environmental regulations may impair our research, development or production efforts.

Concentration of ownership among some of our stockholders may prevent other stockholders from influencing significant corporate decisions.

Approximately 30% of our common stock is beneficially held by our directors, our executive officers, and greater than five percent stockholders. The most significant of these stockholders in terms of beneficial ownership are Perry Corp. and Deutsche Bank AG. Consequently, a small number of our stockholders may be able to substantially influence our management and affairs. If acting together, they would be able to influence most matters requiring the approval by our stockholders, including the election of directors, any merger, consolidation or sale of all or substantially all of our assets and any other significant corporate transaction. The concentration of ownership may also delay or prevent a change in control of Monogram Biosciences at a premium price if these stockholders oppose it.

Our stock price may be volatile, and our common stock could decline in value.

The market prices for securities of biotechnology companies in general have been highly volatile and may continue to be highly volatile in the future. Our stock price has fluctuated widely during the last few years from a low of $0.72 per share in September 2002 to a high of $4.40 per share in January 2004. The following factors, in addition to other risk factors described in this section, may have a significant negative impact on the market price of our common stock:

- period-to-period fluctuations in financial results;
- financing activities;
- potential payments required to be made under the Contingent Value Rights on June 10, 2006;
- investor perceptions regarding the impact of the Contingent Value Rights on our liquidity and capital resources;
- litigation;
- delays in product introduction, launches or enhancements, including delays in completing the development of the *eTag* technology and products based on that technology;
- announcements of technological innovations or new commercial products by our competitors;
- results from clinical studies;
- adverse developments in the clinical trials of drugs under development by our pharmaceutical company customers;
- developments concerning proprietary rights, including patents;
- publicity regarding actual or potential clinical results relating to products under development by our competitors or our own products or products under development;
- regulatory developments in the United States and foreign countries;
- changes in payor reimbursement policies; and
- economic and other external factors or other disaster or crisis.

A low or volatile stock price may negatively impact our ability to raise capital and to attract and maintain key employees.

If our stockholders sell substantial amounts of our common stock, the market price of our common stock may fall.

If our stockholders sell substantial amounts of our common stock, including shares issued upon the exercise of outstanding options, the market price of our common stock may fall. As of December 31, 2005 we had

outstanding options under our employee stock options plan to purchase 18.3 million shares of our common stock, which represents approximately 14.4% of our common stock outstanding on December 31, 2005, at a weighted-average price of $2.42 per share. Sales of substantial amounts of our common stock, whether currently outstanding, or issued as the result of option exercises, might also make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. Sales of a substantial number of shares could occur at any time. This may decrease the price of our common stock and may impair our ability to raise capital in the future.

Provisions of our charter documents and Delaware law may make it difficult for our stockholders to replace our management and may inhibit a takeover, either of which could limit the price investors might be willing to pay in the future for our common stock.

Provisions in our certificate of incorporation and bylaws may make it difficult for our stockholders to replace or remove our management, and may delay or prevent an acquisition or merger in which we are not the surviving company. In particular:

- Our board of directors is classified into three classes, with only one of the three classes elected each year, so that it would take at least two years to replace a majority of our directors;
- Our bylaws contain advance notice provisions that limit the business that may be brought at an annual meeting and place procedural restrictions on the ability to nominate directors; and
- Our common stockholders are not permitted to call special meetings or act by written consent.

Because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law. These provisions could discourage changes of our management and acquisitions or other changes in our control and otherwise limit the price that investors might be willing to pay in the future for our common stock.

We could adopt a stockholder rights plan, commonly referred to as a "poison pill," at any time without seeking the approval of our stockholders. Stockholder rights plans can act through a variety of mechanisms, but typically would allow our board of directors to declare a dividend distribution of preferred share purchase rights on outstanding shares of our common stock. Each such share purchase right would entitle our stockholders to buy a newly created series of preferred stock in the event that the purchase rights become exercisable. The rights would typically become exercisable if a person or group acquires over a predetermined portion of our common stock or announces a tender offer for more than a predetermined portion of our common stock. Under such a stockholder rights plan, if we were acquired in a merger or other business combination transaction which had not been approved by our board of directors, each right would entitle its holder to purchase, at the right's then-current exercise price, a number of the acquiring company's common shares at a price that is preferential to the holder of the right. If adopted by the our board of directors, a stockholder rights plan may have the effect of making it more difficult for a third party to acquire, or discourage a third party from attempting to acquire, control of us.

Item 2. ***Properties***

As of March 9, 2006, we leased a building of approximately 41,000 square feet in South San Francisco, California, comprising laboratory and office space. The lease expires in April 2010 and provides an option to extend the term for an additional ten years. We also subleased approximately 27,000 square feet in another adjacent building in South San Francisco, California, comprising laboratory and office space. This sublease expires on December 2006 and provides us with an option to extend the term for one year. In addition, as a result of our merger with ACLARA, we assumed the lease for a building of approximately 44,200 square feet in Mountain View, California comprising laboratory and office space. This lease expires in July 2009. We relocated the employees and operations from that facility to the South San Francisco facilities in the second quarter of 2005 and are currently seeking a subtenant for this space.

Item 3. ***Legal Proceedings***

ACLARA, with which we merged, and certain of its former officers and directors, referred to together as the ACLARA defendants, are named as defendants in a securities class action lawsuit filed in the United States District Court for the Southern District of New York. See "Commitments and Contingencies" note 8 to the financial statements for further discussion.

Item 4. ***Submission of Matters to a Vote of Security Holders***

We held the Annual Meeting of Stockholders on October 27, 2005, and two matters were voted upon. A description of each matter and tabulation of votes are as follows:

1. Two Class II directors were elected to our board to hold office until the 2008 Annual Meeting of Stockholders, or until their successors are elected and qualified. The nominees and the voting for each were as follows:

Edmon R. Jennings:		
	For	117,274,476
	Withheld	422,887
Cristina H. Kepner:		
	For	116,865,359
	Withheld	832,004

The following directors' terms of office continued after the Annual Meeting of Stockholders on October 27, 2005:

Thomas R. Baruch
William Jenkins
David H. Persing
John D. Mendlein
William D. Young

2. The appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2005 was ratified.

The voting for the proposal was as follows:

For	117,423,718
Against	259,174
Abstain	14,471
Broker non-vote	—

PART II

Item 5. ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

(a) *Market Data; Dividends*

Our Common Stock trades on the Nasdaq National Market under the symbol "MGRM". The following table sets forth, for the periods indicated, the high and low sales prices of our common stock on the Nasdaq National Market:

	High	Low
2005		
Fourth Quarter	$2.40	$1.33
Third Quarter	$2.73	$2.26
Second Quarter	$2.95	$2.33
First Quarter	$2.81	$2.15
2004		
Fourth Quarter	$2.84	$1.65
Third Quarter	$2.42	$1.51
Second Quarter	$3.65	$2.12
First Quarter	$4.40	$2.68

The last reported sale price of our common stock on the Nasdaq National Market on March 9, 2006 was $1.87. As of March 9, 2006, there were approximately 300 stockholders of record of our common stock.

We have never declared or paid any cash dividends on our common stock. We currently intend to retain any future earnings for funding growth and, therefore, do not anticipate paying any cash dividends on our common stock in the foreseeable future. Any future determination to pay cash dividends on our common stock will be at the discretion of the board of directors and will be dependent upon our financial condition, results of operations, capital requirements and other such factors as the board of directors deems relevant.

Recent Sales of Unregistered Securities.

The following sets forth the number of shares of our common and preferred stock issued in the fourth quarter of 2005. For these issuances, we relied on the exemption provided by Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"):

On October 20, 2005, we issued 25,000 shares of our common stock to a holder of our outstanding warrants upon that holder's cash exercise of the warrants.

On December 31, 2005, we issued 209,217 shares of common stock with a market value of $0.4 million as of the date of such issuance, to the Monogram Biosciences, Inc. 401(k) Profit Sharing Plan as a matching contribution under the terms of the plan.

Equity Compensation Plans

Information about our equity compensation plans is included in Item 12 of Part III of this Annual Report.

Item 6. *Selected Financial Data*

The following selected financial information is not necessarily indicative of results of future operations, and should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and related notes thereto included in Item 8 of this Annual Report on Form 10-K in order to fully understand factors that may affect the comparability of the information presented below. The statements of operations data for the years ended December 31, 2005, 2004 and 2003 and the balance sheet data as of December 31, 2005, 2004 and 2003 are derived from our audited financial statements included in Item 8 of this Report. The statements of operations data for the years ended December 31, 2002 and 2001 and the balance sheet data as of December 31, 2003, 2004 and 2002 are derived our audited financial statements not included in this Report.

	Year Ended December 31,				
	2005	2004	2003	2002	2001
	(In thousands, except per share amounts) (Unaudited)				
Statement of Operations Data:					
Revenue:					
Product revenue	$ 43,468	$ 34,811	$31,911	$ 24,530	$ 17,815
Contract revenue	4,784	1,990	1,468	731	458
Total revenue	48,252	36,801	33,379	25,261	18,273
Operating costs and expenses:					
Cost of product revenue	20,001	17,794	16,713	14,589	11,845
Research and development	18,996	7,839	4,733	10,406	11,693
Purchased in-process research and development charge	—	100,600	—	—	—
Sales and marketing	12,588	10,056	8,306	11,716	10,336
General and administrative	10,200	10,192	9,256	10,550	11,376
Lease termination charge	—	433	—	—	—
Total operating costs and expenses	61,785	146,914	39,008	47,261	45,250
Operating loss	(13,533)	(110,113)	(5,629)	(22,000)	(26,977)
Interest income	2,303	198	106	307	1,143
Interest expense	(60)	(34)	(141)	(423)	(466)
Contingent value rights revaluation	(26,296)	28,519	—	—	—
Other income	—	—	156	347	106
Net loss	(37,586)	(81,430)	(5,508)	(21,769)	(26,194)
Deemed dividend to preferred stockholders	—	—	(2,155)	(10,551)	(2,269)
Preferred stock dividend	(162)	(324)	(1,610)	(977)	(334)
Loss applicable to common stockholders	$(37,748)	$ (81,754)	$(9,273)	$(33,297)	$(28,797)
Basic and diluted net loss per common share	$ (0.31)	$ (1.43)	$ (0.27)	$ (1.38)	$ (1.43)
Shares used in computing basic and diluted loss per common share	123,527	57,292	34,445	24,157	20,072

Our results for the year ended December 31, 2004 include the acquired operations of ACLARA for the period December 10, 2004 to December 31, 2004. See notes to the financial statements for a description of the number of shares used in the computation of the basic and diluted net loss per common share.

	December 31,				
	2005	2004	2003	2002	2001
			(In thousands) (Unaudited)		
Balance Sheet Data:					
Cash, cash equivalents, and short-term investments	$ 65,014	$ 78,848	$ 9,430	$ 11,145	$ 8,962
Accounts receivable, net	9,063	7,251	6,165	4,924	4,562
Working capital	23,984	73,463	13,038	(239)	7,508
Restricted cash	50	457	776	707	1,000
Total assets	97,678	107,635	28,378	30,486	37,851
Current portion of contingent value rights	42,676	—	—	—	—
Long-term portion of contingent value rights	—	15,269	—	—	—
Long-term portion of restructuring costs	1,916	1,710	—	—	—
Long-term portion of capital lease obligations	212	36	87	419	1,341
Long-term portion of loans payable	233	311	—	—	174
Long-term advance from subtenant	—	—	—	—	975
Redeemable convertible preferred stock	—	1,810	1,994	4,249	11,228
Accumulated deficit	(225,288)	(187,702)	(106,272)	(100,764)	(78,995)
Total stockholders' equity	41,771	72,673	20,587	7,014	13,471

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion of the financial condition and results of operations should be read in conjunction with the financial statements and the notes thereto included in this Annual Report on Form 10-K. The estimates and certain other statements below are forward-looking statements that involve risks and uncertainties. Our actual future capital requirements and the adequacies of our available funds will depend on many factors, including those under "Risk Factors."

OVERVIEW

We are a life sciences company committed to advancing personalized medicine and improving patient outcomes through the development of innovative molecular diagnostic products that guide and target the most appropriate treatments. Through a comprehensive understanding of the genetics, biology and pathology of particular diseases, we have pioneered and are developing molecular diagnostics and laboratory services that are designed to:

- enable physicians to better manage infectious diseases and cancers by providing the critical information that helps them prescribe personalized treatments for patients by matching the underlying molecular features of an individual patient's disease to the drug expected to have maximal therapeutic benefit; and
- enable pharmaceutical companies to develop new and improved anti-viral therapeutics and targeted cancer therapeutics while minimizing development costs by accelerating the progress of existing drugs in development through clinical trials.

Over the last several years, we have built a business based on the personalized medicine approach in HIV drug resistance testing. We intend to leverage the experience and infrastructure we have built in the HIV market to the potentially larger market opportunity of cancer utilizing our proprietary *eTag* technology, acquired in our merger with ACLARA BioSciences, Inc., or ACLARA, in December 2004. In the future, we plan to seek opportunities to address an even broader range of serious diseases. We were incorporated in the state of Delaware in November 1995 and commenced commercial operations in 1999. On September 6, 2005, we changed our name from ViroLogic, Inc. to Monogram Biosciences, Inc. This new name is intended to reflect our commitment to extend our efforts in individual medicine beyond viral diseases and into oncology and other serious diseases. Our revenues have grown in each year since the commencement of commercial operations as our tests for HIV drug resistance have been adopted more broadly. We have two sources of revenue related to HIV- from testing of patient samples and from testing services provided to pharmaceutical companies in their drug development activities. Our Co-receptor Tropism Assay is being used for selection and monitoring of patients in phase III clinical trials of a new class of entry inhibitor drugs for HIV, called CCR5 Entry Inhibitors. One of these trials was initiated by a pharmaceutical company customer in late 2004 and has been a significant source of revenue in 2005. This trial is ongoing. An additional phase III trial was initiated by a second pharmaceutical company customer in July 2005, although in October 2005 this trial was terminated due to observed liver toxicity in patients in the phase III trial and a related phase II trial. Testing for a third phase III trial sponsored by a third pharmaceutical company customer was anticipated in the fourth quarter of 2005, although in this case a related phase II trial was terminated in October 2005 by the same customer due to a return of detectable virus in some patients late in therapy compared to the control regimen, and the timing for the phase III trial is not known. We are currently generating oncology-related revenues from pharmaceutical companies that are evaluating our *eTag* technology. We are working with several of these pharmaceutical and biotechnology companies to develop more substantial collaborations and expect to make our first oncology test available to patients in 2006. Our first oncology test cannot be made available to patients until we have completed transfer of the *eTag* assays from the research setting into our CLIA certified laboratory and until sufficient clinical data has been generated.

We have incurred losses each year since inception. As of December 31, 2005, we had an accumulated deficit of approximately $225.3 million, including a charge in 2004 of $100.6 million for in-process research and development related to our merger with ACLARA. We expect to incur additional operating losses at least through 2006 as we complete the development of the *eTag* technology, transfer the assays into the clinical laboratory, conduct clinical studies and develop the commercial infrastructure to support a commercial launch.

MERGER WITH ACLARA BIOSCIENCES, INC.

On December 10, 2004, we completed our merger with ACLARA, a Delaware corporation, pursuant to an Agreement and Plan of Merger and Reorganization dated May 28, 2004 as amended on October 18, 2004, or the Merger Agreement. Under the terms of the Merger Agreement, each outstanding share of ACLARA common stock was exchanged for 1.7 shares of our common stock and 1.7 Contingent Value Rights, or CVRs. We issued 61.9 million shares of common stock valued at $1.94 per share. The fair value of our common stock utilized in determining the purchase price was derived using our average stock price for the period two days before through two days after the amended terms of the acquisition were agreed to and announced on October 19, 2004. The CVRs are governed by a Contingent Value Rights Agreement and are described in more detail in this Item 7 under the heading "Contingent Value Rights." The transaction has been accounted for as a business combination and accordingly the assets acquired and liabilities assumed have been recorded at their respective fair values. We engaged independent valuation specialists to assist us in determining the fair values of the assets acquired and liabilities assumed. Such a valuation requires us to make significant estimates and assumptions, particularly with regard to the valuation of intangible assets.

The aggregate purchase consideration comprises (in thousands):

Fair value of common stock issued	$120,308
Fair value of CVRs related to ACLARA common stock outstanding and vested stock options	43,774
Fair value of ACLARA stock options assumed	9,243
Direct transaction costs	4,635
	$177,960

The purchase consideration has been allocated based on the fair value of the assets acquired and liabilities assumed, as follows (in thousands):

Tangible assets acquired:		
Cash and cash equivalents	$ 2,118	
Short-term investments	72,728	
Accounts receivable, inventory and other current assets	827	
Property and equipment	2,054	
Other long-term assets	100	
Restructuring accrual	(5,699)	
Other current liabilities	(4,883)	
Other long-term liabilities	(311)	
		$ 66,934
Deferred compensation related to unvested ACLARA options assumed		299
Intangible assets acquired:		
Developed product technology	200	
In-process research and development	100,600	
Goodwill	9,927	110,727
		$177,960

In connection with our merger with ACLARA, we have taken actions to integrate and restructure the former ACLARA operations. We relocated the ACLARA personnel and operations from a former ACLARA facility in Mountain View, California to our South San Francisco, California facilities in the second quarter of 2005. A restructuring accrual was established for the costs of vacating and subleasing the Mountain View facility including an estimate of the excess of the our lease costs over our anticipated sublease income and for the anticipated severance costs for ACLARA employees whose employment was terminated as a result of the

merger. During the second quarter of 2005, we increased the restructuring accrual by $1.6 million due to a delay in vacating and subleasing the Mountain View facility. This change to the estimate of completing the currently approved restructuring plans, which were originally recorded in goodwill, has increased goodwill to $9.9 million, as of December 31, 2005. Future adjustments to these estimates will be recorded in our results of operations.

The merger with ACLARA resulted in substantial non-cash items being recorded in our statement of operations for the year ended December 31, 2004. These include a non-recurring charge for in-process research and development of $100.6 million, other non-operating income of $28.5 million related to a favorable change in fair value of the liability established at closing of the merger for the estimated liability under the CVRs and certain stock compensation charges. These stock compensation charges amounted to $3.4 million, of which $1.2 million is recorded as research and development expense, $0.4 million is recorded as sales and marketing expense and $1.8 million is recorded as general and administrative expense. These adjustments are primarily the result of the impact of variable accounting, due to the CVRs, for ACLARA options assumed, and the recognition of expense for the value of CVRs related to ACLARA options that vested during the period from December 10, 2004 to December 31, 2004.

For the year ended December 31, 2005, other non-operating expense includes $26.3 million related to an unfavorable change in estimated fair value of the liability under the CVRs, and operating expenses include a net favorable $1.8 million adjustment from stock based compensation related to variable accounting for assumed ACLARA stock options with CVR attached, CVR expenses related to vested options during the period and deferred compensation amortization, of which $0.2 million is recorded in research and development, $0.2 million is recorded in sales and marketing and $1.4 million is recorded in general and administrative. See "Contingent Value Rights" note below for further details.

As of the closing date of the merger, with respect to CVRs issued for common stock outstanding and issuable for vested ACLARA options outstanding, we recorded the liability based on estimated fair value using a Black-Scholes based valuation of the underlying CVR securities of $0.66 per CVR, or $43.8 million in the aggregate. Because, subsequent to the closing of the merger, an active trading market has developed for the CVR securities, the liability was revalued at December 31, 2005 and 2004 based on the actual closing value of the CVRs on the OTC bulletin board of $0.63 and $0.23, respectively per CVR, or $42.7 million and $15.3 million, respectively in the aggregate. These adjustments have been recorded as non-operating income in the statement of operations. Further revaluations will be done each quarter based on the actual price of the CVRs at the end of the quarter while the CVRs remain outstanding.

Our results for the year ended December 31, 2004 include the acquired operations of ACLARA for the period December 10, 2004 to December 31, 2004.

SUMMARY OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Note 1 to the financial statements describes the significant accounting policies used in the preparation of the financial statements. Certain of these significant accounting policies are considered to be critical accounting policies, as defined below.

A critical accounting policy is defined as one that is both material to the presentation of our financial statements and requires management to make difficult, subjective or complex judgments that could have a material effect on our financial condition and results of operations. Specifically, critical accounting estimates have the following attributes: 1) we are required to make assumptions about matters that are highly uncertain at the time of the estimate; and 2) different estimates we could reasonably have used, or changes in the estimate that are reasonably likely to occur, would have a material effect on our financial condition or results of operations.

Estimates and assumptions about future events and their effects cannot be determined with certainty. We base our estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as our operating environment changes. These changes have historically been minor and have been included in the financial statements as soon as they became known. Based on a critical assessment of our accounting policies and the underlying judgments and uncertainties affecting the application of those policies, we believe that our financial statements are fairly stated in accordance with accounting principles generally accepted in the United States, and present a meaningful presentation of our financial condition and results of operations.

We believe the following critical accounting policies reflect our more significant estimates and assumptions used in the preparation of our financial statements:

Accounting for Merger with ACLARA

We accounted for the merger with ACLARA as a business combination which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. The judgments made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact our results of operations. Accordingly, for significant items, we obtained assistance from independent valuation specialists.

The excess of the aggregate purchase consideration over the fair value of assets acquired and liabilities assumed has been allocated to goodwill.

Contingent Value Rights

As part of the purchase consideration in our merger with ACLARA, we issued Contingent Value Rights, or CVRs, to ACLARA stockholders and are obligated to issue CVRs to holders of assumed ACLARA stock options upon future exercise of those options. Each CVR represents the right to receive, on June 10, 2006, a potential payment, up to $0.88 per CVR, of the amount by which the then-current market value of Monogram Biosciences common stock is less than $2.90 per share. Pursuant to the terms of the related agreement, the determination of the current market value of our common stock at that date will be based on a formula averaging trading prices during the 15 consecutive trading day period immediately prior to June 10, 2006. The first $0.50 per CVR of any such payment that is made must be made in cash, with the balance of up to $0.38 per CVR being payable, at our option, in cash, shares of our common stock, or a combination of cash and our common stock. In addition, we assumed options to purchase shares of ACLARA common stock which are now exercisable for shares of our common stock and CVRs (or applicable payment, if any, in lieu of CVRs if exercised after June 10, 2006).

We recorded the initial liability under the CVRs based on the fair value of the liability at the closing date and will record adjustments to this liability based on changes in the fair value each quarter as non-operating income or expense in our statement of operations. As of the closing date of the merger, with respect to CVRs issued in respect of common stock outstanding and issuable in respect of assumed vested ACLARA stock options outstanding, we estimated fair value using a Black-Scholes based valuation of the underlying CVR securities. Because, subsequent to the closing of the merger, an active trading market has developed for the CVR securities, the liability will be revalued based on the actual closing value of the CVRs on the OTC bulletin board. In addition, we will record an additional liability each quarter for additional CVRs related to assumed ACLARA stock options that vest during each quarter.

Goodwill, Other Intangible Assets and Impairment of Long-Lived Assets

Goodwill represents the excess of the purchase consideration over the fair values of the identifiable assets acquired and liabilities assumed from our merger with ACLARA. In accordance with Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets", or SFAS 142, we are required to test for impairment of goodwill on an annual basis and at any other time if events occur or circumstances indicate that the carrying amount of goodwill may not be recoverable.

Other intangible assets include acquired developed product technology, costs of patents and patent applications related to products and products in development, which are capitalized and amortized on a straight-line basis over their estimated useful lives ranging from 8 to 15 years. Circumstances that could trigger an impairment test include but are not limited to: a significant adverse change in the business or legal factors; an adverse action or assessment by a regulator; unanticipated competition or loss of key personnel.

Revenue Recognition

Product revenue is recognized upon completion of tests made on samples provided by customers and the shipment of test results to those customers. Services are provided to certain patients covered by various third-party payor programs, such as Medicare and Medicaid. Billings for services under third-party payor programs are included in revenue net of allowances for differences between the amounts billed and estimated receipts under such programs. We estimate these allowances based on historical payment information and current sales data. If the government and other third-party payors significantly change their reimbursement policies, an adjustment to the allowance may be necessary. Revenue generated from our database of resistance test results is recognized when earned under the terms of the related agreements, generally upon shipment of the requested reports. Contract revenue consists of revenue generated from NIH grants, commercial assay development and other non-product revenue. NIH grant revenue is recorded on a reimbursement basis as grant costs are incurred. The costs associated with contract revenue are included in research and development expenses. For commercial and research collaborations, we recognize non-refundable milestone payments received related to substantive at-risk milestones when performance of the milestone under the terms of the collaboration is achieved and there are no further performance obligations. Research and development fees from commercial collaboration agreements are generally recognized as revenue on a straight-line basis over the life of the collaboration agreement or as the research work is performed. Deferred revenue relates to up front payments received in advance of meeting the revenue recognition criteria described above.

In accordance with Emerging Issues Task Force Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables," revenue arrangements entered into after June 15, 2003, that include multiple deliverables, are divided into separate units of accounting if the deliverables meet certain criteria, including whether the stand alone fair value of the delivered items can be determined and whether there is evidence of fair value of the undelivered items. In addition, the consideration is allocated among the separate units of accounting based on their fair values, and the applicable revenue recognition criteria are considered separately for each of the separate units of accounting.

Accounts Receivable

The process for estimating the collectibility of receivables involves significant assumptions and judgments. Billings for services under third-party payor programs are recorded as revenue net of allowances for differences between amounts billed and the estimated receipts under such programs. Adjustments to the estimated receipts, based on final settlement with the third-party payors, are recorded upon settlement as an adjustment to net revenue.

In addition, we review and estimate the collectibility of our receivables based on the period of time they have been outstanding. Historical collection and payor reimbursement experience is an integral part of the estimation process related to reserves for doubtful accounts. In addition, we assess the current state of our billing functions in order to identify any known collection or reimbursement issues in order to assess the impact, if any, on our reserve estimates, which involves judgment. We believe that the collectibility of our receivables is directly linked to the quality of our billing processes, most notably those related to obtaining the correct information in order to bill effectively for the services we provide. As such, we have implemented procedures to reduce the number of requisitions that we receive from healthcare providers with missing or incorrect billing information. Changes in the allowance for doubtful accounts are recorded as an adjustment to bad debt expense within general and administrative expenses. We believe that our collection and reserves processes, along with our close

monitoring of our billing processes, helps to reduce the risk associated with material revisions to reserve estimates resulting from adverse changes in collection and reimbursement experience and billing operations.

Deemed Dividends

We estimated a beneficial conversion feature for our convertible preferred stock in accordance with Emerging Issues Task Force Consensus No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features" and No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments" based on the difference between the estimated conversion price and common stock fair market value at the date of issuance. We use the Black-Scholes option valuation model to estimate the conversion price at the date of issuance. This model considers a number of factors requiring judgment including the weighted-average expected life and the volatility factor of the expected market price of our common stock. We recorded the beneficial conversion feature as a deemed dividend on our statement of operations in 2002 and 2003, resulting in an increase to the loss applicable to common stockholders in the calculation of basic and diluted net loss per common share.

Deferred Tax Assets

We record a valuation allowance to reduce our deferred tax assets to the amount that we believe is more likely than not to be realized. Due to our lack of earnings history, the net deferred tax assets have been fully offset by a valuation allowance.

Stock Based Compensation

We have elected to continue to follow Accounting Principles Board Opinion No. 25 "Accounting for Stock-Based Compensation", or APB 25, to account for employee stock options. Under APB 25, no compensation expense is recognized when the exercise price of our employee stock options equals or exceeds the market price of the underlying stock on the date of grant. Deferred compensation, if recorded, is amortized using the graded vesting method. Statement of Financial Accounting Standards Board Statement No. 123, "Accounting for Stock-Based Compensation", or SFAS 123, as amended by Statement of Financial Accounting Standards Board Statement No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123", or SFAS 148, requires the disclosure of pro forma information regarding net loss and loss per share as if we had accounted for stock options under the fair value method. See "Summary of Significant Accounting Policies" note to the financial statements for further discussion.

We recognize compensation expense for assumed ACLARA options based on the intrinsic value of the option in accordance with APB 25 since the entitlement to CVRs upon exercise of those options causes an indeterminate exercise price for the optionee.

We account for stock option grants to non-employees in accordance with the Emerging Issues Task Force Consensus No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services," which requires the options subject to vesting to be periodically re-valued over their service periods. We estimate the fair value of these stock options and stock purchase rights at the date of grant using the Black-Scholes option valuation model, which considers a number of factors requiring judgment.

In December 2004, the FASB issued Statement 123R, "Share-Based Payment," which requires public companies to measure compensation cost for all share-based payments at fair value. The standard requires companies to recognize compensation expense, using a fair value based method, for costs related to share-based payments including stock options and stock issued under our employee stock purchase plans. In April 2005, the SEC adopted a rule which defers the compliance date of SFAS 123R until 2006 for calendar year companies. Consistent with the new rule, the Company will adopt SFAS 123R in the first quarter of 2006. We expect to

adopt SFAS 123R using the modified prospective basis on January 1, 2006. We are currently evaluating option valuation methodologies and assumptions in light of SFAS 123R; the methodologies and assumptions we ultimately use to adopt SFAS 123R may be different from those currently used as discussed below. We currently expect that our adoption of SFAS 123R will have a material impact on our results of operations and loss per common share.

RESULTS OF OPERATIONS

Year Ended December 31, 2005 Compared to Years Ended December 31, 2004 and 2003.

	2005	2004	2003
		(In thousands)	
Product revenue	$43,468	$34,811	$31,911
Contract revenue	4,784	1,990	1,468
Total revenue	$48,252	$36,801	$33,379

Revenue. Revenue was $48.3 million, $36.8 million and $33.4 million in 2005, 2004 and 2003, respectively. Product revenue comprises revenue from our HIV testing services. The increase of $11.5 million in 2005 as compared to 2004 was primarily due to the use of our testing services, including our HIV Co-Receptor Tropism Assay, in phase III clinical trials of a new class of HIV drugs called CCR5 Entry Inhibitors. One of these trials was initiated by a pharmaceutical company customer in late 2004 and has been a significant source of revenue in 2005. This trial is ongoing. An additional phase III trial was initiated by a second pharmaceutical company customer in July 2005, although in October 2005 this trial was terminated as a result of observed liver toxicity in the phase III trial and related phase II trial. Testing for a third phase III trial sponsored by a third pharmaceutical company customer was anticipated in the fourth quarter of 2005, although in this case a related phase II trial was terminated in October 2005 by the same customer due to a return of detectable virus in some patients late in therapy compared to the control regimen, and the timing for the phase III trial is not known. We believe that the use of our tests in clinical trials for CCR5 Entry Inhibitor drugs may continue to be a significant factor in our revenues in 2006, but cannot predict the success, failure or possible future termination of such trials. Failure of the CCR5 class of drugs as a whole, or discontinuation or postponement of any one or more CCR5 related clinical trials could have a negative impact on our revenues.

The increase of $3.4 million in 2004 as compared to 2003 was primarily due to growth in the HIV resistance testing market and demand for our PhenoSense HIV, PhenoSense GT and GeneSeq HIV products for patient and pharmaceutical testing.

Contract revenue consists of revenues from *eTag* and oncology collaborations with pharmaceutical and biotechnology companies as well as NIH research grants and other non-product revenue. These revenues increased primarily due to the inclusion of $2.5 million of revenue from *eTag* and oncology collaborations in 2005. We are currently generating oncology-related revenues from pharmaceutical and biotechnology companies that are evaluating our *eTag* technology. We are working with several of these pharmaceutical and biotechnology companies to develop more substantial collaborations and expect to make our first oncology test available to patients in 2006. This is expected to occur upon completion of transferring the *eTag* assays from the research setting into our CLIA certified laboratory and after sufficient clinical data is generated. We have an active program of applying for NIH funding and currently have a number of active grants that we believe will help support the development of analytical and database tools to facilitate the identification and characterization of drug resistant strains of HIV, and assays that will aid in the pre-clinical and clinical evaluation of the next generation of anti-viral therapeutics.

We anticipate quarterly variations in revenue due primarily to fluctuations in the timing of various planned and ongoing clinical studies conducted by pharmaceutical companies.

We have significant customer concentration and the loss of any major customer or the reduced use of our products by a major customer could have a significant negative impact on our revenue. In 2005, 2004 and 2003, approximately 22%, 31% and 29%, respectively of our revenues were derived from tests performed for the beneficiaries of the Medicare and Medicaid programs. Additionally, in 2005, 2004 and 2003, Pfizer Incorporated represented approximately 19%, 7% and 8%, Quest Diagnostics Incorporated represented approximately 11%, 12% and 9% and GlaxoSmithKline represented approximately 10%, 4% and 6% of our total revenue, respectively.

Cost of product revenue. Cost of product revenue was $20.0 million, $17.8 million and $16.7 million in 2005, 2004 and 2003, respectively. Included in these costs are materials, supplies, labor and overhead related to product revenue. Gross margins increased to 54% in 2005 from 49% in 2004 and 48% in 2003. The increase in 2005 as compared to 2004 and 2003 was primarily due to the benefit of higher volumes provided by the growth in pharmaceutical testing revenue and the increased percentage of total revenue represented by these revenues. We anticipate that gross margin on product revenue will continue to be affected by these factors, and, in time, by the introduction of oncology products, which we expect will have a higher gross margin than our HIV products.

Research and development. Research and development costs were $19.0 million, $7.8 million and $4.7 million in 2005, 2004 and 2003, respectively. The increase of $11.2 million in 2005 as compared to 2004 was primarily due to costs incurred related to oncology and *eTag* research and development programs, offset by a net favorable $0.2 million adjustment from stock based compensation related to variable accounting for assumed ACLARA stock options with CVRs attached, CVR expenses related to vested options during the period and deferred compensation amortization. The increase of $3.1 million in 2004 as compared to 2003 was due to the inclusion of $1.2 million in stock based compensation related to variable accounting for assumed ACLARA stock options with CVRs attached, CVR expenses related to vested options during the period and deferred compensation amortization, approximately $0.4 million in other costs related to oncology and *eTag* research and development programs in the period from the closing of the merger on December 10, 2004 to December 31, 2004, and additional costs incurred to support grants awarded.

With the completion of our merger with ACLARA, we have expanded our business focus from infectious diseases to include both infectious diseases and oncology, and with the integration of the former ACLARA operations into our operations, our research and development expenditures have increased. In addition, we expect to incur additional expenses in preparation for a planned introduction of commercial products. In 2005, we incurred expenses to transfer the *eTag* assays from the research setting to our CLIA certified clinical laboratory and to generate clinical data in support of a commercial launch of *eTag* assays. These expenses are expected to continue in 2006. The successful development of our products is highly uncertain. Completion dates and research and development expenses can vary significantly for each product and are difficult to predict. For a more complete discussion of the risks and uncertainties associated with completing the development of products, see the "Risk Factors" above.

Our products in development for HIV and other infectious diseases target viral diseases and reflect a number of approaches to assessing resistance in individual patients to particular drugs. Our product lines overlap and most of our research and development activities in infectious disease are advancing multiple potential product lines. Due to this substantial overlap, we do not track costs on a project by project basis, except for the costs related to contract revenue. A portion of our infectious disease research and development expenses are funded by grants and commercial contracts and the following table sets our costs that are included in research and development expenses that are associated with such revenues:

	Year Ended December 31,		
	2005	2004	2003
	(In thousands)		
NIH Grants	$2,263	$1,990	$ 718
Commercial assay development and other projects	—	—	442
Total	$2,263	$1,990	$1,160

Below is a summary of our products in development for HIV and other infectious diseases.

Infectious disease products in development	Status
Replication Capacity HIV, a measurement of fitness	In development(1)
GeneSeq HIV Entry, entry inhibitor assays	In development(2)
PhenoSense and GeneSeq HIV Integrase, integrase inhibitor assays	In development(3)
PhenoSense HIV Antibody Neutralization, a vaccine development and evaluation assay	In development(4)
PhenoSense and GeneSeq HIV Assembly/Maturation, virus assembly or maturation inhibitor assays.	In development(5)
PhenoSense HCV, a phenotypic hepatitis C inhibitor assay	In development(6)
GeneSeq HCV, a genotypic hepatitis C inhibitor assay	In development(6)

(1) The Replication Capacity HIV assay is validated in our clinical laboratory and the data is currently referred on our PhenoSense HIV and PhenoSense GT tests to both pharmaceutical company customers and for patient testing. Clinical development work continues.

(2) The GeneSeq HIV Entry Assay is in development. With NIH funding, additional development work is being conducted on this assay.

(3) The PhenoSense and GeneSeq HIV Integrase assays are validated for research purpose and available to pharmaceutical company customers. Development is ongoing.

(4) The PhenoSense HIV Antibody Neutralization assay is validated for research purposes and available to pharmaceutical company customers. With NIH funding, additional development work related to the use of our assays in vaccine development is being conducted.

(5) The PhenoSense and GeneSeq HIV Assembly/Maturation inhibitor assays are in development. With NIH funding, additional development work is being conducted on these assays.

(6) The PhenoSense HCV and GeneSeq HCV assays are validated for research use and available to pharmaceutical company customers. With NIH funding, additional development work is being conducted on these assays.

Following our merger with ACLARA, some of our research and development expenditures are now directed at continuing the research and development of the *eTag* System. Our *eTag* technology has potential application as a research tool in drug discovery and development in gene expression profiling and protein expression analysis. These applications have been considered as developed product technology in the allocation of the purchase consideration for ACLARA. Although some ongoing research and development expenditures have been incurred in 2005, we do not expect to incur significant expenditures in the future. In addition, our *eTag* technology has the potential, through detection of unique protein-based biomarkers, to differentiate likely responders from non-responders to certain targeted therapies in certain patient groups. Assays based on this technology have the potential to be used as aides for patient selection in pharmaceutical companies' clinical trials of therapeutic products targeted on specific patient populations and as diagnostic services and/or kits to guide physicians in the selection of appropriate therapies for particular patients. Products in development are as follows:

Oncology products in development	Status
Clinical assays for use in clinical trials by pharmaceutical and biotechnology customers	In development(1)
Clinical assays for diagnostic use in patient testing	In development(2)

(1) Completion of clinical assays for use in clinical trials by pharmaceutical and biotechnology customers is dependent on additional research and development and clinical studies in collaboration with pharmaceutical and biotechnology companies. Such research and development and clinical studies are expected to be time-consuming, and could exceed one year.

(2) Completion of clinical assays for diagnostic use in patient testing is dependent on the successful completion of additional research and development and clinical studies both in collaboration agreements with pharmaceutical and biotechnology companies and in multiple and broader clinical studies that provide data that will enable physicians to utilize the tests. Completion of patient testing assays will also require the

development and validation of an assay in a CLIA clinical laboratory-certified format. Successful completion of such research and development and clinical studies is expected to be time-consuming, and could exceed one year.

As with our infectious disease programs, many of our oncology research and development programs support multiple product areas. In particular, there is substantial overlap between our research and development activities in support of protein expression assays and protein-based clinical assays for clinical collaborations and patient testing. Because of this overlap we do not identify and track costs incurred on a project by project basis. The completion of our research and development projects are subject to a number of risks and uncertainties, including unplanned delays or expenditures during our product development, the extent of clinical testing required for regulatory approvals, the timing and results of clinical trials, failure to validate our technology and products in clinical trials and failure to receive any necessary regulatory approvals. Because of these uncertainties, the nature, timing and estimated costs of the efforts necessary to complete our research and development projects cannot be determined or estimated with any degree of certainty. Any delays or additional research and development efforts may also require us to obtain additional sources of funding to complete development of our products. Our failure to complete development of our products would have a material adverse impact on our ability to increase revenue and on our financial position and liquidity.

Purchased in-process research and development. We recorded a $100.6 million charge for in-process research and development in 2004 for the portion of the purchase consideration of the ACLARA merger allocated to in-process research and development. This non-recurring charge reflects the fair value of projects to develop *eTag* assays that can be commercialized as aides to patient selection in pharmaceutical company clinical trials and as diagnostic tests to assist physicians in determining the appropriate therapy for individual cancer patients that had not yet reached technological feasibility and had no alternative future use as of the acquisition date. We engaged independent valuation specialists to assist us in determining the fair value of these in-process research and development projects as well as developed product technology. The fair value is determined using the "income approach." This method starts with a forecast of anticipated future net cash flows, which are then adjusted to present value by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams. See "Merger with ACLARA BioSciences, Inc." note to the financial statements for further discussion.

Sales and marketing. Sales and marketing expenses were $12.6 million, $10.1 million and $8.3 million in 2005, 2004 and 2003, respectively. The increase of $2.5 million in 2005 as compared to 2004 was primarily attributable to business development activities for oncology and increased marketing programs related to our products, offset by a net favorable $0.2 million adjustment from stock based compensation related to variable accounting for assumed ACLARA stock options with CVRs attached, CVR expenses related to vested options during the period and deferred compensation amortization. The increase of $1.8 million in 2004 as compared to 2003 was primarily attributable to the inclusion of $0.4 million in stock based compensation related to variable accounting for assumed ACLARA stock options with CVRs attached, CVR expenses related to vested options during the period and deferred compensation amortization, and to the expansion of our sales force and increased marketing programs related to our existing products. We expect sales and marketing expenses in 2006 to increase from 2005 levels due to increase in sales and marketing activities related to our HIV products, hiring personnel and expansion of programs in preparation for the introduction of oncology products.

General and administrative. General and administrative expenses were $10.2 million, $10.2 million and $9.3 million in 2005, 2004 and 2003, respectively. During 2005 general and administrative expenses was unchanged as compared to 2004 primarily due to a net favorable $1.4 million adjustment from stock based compensation related to variable accounting for assumed ACLARA stock options with CVRs attached and CVR expenses related to vested options during the period offset by an increase in professional services fee, personnel costs and other administrative costs reflecting the increased scope of our operations. The increase of $0.9 million in 2004 as compared to 2003 was due to the inclusion of $1.8 million in stock based compensation related to variable accounting for assumed ACLARA stock options with CVRs attached and CVR expenses related to vested options during the period, approximately $0.6 million in professional fees related to compliance with the

Sarbanes Oxley Act, $0.2 million for additional merger-related severance expense, partially offset by decrease in insurance expense and lower facility costs resulting from our lease termination in March 2004 as described below. We expect general and administrative expenses in 2006 to increase from 2005 levels to support the administrative infrastructure required to support growth of the business.

Stock Based Compensation. In connection with our merger with ACLARA, we recorded as operating expense adjustment related to variable accounting for assumed ACLARA stock options, CVR expenses related to vested options and deferred compensation amortization as follows:

	Year ended December 31,	
	2005	2004
	(In thousands)	
Research & development	$ (185)	$1,175
Sales & marketing	(158)	398
General & administrative	(1,460)	1,846
	$(1,803)	$3,419

We expect that expenses will be impacted by stock based compensation primarily related to variable accounting for assumed ACLARA stock options with CVRs attached, CVR expenses related to vested options in the future and deferred compensation amortization, and in the first quarter of 2006 by the implementation of SFAS 123R which will require the recognition of expense for all stock options. The impact of adoption of SFAS 123R cannot be predicted at this time because it will depend on, among other things, the levels of share-based payments granted in the future and the option valuation method used.

Deferred compensation for options granted to employees is the difference between the exercise price and the deemed fair value for financial reporting purposes of our common stock on the date certain options were granted. It is a component of stockholders' equity amortized over the vesting period for the individual options. In 2005, 2004 and 2003, all new options were granted at fair value and no deferred compensation was recorded. In connection with our merger with ACLARA, $0.3 million of the purchase consideration was allocated to deferred compensation. Stock based compensation, recorded in connection with the grant of stock options to employees prior to our initial public offering, was amortized over the vesting period for the individual options. We recorded amortization of deferred stock based compensation of $0.2 million, $24,000 and $0.2 million in 2005, 2004 and 2003, respectively.

We determined compensation for options granted to non-employees in accordance with the Emerging Issues Task Force Consensus No. 96-18 as the fair value of the equity instruments issued. We record compensation for options granted to non-employees as the related services are rendered, and the value of the compensation may be periodically remeasured and the expense adjusted accordingly as the underlying options vest. We recorded $0.1 million, $0.1 million and $0.3 million of stock based compensation for non-employees in 2005, 2004 and 2003, respectively. At December 31, 2005, the aggregate value of the unvested options subject to remeasurement was $0.1 million, calculated based on the deemed fair value of our common stock. The related amortization will be recorded over the remaining service, which is generally one to four years.

Lease termination charge. In March 2004, we terminated a lease for our original laboratory and office space of approximately 25,000 square feet in South San Francisco, California. Under the terms of the lease termination agreement, we recorded a charge of $0.4 million primarily related to the termination payment and the write-off of the net carrying value of the related leasehold improvements. This early termination enabled us to eliminate operating expenses related to this lease going forward and reduce our aggregate remaining obligation by approximately half.

Interest income. Interest income was $2.3 million, $0.2 million and $0.1 million in 2005, 2004 and 2003, respectively. The increase of $2.1 million in 2005 as compared to 2004 was primarily due to our increased level of cash and short-term investments. In addition, higher yields are being earned as a result of increased interest rates.

Interest expense. Interest expense was $60,000, $34,000 and $141,000 in 2005, 2004 and 2003, respectively. The increase of $26,000 in 2005 as compared to 2004 was primarily due to a loan agreement assumed from our merger with ACLARA for leasehold improvements at an interest rate of 8.5% per annum. The decrease of $107,000 in 2004 as compared to 2003 was primarily due to the paying down of several equipment loans which expired.

Contingent value rights revaluation. Our liability under the CVRs was recorded at the closing of the merger at fair value, estimated using a calculation based on a Black-Scholes valuation of the underlying CVR securities of $0.66 per CVR. Because subsequent to the closing of the merger, an active trading market had been established, this liability was revalued based on the actual closing price of the CVRs on the OTC Bulletin Board, or $0.63 and $0.23 per CVR at December 31, 2005 and 2004, respectively. For 2005 and 2004, this revaluation led to $26.3 million unfavorable adjustment and $28.5 million favorable adjustment, respectively, to the liability and is reflected as non-operating expense in the statement of operations. Further revaluations will be performed each quarter while the CVRs remain outstanding. These revaluations will be based on the then market value of the CVRs on the OTC Bulletin Board which renders the potential revaluation amounts highly unpredictable.

Other income. Other income was $0.2 million in 2003 which represents residual income from one of our subleases. For further discussion, see Liquidity and Capital Resources below.

Deemed dividend. A beneficial conversion feature was calculated in accordance with Emerging Issues Task Force Consensus No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features" and Emerging Issues Task Force Consensus No. 00-27 "Application of Issue No. 98-5 to Certain Convertible Instruments."

On February 4, 2003, our stockholders approved the conversion of certain convertible secured promissory notes ("Notes") issued to prior Series B preferred stockholders into Series C Preferred Stock and the issuance of warrants to purchase shares of our common stock in exchange for warrants originally issued in connection with Series B Preferred Stock. The warrant exchange resulted in a beneficial conversion feature of $2.2 million that was recorded at the time of the exchange in the first quarter of 2003.

Preferred stock dividend. We recorded a preferred stock dividend of $0.2 million, $0.3 million and $1.6 million in 2005, 2004 and 2003, respectively. The Series A Preferred Stock issued in 2001 and Series C Preferred Stock issued in 2003 bore dividends payable twice a year in shares of common stock. In December 2003, we elected to convert all Series C Convertible Preferred Stock then outstanding into common stock. In June 2005, all outstanding shares of Series A Preferred Stock were converted to common stock.

LIQUIDITY AND CAPITAL RESOURCES

We expect our available cash and cash equivalents, short-term investments and short-term restricted cash of $65.1 million at December 31, 2005, funds provided by the sale of our products, contract revenue, and borrowing under equipment financing arrangements will be adequate to fund our operations at least for the next twelve months.

In connection with the merger with ACLARA, we issued CVRs to ACLARA stockholders and will issue CVRs to holders of ACLARA stock options upon future exercise of those options. Each CVR represents the right to receive, on June 10, 2006, a potential payment, up to $0.88 per CVR. The maximum aggregate amount payable by the Company under the contingent value rights is estimated to be approximately $55.1 million, based on approximately 62.7 million CVRs outstanding as of December 31, 2005. If this total amount becomes due, we must pay the first $31.3 million in cash, and may, at our option, pay the remaining $23.8 million balance in cash, shares of our common stock or a combination of the two. In addition, the maximum amount payable under the CVRs will increase by $5.2 million if all outstanding ACLARA stock options are exercised and additional CVRs are issued to the option holders. See "Contingent Value Rights" note to the financial statements for further discussion.

We have funded our operations since inception primarily through public and private sales of common and preferred stock, equipment financing arrangements, product revenue and contract revenue. In particular, we have completed three private financings since our initial public offering in May 2000. In addition, during 2004 as the

result of the merger with ACLARA, we acquired $74.8 million in cash and short term investments. Although we expect our operating and capital resources will be sufficient to meet future operating requirements at least for the next twelve months, we may have to raise additional funds to continue the development and commercialization of our *eTag* technology, to fund our business operations in general or to satisfy a portion of the potential liability on the Contingent Value Rights. These funds may not be available on favorable terms, or at all. If adequate funds are not available on commercially reasonable terms, we may be required to curtail operations significantly or sell significant assets and may not be able to continue as a going concern. In addition, we may choose to raise additional capital due to market conditions or strategic considerations even if we believe that we have sufficient funds for current or future operating plans.

Net cash used in operating activities was $13.7 million, $2.6 million and $3.6 million in 2005, 2004 and 2003, respectively. Cash flows from operating activities can vary significantly due to various factors including trends in operating losses, changes in accounts receivable, accrued liabilities and deferred revenue related to new arrangements with customers. The average collection period of our accounts receivable as measured in days sales outstanding can vary and is dependent on various factors, including the type of revenue (i.e. patient testing, pharmaceutical company testing or contract revenue), the payment terms related to that revenue, the complexities in third party payer arrangements, and whether the related revenue was recorded at the beginning or end of a period.

Net cash provided by investing activities of $7.4 million in 2005 resulted primarily from proceeds from maturities and sales (net of purchases) of short-term investments offset by payment of transaction costs related to our merger with ACLARA amounting to $4.7 million, capital expenditures of $3.2 million and costs associated with acquiring other assets. Net cash used in investing activities of $0.7 million in 2004 resulted primarily from payment of transaction costs related to our merger with ACLARA of $2.3 million, capital expenditures of $0.7 million and costs associated with acquiring other assets, partially offset by $2.1 million in cash and cash equivalents acquired in the merger with ACLARA. Net cash used in investing activities of $1.0 million in 2003 resulted primarily from capital expenditures of $0.5 million and costs associated with acquiring other assets of $0.4 million.

Net cash provided by financing activities was $7.9 million, $0.5 million and $2.9 million in 2005, 2004 and 2003, respectively. The net cash provided by financing activities in 2005 resulted primarily from $5.8 million in proceeds from the exercise of warrants for approximately 5.2 million shares of common stock, offset by payments on loans and capital lease obligations. The net cash provided by financing activities in 2004 resulted primarily from proceeds from common stock issuance and loan proceeds, partially offset by payments on loans and capital lease obligations. The net cash provided by financing activities in 2003 resulted primarily from warrant exercises for proceeds of $4.3 million, partially offset by payments on loans and capital lease obligations and stock issuance costs.

Leases. At December 31, 2005, we leased a building with 41,000 square feet in South San Francisco, California. The lease expires in April 2010 and provides us with an option to extend the term for an additional ten years. In addition, at December 31, 2005, we subleased approximately 27,000 square feet in South San Francisco, California. This sublease expires in December 2006 and provides us with an option to extend the term for one year.

As a result of the merger with ACLARA, at December 31, 2004, we assumed the lease of a facility of approximately 44,200 square feet of office and laboratory space in Mountain View, California. This lease expires in July 2009. We relocated the employees and operations from that facility to the South San Francisco facilities in the second quarter of 2005 and are currently seeking a subtenant for this space. Included in the table below is approximately $4.8 million of lease obligation related to this facility. We also assumed a loan agreement for leasehold improvements at an interest rate of 8.5% per annum. The loan matures on July 1, 2009 and the amount outstanding at December 31, 2005 was $0.3 million of which $0.1 million is included in current liabilities and $0.2 million is included in long-term liabilities.

In August 2005, we entered into a loan agreement of $0.7 million to finance our insurance premiums at an interest rate of 6.75% per annum. The loan matures in May 2006 and the amount outstanding at December 31, 2005 was $0.4 million included in current liabilities.

In March 2004, we terminated a lease for our laboratory and office space of approximately 25,000 square feet in South San Francisco, California. Under the terms of the lease termination agreement, we paid and recorded a charge of $0.4 million primarily related to the termination payment and the write-off of the net carrying value of the related leasehold improvements.

Contractual Obligations. At December 31, 2005, our contractual obligations for the next five years and thereafter are as follows (in thousands):

	Payments Due By Period				
	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years	Total
			(In thousands)		
Operating lease obligations	$3,118	$4,909	$2,320	$—	$10,347
Equipment financing arrangements	142	227	—	—	369
Loan payable	507	201	59	—	767
Total	$3,767	$5,337	$2,379	$—	$11,483

In addition, each CVR represents the right to receive, on June 10, 2006, a potential payment up to $0.88 per CVR. See "Contingent Value Rights" note to the financial statements for further discussion.

Off-balance sheet arrangements. In June 2002, we assigned a lease of excess laboratory and office space and sold the related leasehold improvements and equipment to a third party. We received net proceeds from the lease assignment of $3.8 million, resulting in a net gain of $0.3 million which was recognized as other income over the sublease term. In the event of default by the assignee, we would be contractually obligated for payments under the lease of: $0.7 million in 2006; $1.5 million in 2007; $1.5 million in 2008; $1.6 million in 2009; $1.6 million in 2010 and $0.7 million in 2011.

Long term capital and liquidity considerations. We expect that we will have to make substantial investments in operating and capital expenditures as we develop and commercialize new clinical testing products and expand the availability of our current testing products.

In infectious disease, our PhenoSense and other testing products have established a leading position in the market for HIV drug resistance testing in the United States. These tests are currently in use in clinical trials of a new class of HIV drug. If these trials are successful and if our tests are determined to play an important role in the use of the drugs once approved, the need for our testing could increase in the United States and internationally. Our tests are not currently available outside of the United States and we do not have any experience in delivery of testing services or products outside of the United States. To do so we may have to develop our own clinical laboratories in key international markets, develop strategic partnerships with existing laboratories or acquire such laboratories, any of which approaches could require substantial capital resources and cause our operating and capital expenditures to increase in the future.

In oncology, our *eTag* System has been used in a research setting by pharmaceutical and biotechnology companies and has been evaluated by these companies for use as an aide in clinical trials. We plan to deliver a testing service for use by both pharmaceutical companies and physicians in connection with the treatment of cancer patients through our existing clinical laboratory. Additionally we may develop test kits that may be subject to the regulatory authority of the FDA. To market FDA-approved test kits we will have to develop a manufacturing facility that is compliant with the FDA's Good Manufacturing Procedures, or GMP, regulations, or develop a partnership with a third party that operates such a facility. For both approaches to commercializing our *eTag* technology, we will have to conduct clinical studies, expand our laboratory facilities and expand our sales and marketing organization. Clinical studies will be required to provide physicians with the data on which they may base their decisions to utilize the testing products, and in the case of FDA-approved test kits, to satisfy FDA requirements. For all these reasons, we expect our operating and capital expenditures will increase in the future as we commercialize testing services and kits.

During 2005, we made capital expenditures of approximately $3.2 million, primarily to expand and reconfigure our South San Francisco, California, facilities to accommodate our oncology operations, including the personnel and equipment relocated from ACLARA's former facility in Mountain View, California. While we do not currently have any additional material commitments for future capital expenditures and currently expect our existing facilities to be adequate for our anticipated business level in 2006, we expect that we will have additional requirements for facilities and capital expenditures in later years as we expand our clinical laboratory to accommodate commercial availability of *eTag* assays for oncology, potentially establish an FDA compliant manufacturing facility and make our HIV and oncology assays available globally in support of drugs for which our tests may be important diagnostics.

From time to time, we may consider possible strategic transactions, including the potential acquisitions of products, technologies and companies, with the goal of further developing our business and maximizing stockholder value. Such transactions, if any, could materially affect our future liquidity and capital resources. We may need to obtain additional funding by entering into new collaborations and strategic partnerships to enable us to develop and commercialize our products. Even if we receive funding from future collaborations and strategic partnerships, we may need to raise additional capital in the public equity markets, through private equity financing or through debt financing. Further, any additional equity financing may be dilutive to stockholders, and debt financing, if available, may involve restrictive covenants. Our failure to raise capital when needed may harm our business and operating results.

Income taxes. We have incurred net operating losses since inception. At December 31, 2005, we had federal and state net operating loss carryforwards of approximately $266.4 million and $105.7 million, respectively. The federal net operating loss and credit carryforwards will expire at various dates between the years 2010 and 2025 if not utilized. The state of California net operating losses will expire at various dates between the years 2006 and 2015, if not utilized. Utilization of the federal and state net operating loss and credit carryforwards may be subject to a substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986. The annual limitation may result in the expiration of net operating losses and credits before utilization.

RECENTLY ISSUED ACCOUNTING STANDARDS

In December 2004, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 123R "Share Based Payment", or SFAS 123R. This statement is a revision to SFAS 123 and supersedes Accounting Principles Board, or APB, Opinion No. 25, "Accounting for Stock Issued to Employees," and amends FASB Statement No. 95, "Statement of Cash Flows." This statement requires a public entity to expense the cost of employee services received in exchange for an award of equity instruments. This statement also provides guidance on valuing and expensing these awards, as well as disclosure requirements of these equity arrangements. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107, or SAB 107, which provided guidance on the adoption of SFAS 123R such as share-based payment transactions with non-employees, valuation methods, and the classification of compensation expense. In April 2005, the SEC adopted a new rule which defers the compliance date of SFAS 123R until 2006 for calendar year companies such as Monogram Biosciences. Consistent with the new rule, we will adopt SFAS 123R in the first quarter of 2006.

SFAS 123R permits public companies to choose between the following two adoption methods:

1. A "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123R for all share-based payments granted after the effective date and (b) based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date, or
2. A "modified retrospective" method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

As permitted by SFAS 123, we currently account for share-based payments to employees using APB Opinion 25's intrinsic value method and, as such, we recognize no compensation cost for employee stock options when the exercise price is equal to or greater than the fair market value of the underlying common stock on the date of grant. The impact of the adoption of SFAS 123R cannot be predicted at this time because it will be depend on levels of share-based payments granted in the future. We expect that our adoption of SFAS 123R will result in compensation expense comparable to that disclosed in "Stock-Based Compensation" in Note 1 to the financial statements. Accordingly, the adoption of SFAS 123R's fair value method is expected to have a significant impact on our results of operations, although it will likely have no impact on our overall financial position. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. We expect to adopt SFAS 123R using the modified prospective basis on January 1, 2006 and are currently evaluating option valuation methodologies and assumptions in light of SFAS 123R; the methodologies and assumptions we ultimately use to adopt SFAS 123R may be different from those currently used as discussed in Note 1 below. We currently expect that our adoption of SFAS 123R will have a material impact on our results of operations and loss per common share.

Item 7A. ***Quantitative and Qualitative Disclosures about Market Risk***

Our exposure to interest rate risk relates primarily to our investment portfolio. Fixed rate securities may have their fair market value adversely impacted due to fluctuations in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principle if forced to sell securities that have declined in market value due to changes in interest rates. The primary objective of our investment activities is to preserve principal while at the same time maximize yields without significantly increasing risk. To achieve this objective, we invest in debt instruments of the U.S. Government and its agencies and high-quality corporate issuers, and, by policy, restrict our exposure to any single corporate issuer by imposing concentration limits. To minimize the exposure due to adverse shifts in interest rates, we maintain investments at an average maturity of generally less than two years.

The following tables present the hypothetical changes in fair values in our cash, cash equivalents and short-term investments held at December 31, 2005 that are sensitive to the changes in interest rates. The modeling technique used measures the change in fair values arising from hypothetical parallel shifts in the yield curve of plus or minus 50 basis points ("BPS"), 100 BPS and 150 BPS. Fair values represent the market principal at December 31, 2005 (in thousands).

	Given an Interest Rate Decrease of X Basis Points				Given an Interest Rate Increase of X Basis Points		
Issuer	150 BPS	100 BPS	50 BPS	0 BPS	50 BPS	100 BPS	150 BPS
Money Market	$ 5,298	$ 5,281	$ 5,263	$ 5,245	$ 5,191	$ 5,209	$ 5,227
Bonds of US Government and its agencies	58,028	57,818	57,608	57,398	56,768	56,978	57,188
	$63,326	$63,099	$62,871	$62,643	$61,959	$62,187	$62,415

The weighted-average maturity of our marketable investments at December 31, 2005 was 267 days.

We do not utilize derivative financial instruments, derivative commodity instruments or other market risk sensitive instruments, positions or transactions in any material fashion.

We have operated primarily in the United States and all sales to date have been made in U.S. Dollars. Accordingly, we have not had any material exposure to foreign currency rate fluctuations.

Item 8. ***Financial Statements and Supplementary Data***

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Monogram Biosciences, Inc. (formerly ViroLogic, Inc.)

We have completed an integrated audit of Monogram Biosciences, Inc's (formerly ViroLogic, Inc.) December 31, 2005 financial statements and of its internal control over financial reporting as of December 31, 2005 in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audit, are presented below.

Financial statements and financial statement schedule

In our opinion, the financial statements listed in Item 15(a)(1) present fairly, in all material respects, the financial position of Monogram Biosciences, Inc. (formerly ViroLogic, Inc.) at December 31, 2005 and the results of its operations and its cash flows for the year ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in Item 15(a)(2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail,

accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
San Jose, California
March 15, 2006

REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Monogram Biosciences, Inc. (Formerly ViroLogic, Inc.)

We have audited the accompanying balance sheet of Monogram Biosciences, Inc. (Formerly ViroLogic, Inc.) as of December 31, 2004 and the related statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2004. Our audits also included the financial statement schedule listed at Item 15(a)(2) of this Annual Report on Form 10-K for the years ended December 31, 2004 and 2003. These financial statements and schedule are the responsibility of the management of Monogram Biosciences, Inc. (Formerly ViroLogic, Inc.). Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Monogram Biosciences, Inc. (Formerly ViroLogic, Inc.) at December 31, 2004 and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule for the years ended December 31, 2004 and 2003, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ ERNST & YOUNG LLP

Palo Alto, California
March 14, 2005

MONOGRAM BIOSCIENCES, INC.

BALANCE SHEETS
(In thousands, except share and per share data)

	December 31, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,616	$ 6,027
Short-term investments	57,398	72,821
Restricted cash	50	350
Accounts receivable, net of allowance for doubtful accounts of $1,044 and $595 at December 31, 2005 and 2004, respectively	9,063	7,251
Prepaid expenses	1,107	838
Inventory	1,170	1,059
Other current assets	790	584
Total current assets	77,194	88,930
Property and equipment, net	8,580	8,369
Goodwill	9,927	8,282
Other assets	1,977	2,054
Total assets	$ 97,678	$ 107,635
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,751	$ 3,222
Accrued compensation	2,271	1,697
Accrued liabilities	4,116	6,993
Current portion of restructuring costs	1,417	2,519
Deferred revenue	383	546
Current portion of loans payable	477	439
Current portion of capital lease obligations	119	51
Contingent value rights	42,676	—
Total current liabilities	53,210	15,467
Long-term portion of restructuring costs	1,916	1,710
Contingent value rights	—	15,269
Long-term portion of loans payable	233	311
Long-term portion of capital lease obligations	212	36
Other long-term liabilities	336	359
Total liabilities	55,907	33,152
Redeemable Series A convertible preferred stock, $0.001 par value, designated by series, none and 249 shares authorized, issued and outstanding at December 31, 2005 and 2004, respectively	—	1,810
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, $0.001 par value, 5,000,000 and 4,999,751 shares authorized, designated by series, none issued and outstanding at December 31, 2005 and 2004, respectively	—	—
Common stock, $0.001 par value, 200,000,000 shares authorized; 127,668,136 and 116,034,527 shares issued and outstanding at December 31, 2005 and 2004, respectively	128	116
Additional paid-in capital	267,526	260,591
Accumulated other comprehensive loss	(514)	(57)
Deferred compensation	(81)	(275)
Accumulated deficit	(225,288)	(187,702)
Total stockholders' equity	41,771	72,673
Total liabilities, redeemable convertible preferred stock and stockholders' equity	$ 97,678	$ 107,635

The accompanying notes are an integral part of the financial statements.

MONOGRAM BIOSCIENCES, INC.

STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Year Ended December 31,		
	2005	2004	2003
Revenue:			
Product revenue	$ 43,468	$ 34,811	$31,911
Contract revenue	4,784	1,990	1,468
Total revenue	48,252	36,801	33,379
Operating costs and expenses:			
Cost of product revenue	20,001	17,794	16,713
Research and development	18,996	7,839	4,733
In-process research and development	—	100,600	—
Sales and marketing	12,588	10,056	8,306
General and administrative	10,200	10,192	9,256
Lease termination charge	—	433	—
Total operating costs and expenses	61,785	146,914	39,008
Operating loss	(13,533)	(110,113)	(5,629)
Interest income	2,303	198	106
Interest expense	(60)	(34)	(141)
Contingent value rights revaluation	(26,296)	28,519	—
Other income	—	—	156
Net loss	(37,586)	(81,430)	(5,508)
Deemed dividend to preferred stockholders	—	—	(2,155)
Preferred stock dividend	(162)	(324)	(1,610)
Loss applicable to common stockholders	$ (37,748)	$ (81,754)	$ (9,273)
Basic and diluted net loss per common share	$ (0.31)	$ (1.43)	$ (0.27)
Weighted-average shares used in computing basic and diluted loss per common share	123,527	57,292	34,445

The accompanying notes are an integral part of the financial statements.

MONOGRAM BIOSCIENCES, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (loss)	Deferred Compensation	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance as of December 31, 2002	1	$—	28,263	$ 28	$107,925	$ 7	$(182)	$(100,764)	$ 7,014
Comprehensive loss:									
Net loss	—	—	—	—	—	—	—	(5,508)	(5,508)
Net unrealized loss on securities available-for-sale	—	—	—	—	—	(6)	—	—	(6)
Comprehensive loss									(5,514)
Exercise of warrants	—	—	4,188	5	4,344	—	—	—	4,349
Exchange of Series C convertible promissory notes for Series C Preferred Stock	1	—	—	—	12,046	—	—	—	12,046
Costs relating to issuance of Series C Preferred Stock	—	—	—	—	(423)	—	—	—	(423)
Conversion of Series A and C Preferred Stock to common stock	(2)	—	18,793	19	2,236	—	—	—	2,255
Reversal of deferred compensation for terminated employees	—	—	—	—	(10)	—	10	—	—
Amortization of deferred compensation	—	—	—	—	—	—	172	—	172
Issuance of common stock under 401K plan	—	—	54	—	202	—	—	—	202
Issuance of common stock under employee stock purchase plan	—	—	247	—	252	—	—	—	252
Exercise of stock options	—	—	40	—	7	—	—	—	7
Stock-based compensation related to consultant options	—	—	—	—	205	—	—	—	205
Preferred stock dividends	—	—	1,023	1	21	—	—	—	22
Deemed dividend to preferred stockholders	—	—	—	—	2,155	—	—	—	2,155
	—	—	—	—	(2,155)	—	—	—	(2,155)
Balance as of December 31, 2003	—	—	52,608	53	126,805	1	—	(106,272)	20,587
Comprehensive loss:									
Net loss	—	—	—	—	—	—	—	(81,430)	(81,430)
Net unrealized loss on securities available-for-sale	—	—	—	—	—	(58)	—	—	(58)
Comprehensive loss									(81,488)
Exercise of warrants	—	—	819	1	26	—	—	—	27
Merger with ACLARA	—	—	61,887	62	129,489	—	(299)	—	129,252
Conversion of Series A and C Preferred Stock to common stock	—	—	233	—	184	—	—	—	184
Amortization of deferred compensation	—	—	—	—	—	—	24	—	24
Issuance of common stock under 401K plan	—	—	87	—	242	—	—	—	242

MONOGRAM BIOSCIENCES, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY—(Continued)

(In thousands)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (loss)	Deferred Compensation	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Issuance of common stock under employee stock purchase plan	—	—	208	—	216	—	—	—	216
Exercise of stock options	—	—	69	—	138	—	—	—	138
Stock-based compensation	—	—	—	—	3,512	—	—	—	3,512
Preferred stock dividends	—	—	124	—	(21)	—	—	—	(21)
Balance as of December 31, 2004	—	—	116,035	116	260,591	(57)	(275)	(187,702)	72,673
Comprehensive loss:									
Net loss	—	—	—	—	—	—	—	(37,586)	(37,586)
Net unrealized loss on securities available-for-sale	—	—	—	—	—	(457)	—	—	(457)
Comprehensive loss									(38,043)
Exercise of warrants	—	—	7,740	8	5,756	—	—	—	5,764
Conversion of Series A Preferred Stock to common stock	—	—	2,243	2	1,808	—	—	—	1,810
Amortization of deferred compensation, net of forfeitures	—	—	—	—	(5)	—	194	—	189
Issuance of common stock under 401K plan	—	—	209	—	391	—	—	—	391
Issuance of common stock under employee stock purchase plan	—	—	450	1	742	—	—	—	743
Exercise of stock options	—	—	824	1	1,176	—	—	—	1,177
Stock-based compensation	—	—	—	—	(3,051)	—	—	—	(3,051)
Preferred stock dividends	—	—	167	—	118	—	—	—	118
Balance as of December 31, 2005	—	$—	127,668	$128	267,526	$(514)	$ (81)	$(225,288)	$ 41,771

The accompanying notes are an integral part of the financial statements.

MONOGRAM BIOSCIENCES, INC.

STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2005	2004	2003
OPERATING ACTIVITIES:			
Net loss	$(37,586)	$(81,430)	$(5,508)
Adjustments to reconcile net loss to net cash used in operating activities:			
Contingent value rights revaluation	27,407	(28,505)	—
In-process research and development	—	100,600	—
Depreciation and amortization	3,320	2,703	3,329
Stock-based compensation expense (adjustment)	(2,862)	3,536	377
Provision for doubtful accounts	826	319	101
Loss on disposal of property and equipment	20	178	—
Amortization of deferred gain on lease assignment	—	—	(156)
Change in assets and liabilities:			
Accounts receivable	(2,638)	(1,180)	(1,342)
Prepaid expenses	(269)	66	111
Inventory	(111)	393	(420)
Other current assets	(206)	7	(142)
Accounts payable	(1,313)	(348)	725
Accrued compensation	574	405	(1)
Accrued liabilities	1,772	333	(171)
Accrued restructuring costs	(2,541)	175	—
Deferred revenue	(163)	170	(450)
Other long-term liabilities	24	(49)	(45)
Net cash used in operating activities	(13,746)	(2,627)	(3,592)
INVESTING ACTIVITIES:			
Purchases of short-term investments	(34,454)	(8)	(4,570)
Maturities and sales of short-term investments	49,420	394	4,613
Capital expenditures	(3,241)	(749)	(544)
Restricted cash	300	319	(69)
Acquisition of ACLARA, net of cash assumed	—	(220)	—
Transaction costs related to merger	(4,689)	—	—
Other assets	77	(432)	(440)
Net cash provided by (used in) investing activities	7,413	(696)	(1,010)
FINANCING ACTIVITIES:			
Proceeds from loans payable	712	548	238
Principal payments on loans payable	(702)	(313)	(521)
Principal payments on capital lease obligations	(163)	(401)	(1,169)
Net proceeds from issuance of common stock	8,075	623	4,811
Costs relating to issuance of preferred stock	—	—	(423)
Net cash provided by financing activities	7,922	457	2,936
Net increase (decrease) in cash and cash equivalents	1,589	(2,866)	(1,666)
Cash and cash equivalents at the beginning of the period	6,027	8,893	10,559
Cash and cash equivalents at the end of the period	$ 7,616	$ 6,027	$ 8,893
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid for interest	$ 60	$ 34	$ 141
SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES			
Warrants issued to preferred stockholders	$ —	$ —	$ 2,776
Convertible promissory notes converted to preferred stock	$ —	$ —	$12,046
Deemed dividend to preferred stockholders	$ —	$ —	$ 2,155
Preferred stock converted into common shares	$ 1,810	$ 184	$ 2,255
Assets acquired under capital leases	$ 310	$ —	$ 65
Accrued transaction costs	$ —	$ 2,116	$ —
Stock dividend to preferred stockholders	$ 118	$ 302	$ 1,585

The accompanying notes are an integral part of the financial statements.

MONOGRAM BIOSCIENCES, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

Monogram Biosciences, or the Company, is a life sciences company committed to advancing personalized medicine and improving patient outcomes through the development of innovative molecular diagnostics products that guide and target the most appropriate treatments. Through a comprehensive understanding of genetics, biology and pathology of particular diseases, Monogram Biosciences has pioneered and are developing molecular diagnostics and laboratory services that are designed to:

- enable physicians to better manage infectious diseases and cancers by providing the critical information that helps them prescribe personalized treatments for patients by matching the underlying molecular features of an individual patient's disease to the drug expected to have maximal therapeutic benefit; and
- enable pharmaceutical companies to develop new and improved anti-viral therapeutics and targeted cancer therapeutics more efficiently and cost effectively by providing enhanced patient selection and monitoring capabilities throughout the development process.

Over the last several years, Monogram Biosciences has built a business based on the personalized medicine approach in HIV drug resistance testing. With the Company's merger with ACLARA BioSciences, Inc., ("ACLARA") in December 2004, the Company intends to leverage the experience and infrastructure it has built in the HIV market to the substantially larger market opportunity of cancer utilizing the proprietary *eTag* technology. Monogram Biosciences was incorporated in the state of Delaware in November 1995 and commenced commercial operations in 1999.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, short-term investments, accounts receivable, accounts payable, other accrued expenses and short-term obligations approximates fair value based on the highly liquid, short-term nature of these instruments.

Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less from the date of purchase to be cash equivalents. Management determines the appropriate classification of its cash equivalents and investment securities at the time of purchase and reevaluates such determination as of each balance sheet date.

Restricted Cash

The Company has deposits securing credit arrangements primarily relating to leased facilities totaling $50,000 and $0.5 million as of December 31, 2005 and 2004, respectively.

Short-Term Investments

Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in comprehensive income (loss). The amortized cost of debt securities in this category is adjusted for amortization

of premiums and accretion of discounts to maturity. Such amortization is included in interest income. Realized gains and losses and declines in value judged to be other-than-temporary, if any, on available-for-sale securities are included in other income or expense. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest income.

Significant Concentrations

The Company invests its cash, cash equivalents and short-term investments in U.S. government and agency securities, debt instruments of financial institutions and corporations, and money market funds with strong credit ratings. Pursuant to the Company's investment guidelines, the investment portfolio should have an overall weighted-average maturity of less than 24 months with no one individual security having a maturity of greater than 36 months. Management believes that its investment guidelines limit credit risk and maintain liquidity.

The Company has significant customer concentration and the loss of any major customer or the reduced use of its products by a major customer could have a significant negative impact on the Company's revenue. In 2005, 2004 and 2003, approximately 22%, 31% and 29%, respectively of the Company's revenues were derived from tests performed for the beneficiaries of the Medicare and Medicaid programs. Additionally, in 2005, 2004 and 2003, Pfizer Incorporated represented approximately 19%, 7% and 8%, Quest Diagnostics Incorporated represented approximately 11%, 12% and 9% and GlaxoSmithKline represented approximately 10%, 4% and 6% of our total revenue, respectively. Medicare and Medicaid represented 33% and 35% of gross accounts receivable balance at December 31, 2005 and 2004, respectively.

The Company purchases various testing materials from single qualified suppliers. Any extended interruption in the supply of these materials could result in the Company's inability to secure sufficient materials to conduct business and meet customer demand.

Inventory

Inventory is stated at the lower of standard cost, which approximates actual cost on a first-in, first-out basis, or market. If inventory costs exceed expected market value due to obsolescence or lack of demand, reserves are recorded for the difference between the cost and the market value. These reserves are based on estimates. Inventory consists of the following:

	December 31,	
	2005	2004
	(In thousands)	
Raw materials	$ 698	$ 658
Work in process	472	401
Total	$1,170	$1,059

Property and Equipment

Property and equipment are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, generally five years. Capitalized software includes software and external consulting costs incurred to implement new information systems. Computer hardware and capitalized software are depreciated over three to five years. Leasehold improvements are amortized over the shorter of the estimated useful life of the assets or the lease term.

Accounting for Merger with ACLARA

The Company accounted for the merger with ACLARA as a business combination which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. The judgments made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact our results of operations. Accordingly, for significant items, the Company obtained assistance from independent valuation specialists.

For intangible assets, including purchased in-process research and development (IPR&D), the Company utilized the "income method" to determine fair value of the purchased IPR&D. This method starts with a forecast of anticipated future net cash flows, which are then adjusted to present value by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams. Some of the more significant estimates and assumptions include the amount and timing of projected cash flows; expected costs to develop IPR&D into commercially viable products and estimates of cash flows from the projects when completed; the expected useful lives of technologies and products; and the discount rate reflecting the inherent risks in the future cash flows. All of these judgments and estimates can materially impact results of operations.

The excess of the aggregate purchase consideration over the fair value of assets acquired and liabilities assumed has been allocated to goodwill.

Contingent Value Rights

As part of the purchase consideration in the Company's merger with ACLARA, the Company issued Contingent Value Rights (CVRs) to ACLARA stockholders and is obligated to issue CVRs to holders of assumed ACLARA stock options upon future exercise of those options. Each CVR represents the right to receive, on June 10, 2006, a potential payment, up to $0.88 per CVR, of the amount by which the then-current market value of Monogram Biosciences common stock is less than $2.90 per share. Pursuant to the terms of the related agreement the determination of the current market value of Monogram Biosciences common stock at that date will be based on a formula averaging trading prices during the 15 consecutive trading day period immediately prior to June 10, 2006. The first $0.50 per CVR of any such payment that is made must be made in cash, with the balance of up to $0.38 per CVR being payable, at our option, in cash, shares of Monogram Biosciences common stock, or a combination of cash and Monogram Biosciences common stock. In addition, each outstanding option to purchase shares of our common stock assumed by Monogram Biosciences, and holders of the assumed ACLARA options will have the right to receive shares of Monogram Biosciences common stock and CVRs (or applicable payment, if any, upon exercise after June 10, 2006) upon the exercise of the assumed option at the same exchange ratio.

The Company recorded the initial liability under the CVRs based on the fair value of the liability at the closing date and will record adjustments to this liability based on changes in the fair value each quarter as non-operating income or expense in our statement of operations. As of the closing date of the merger, with respect to CVRs issued in respect of common stock outstanding and issuable in respect of assumed vested ACLARA stock options outstanding, the Company estimated fair value using a Black-Scholes based valuation of the underlying CVR. Subsequent to the closing of the merger, an active trading market has developed for the CVR securities and the liability is revalued based on the actual closing value of the CVRs on the OTC bulletin board. In addition, the Company will record an additional liability each quarter for additional CVRs related to assumed ACLARA stock options that vest during each quarter.

Goodwill, Other Intangible Assets and Impairment of Long-Lived Assets

Goodwill represents the excess of the purchase consideration over the fair values of the identifiable assets acquired and liabilities assumed from the Company's merger with ACLARA. Goodwill is not amortized but, in

accordance with Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142"), the Company tests for impairment of goodwill on an annual basis and at any other time if events occur or circumstances indicate that the carrying amount of goodwill may not be recoverable.

Other intangible assets include acquired developed product technology, costs of patents and patent applications related to products and products in development, which are capitalized and amortized on a straight-line basis over their estimated useful lives ranging from 8 to 15 years. Circumstances that could trigger an impairment test include but are not limited to: a significant adverse change in the business or legal factors; an adverse action or assessment by a regulator; unanticipated competition or loss of key personnel.

Revenue Recognition

Product revenue is recognized upon completion of tests made on samples provided by customers and the shipment of test results to those customers. Services are provided to certain patients covered by various third-party payor programs, such as Medicare and Medicaid. Billings for services under third-party payor programs are included in revenue net of allowances for differences between the amounts billed and estimated receipts under such programs. The Company estimates these allowances based on historical payment information and current sales data. If the government and other third-party payors significantly change their reimbursement policies, an adjustment to the allowance may be necessary. Revenue generated from the Company's database of resistance test results is recognized when earned under the terms of the related agreements, generally upon shipment of the requested reports. Contract revenue consists of revenue generated from NIH grants and commercial assay development, and other non-product revenue. NIH grant revenue is recorded on a reimbursement basis as grant costs are incurred. The costs associated with contract revenue are included in research and development expenses. For commercial and research collaborations, the Company recognizes non-refundable milestone payments received related to substantive at-risk milestones when performance of the milestone under the terms of the collaboration is achieved and there are no further performance obligations. Research and development fees from commercial collaboration agreements are generally recognized as revenue on a straight-line basis over the life of the collaboration agreement or as the research work is performed. Deferred revenue relates to up front payments received in advance of meeting the revenue recognition criteria described above.

In accordance with Emerging Issues Task Force Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables," revenue arrangements entered into after June 15, 2003, that include multiple deliverables, are divided into separate units of accounting if the deliverables meet certain criteria, including whether the stand alone fair value of the delivered items can be determined and whether there is evidence of fair value of the undelivered items. In addition, the consideration is allocated among the separate units of accounting based on their fair values, and the applicable revenue recognition criteria are considered separately for each of the separate units of accounting.

Accounts Receivable

The process for estimating the collectibility of receivables involves significant assumptions and judgments. Billings for services under third-party payor programs are recorded as revenue net of allowances for differences between amounts billed and the estimated receipts under such programs. Adjustments to the estimated receipts, based on final settlement with the third-party payors, are recorded upon settlement as an adjustment to net revenue. In addition, the Company reviews and estimates the collectibility of receivables based on the period of time such receivables have been outstanding. Historical collection and payor reimbursement experience is an integral part of the estimation process related to the allowance for doubtful accounts. Adjustments to the allowance for doubtful accounts estimate are included in general and administrative expenses.

Research and Development

The Company expenses research and development costs as incurred. Research and development expenses consist primarily of salaries and related personnel costs, materials, supply costs for prototypes, and include costs associated with contract revenue. In addition, research and development expenses include costs related to clinical trials and validation of the Company's testing processes and procedures and related overhead expenses.

Royalty Expense

The Company pays royalties under licensing agreements. These royalties are directly related to revenue and are recorded as cost of product revenue at the time revenue is recognized. For further discussion, see "Commitments and Contingencies" note 8 below.

Advertising Expenses

The Company expenses the costs of advertising, which include promotional expenses, as incurred. Advertising expenses were $4.0 million, $2.5 million and $2.2 million for the years ended December 31, 2005, 2004 and 2003, respectively, and were recorded as sales and marketing expenses.

Deemed Dividends

The Company estimates a beneficial conversion feature for its convertible preferred stock in accordance with Emerging Issues Task Force Consensus No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features" and No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments" based on the difference between the estimated conversion price and underlying common stock fair market value at the date of issuance. The Company records the beneficial conversion feature as a deemed dividend on the statement of operations, resulting in an increase to the loss applicable to common stockholders in the calculation of basic and diluted loss per common share.

Loss Per Common Share

Basic loss per common share is calculated based on the weighted-average number of common shares outstanding during the periods presented. Diluted loss per common share would give effect to the dilutive impact of potential common shares which consists of convertible preferred stock (using the as-if converted method), and stock options and warrants (using the treasury stock method). Potentially dilutive securities have been excluded from the diluted loss per common share computations in all years presented as such securities have an anti-dilutive effect on loss per common share due to the Company's net loss.

The following outstanding options and warrants, prior to the application of the treasury stock method, and convertible preferred stock, on an as-converted basis, were excluded from the computation of diluted loss per common share as these potentially dilutive securities had an anti-dilutive effect:

	December 31,		
	2005	2004	2003
	(In thousands)		
Series A redeemable convertible preferred stock (as-if converted basis)	—	2,243	2,468
Stock options	18,341	12,941	4,664
Warrants to purchase common stock	2,358	12,134	13,572

Stock-Based Compensation

The Company has elected to continue to follow Accounting Principles Board Opinion No. 25 "Accounting for Stock-Based Compensation" ("APB 25") to account for employee stock options. Under APB 25, no compensation expense is recognized when the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant. Deferred compensation, if recorded, is amortized using the graded vesting method. Statement of Financial Accounting Standards Board Statement No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") as amended by Statement of Financial Accounting Standards Board Statement No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123" ("SFAS 148") requires the disclosure of pro forma information regarding net loss and loss per share as if the Company had accounted for its stock options under the fair value method.

The information regarding net loss and loss per share prepared in accordance with SFAS 123 has been determined as if the Company had accounted for its employee stock option and employee stock purchase plans using the fair value method prescribed by SFAS 123. The resulting effect on net loss and loss per share pursuant to SFAS 123 as amended by SFAS 148 is not likely to be representative of the effects in future years, due to subsequent years including additional grants and years of vesting.

The Company estimates the fair value of stock options and stock purchase rights at the date of grant using the Black-Scholes option valuation model with the following assumptions: risk-free interest rates from 3.7% to 4.4% in 2005, 2.7% to 3.6% in 2004 and 2.9% to 3.3% in 2003; a weighted-average expected life of stock options from grant date of four years; a weighted-average expected stock purchase right of six months; volatility factor of the expected market price of Monogram Biosciences' common stock of 100%; and a dividend yield of zero.

For purposes of disclosures pursuant to SFAS 123 as amended by SFAS 148, the estimated fair value of the stock options and stock purchase rights are amortized to expense over the vesting period. The Company's pro forma information is as follows:

	Year Ended December 31,		
	2005	2004	2003
	(In thousands, except per share data)		
Net loss:			
As reported	$(37,586)	$(81,430)	$ (5,508)
Add back (deduct):			
Stock-based compensation expense (adjustment) included in reported net loss	(2,914)	3,408	172
Deduct:			
Stock-based compensation expense for employee awards determined under SFAS 123	(3,661)	(3,645)	(2,257)
Pro forma net loss	(44,161)	(81,667)	(7,593)
Deemed dividend to preferred stockholders	—	—	(2,155)
Preferred stock dividend	(162)	(324)	(1,610)
Pro forma loss applicable to common stockholders	$(44,323)	$(81,991)	$(11,358)
Loss per common share:			
As reported	$ (0.31)	$ (1.43)	$ (0.27)
Pro forma	$ (0.36)	$ (1.43)	$ (0.33)

The Company accounts for stock option grants to non-employees in accordance with the Emerging Issues Task Force Consensus No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services," which requires the options subject to vesting to be periodically re-valued over their service periods, which approximates the vesting period. The Company recorded $0.1 million, $0.1 million and $0.3 million of stock based compensation for non-employees in 2005, 2004 and 2003, respectively.

Comprehensive Income (Loss)

Comprehensive income (loss) is comprised of net loss and other comprehensive income (loss). Other comprehensive income (loss) includes certain changes in equity that are excluded from net income (loss). Specifically, unrealized gains and losses on our available-for-sale securities, which are reported separately in stockholders' equity, are included in accumulated other comprehensive income (loss).

Segment Reporting

The Company currently operates in a single business segment as there is only one measurement of profit (loss) for its operations. As of December 31, 2005, essentially all of our long-lived assets are located in the United States.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 123R "Share Based Payment", or SFAS 123R. This statement is a revision to SFAS 123 and supersedes Accounting Principles Board, or APB, Opinion No. 25, "Accounting for Stock Issued to Employees," and amends FASB Statement No. 95, "Statement of Cash Flows." This statement requires a public entity to expense the cost of employee services received in exchange for an award of equity instruments. This statement also provides guidance on valuing and expensing these awards, as well as disclosure requirements of these equity arrangements. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107, or SAB 107, which provided guidance on the adoption of SFAS 123R such as share-based payment transactions with non-employees, valuation methods, and the classification of compensation expense. In April 2005, the SEC adopted a new rule which defers the compliance date of SFAS 123R until 2006 for calendar year companies such as Monogram Biosciences. Consistent with the new rule, the Company will adopt SFAS 123R in the first quarter of 2006.

SFAS 123R permits public companies to choose between the following two adoption methods:

1. A "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123R for all share-based payments granted after the effective date and (b) based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date, or
2. A "modified retrospective" method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

As permitted by SFAS 123, the Company currently accounts for share-based payments to employees using APB Opinion 25's intrinsic value method and, as such, the Company recognizes no compensation cost for employee stock options when the exercise price is equal to or greater than the fair market value of the underlying common stock on the date of grant. The impact of the adoption of SFAS 123R cannot be predicted at this time

because it will be depend on levels of share-based payments granted in the future. The Company expects that the adoption of SFAS 123R will result in compensation expense comparable to that disclosed in "Stock-Based Compensation" in Note 1 above. Accordingly, the adoption of SFAS 123R's fair value method is expected to have a significant impact on the Company's results of operations, although it will likely have no impact on overall financial position. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. The Company expects to adopt SFAS 123R using the modified prospective basis on January 1, 2006 and is currently evaluating option valuation methodologies and assumptions in light of SFAS 123R; the methodologies and assumptions the Company ultimately use to adopt SFAS 123R may be different from those currently used as discussed in Note 1 above. The Company currently expects that the adoption of SFAS 123R will have a material impact on results of operations and loss per common share.

2. SHORT-TERM INVESTMENTS

The amortized cost, gross unrealized gains and losses, and estimated fair value for available-for-sale securities by major security type and class of security are as follows:

	December 31,					
	2005			2004		
	Amortized Cost	Gross Unrealized Holding Loss	Estimated Fair Value	Amortized Cost	Gross Unrealized Holding Loss	Estimated Fair Value
	(In thousands)					
Maturing within two years:						
Bonds of US government and its agencies	$57,912	$(514)	$57,398	$72,728	$(57)	$72,671
Corporate bonds and notes	—	—	—	150	—	150
	$57,912	$(514)	$57,398	$72,878	$(57)	$72,821

As of December 31, 2005, the Company had $32.5 million of marketable securities at estimated fair value that were in a continuous unrealized loss position for more than one year, resulting in an unrealized loss of $365,000. As of December 31, 2004, there was no security in a continuous unrealized loss position for more than one year.

3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	December 31,	
	2005	2004
	(In thousands)	
Machinery, equipment and furniture	$ 14,005	$ 12,013
Equipment under capital lease	375	316
Leasehold improvements	7,406	6,279
Capitalized software	4,306	4,133
	26,092	22,741
Less accumulated depreciation and amortization	(17,512)	(14,372)
Property and equipment, net	$ 8,580	$ 8,369

Depreciation expense was $3.3 million, $2.7 million and $2.0 million in 2005, 2004 and 2003, respectively. Amortization of assets under capital leases as of December 31, 2005 was $88,000, $13,000 and $8,000 in 2005, 2004 and 2003, respectively. Accumulated amortization of those leased assets was $59,000 and $21,000 at December 31, 2005 and 2004, respectively.

4. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess of the purchase consideration over the fair values of the identifiable assets acquired and liabilities assumed from the Company's merger with ACLARA. Goodwill was $9.9 million at December 31, 2005. The Company tests for impairment of goodwill on an annual basis and at any other time if events occur or circumstances indicate that the carrying amount of goodwill may not be recoverable.

Measurement of fair value is determined using the income approach. The income approach focuses on the income-producing capability of an asset, measuring the current value of the asset by calculating the present value of its future economic benefits such as cash earnings, cost savings, tax deductions, and proceeds from disposition. Value indications are developed by discounting expected cash flows to their present value at a rate of return that incorporates the risk-free rate for the use of funds, the expected rate of inflation and risks associated with the particular investment. If the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recorded in net income (loss).

Developed product technology represents products that have reached technological feasibility and relates to ACLARA's reagent kits and gene and protein expression assay services that are provided for research applications. Because the Company is no longer making these kits and services available, these costs were written off and recorded as a research and development expense in December 2005.

Patents, which are included in other assets, represents costs of patents and patent applications related to products and products in development which are capitalized and amortized on a straight-line basis over their estimated useful lives of approximately 15 years.

The weighted-average useful life of other intangibles assets is approximately 13 years.

Other Intangible assets are summarized as follows:

	December 31,					
	2005			2004		
	Cost	Accumulated Amortization	Net of Accumulated Amortization	Cost	Accumulated Amortization	Net of Accumulated Amortization
	(In thousands)					
Developed product technology	$ —	$ —	$ —	$ 200	$ (2)	$ 198
Patents	$2,095	$(376)	$1,719	$1,664	$(218)	$1,446

Amortization expense of other intangible assets was $0.2 million, $0.1 million and $0.1 million in 2005, 2004 and 2003, respectively. The estimated amortization expense related to other intangible assets is approximately $0.2 million each year from 2006 to 2010.

5. ACCRUED LIABILITIES:

Accrued liabilities consist of the following:

	December 31,	
	2005	2004
	(In thousands)	
Accrued transaction costs relating to merger with ACLARA	$ —	$4,190
Accrued royalty	1,131	1,014
Accrued professional fees	1,003	534
Accrued property taxes	151	132
Accrued marketing expenses	191	121
Accrued materials and supplies	647	201
Other	993	801
Total accrued liabilities	$4,116	$6,993

6. MERGER WITH ACLARA BIOSCIENCES, INC:

On December 10, 2004, the Company completed its merger with ACLARA BioSciences, Inc., ("ACLARA") a Delaware corporation pursuant to an Agreement and Plan of Merger and Reorganization dated May 28, 2004 as amended on October 18, 2004 (the "Merger Agreement"). Under the terms of the Merger Agreement, each outstanding share of ACLARA common stock was exchanged for 1.7 shares of the Company's common stock and 1.7 Contingent Value Rights ("CVR"). The Company issued 61.9 million shares of common stock valued at $1.94 per share. The fair value of the Company's common stock utilized in determining the purchase price was derived using the Company's average stock price for the period two days before through two days after the terms of the acquisition were agreed to and announced on October 19, 2004. The CVRs are governed by a Contingent Value Rights Agreement. The transaction has been accounted for as a business combination and accordingly the assets acquired and liabilities assumed have been recorded at their respective fair values. The Company engaged independent valuation specialists to assist in determining the fair values of the assets acquired and liabilities assumed. Such a valuation requires management to make significant estimates and assumptions, particularly with regard to the valuation of intangible assets.

The aggregate purchase consideration comprises (in thousands):

Fair value of common stock issued	$120,308
Fair value of CVRs related to ACLARA common stock outstanding and vested stock options	43,774
Fair value of ACLARA stock options assumed	9,243
Direct transaction costs	4,635
	$177,960

12. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
	(In thousands, except per share amounts)			
2005				
Product revenue	$ 8,853	$11,005	$12,136	$ 11,474
Contract revenue	1,141	1,409	1,002	1,232
Total revenues	9,994	12,414	13,138	12,706
Cost of product revenue	4,339	4,975	5,406	5,281
Contingent value rights revaluation	5,306	(4,062)	7,249	17,803
Net income (loss)	(7,360)	688	(9,611)	(21,303)
Income (loss) applicable to common stockholders	(7,446)	612	(9,611)	(21,303)
Basic and diluted income (loss) per common share	$ (0.06)	$ (0.08)	$ (0.17)	$ (0.17)
2004				
Product revenue	$ 8,640	$ 8,734	$17,977	$ 9,460
Contract revenue	382	493	645	470
Total revenue	9,022	9,227	8,622	9,930
Cost of product revenue	4,416	4,475	4,186	4,717
In-process research and development	—	—	—	100,600
Contingent value rights revaluation	(1,248)	(1,371)	(1,588)	28,519
Net loss	(1,316)	(1,448)	(1,679)	(77,223)
Loss applicable to common stockholders	(1,316)	(1,448)	(1,679)	(77,311)
Basic and diluted loss per common share	$ (0.02)	$ (0.03)	$ (0.03)	$ (1.12)

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that are filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our Chief Executive Officer and Chief Financial Officer, with the assistance of other members of our management, have evaluated our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of the end of the period covered by this report, and have concluded based on that evaluation that those disclosure controls and procedures are effective.

Our management, including our Chief Executive Officer and Principal Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Monogram Biosciences have been detected.

Changes in Internal Control over Financial Reporting

There has been no change in the Company's internal control over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2005 based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2005.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included under Item 8.

Item 9B. ***Other Information***

On October 1, 2005 we entered into a Referral Testing Agreement with Quest Diagnostics Incorporated, or Quest, the owner and/or operator of clinical laboratories in the United States. Under this agreement, Quest engaged us as a provider for HIV phenotypic resistance testing. The agreement specifies the standards of work

we are to adhere to in providing the testing services, together with certification and reporting requirements. Under the agreement, Quest is to receive pricing for Phenosense and Phenosense GT testing services that is at least as favorable as the prices we charge for these services to any other commercial laboratory customer. The agreement contains standard representations and warranties and indemnification provisions, and its term is three years, subject to its early termination provisions.

PART III

Item 10. *Directors and Executive Officers of the Registrant*

We have adopted a Code of Business Conduct and Ethics Policy that applies to our directors and employees (including our principal executive officer, principal financial officer, principal accounting officer and controller), and have posted the text of the policy on our website (www.monogrambio.com) in connection with "Investor" materials. In addition, we intend to promptly disclose (i) the nature of any amendment to the policy that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions and (ii) the nature of any waiver, including an implicit waiver, from a provision of the policy that is granted to one of these specified individuals, the name of such person who is granted the waiver and the date of the waiver on our website in the future.

The other information required by this item is incorporated by reference to the proxy statement to be filed with the SEC pursuant to Regulation 14A in connection with our 2006 annual meeting.

Item 11. *Executive Compensation*

The information required by this item is incorporated by reference to the information under the caption "Executive Compensation" to be contained in our 2006 proxy statement.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this item is incorporated by reference to the information under the caption "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" to be contained in our 2006 proxy statement.

Item 13. *Certain Relationships and Related Transactions*

The information required by this item is incorporated by reference to the information under the caption "Certain Transactions" to be contained in our 2006 proxy statement.

Item 14. *Principal Accounting Fees and Services*

The information required by this item is incorporated by reference to the information under the captions "Independent Auditors' Fees" and "Pre-Approval Policies and Procedures" to be contained in our 2006 proxy statement.

Consistent with Section 10A(i)(2) of the Securities Exchange Act of 1934, as added by Section 202 of the Sarbanes-Oxley Act of 2002, we are responsible for listing the non-audit services approved by our Audit Committee to be performed by PricewaterhouseCoopers LLP, our independent registered public accounting firm. Non-audit services are defined as services other than those provided in connection with an audit or a review of our financial statements. The Audit Committee has approved our recurring engagements of PricewaterhouseCoopers LLP for the following non-audit services: (1) preparation of tax returns, and tax advice in preparing for and in connection with such filings; (2) all work required to be performed by PricewaterhouseCoopers LLP in connection with preparing and providing consents required to be given in connection with our filings with the Securities and Exchange Commission, and (3) advice in preparing for the internal control documentation requirements of Section 404 of the Sarbanes-Oxley Act of 2002.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a)(1) *Index to Financial Statements*

Reference is made to the Index to Financial Statements under Item 8 in Part II hereof, where these documents are listed.

(a)(2) *Financial Statement Schedules*—The following schedule is filed as part of this Form 10-K:

Schedule II — Valuation and Qualifying Accounts and Reserves for the years ended December 31, 2005, 2004 and 2003.

All other schedules have been omitted because they are not applicable or required, or the information required to be set forth therein is included in the Financial Statements or notes thereto included in Item 8 ("Financial Statements and Supplementary Data").

(a)(3) *Index to Exhibits*—See (c) below.

(c) *Exhibits*

Exhibit Footnote	Exhibit Number	
(12)	2.1	Agreement and Plan of Merger and Reorganization, dated as of May 28, 2004, by and among ViroLogic, Inc., Apollo Acquisition Sub, Inc., Apollo Merger Subsidiary, LLC and ACLARA BioSciences, Inc.
(13)	2.2	Amendment No. 1 to Agreement and Plan of Merger and Reorganization, dated as of October 18, 2004, by and among ViroLogic, Inc., Apollo Acquisition Sub, Inc., Apollo Merger Subsidiary, LLC and ACLARA BioSciences, Inc.
(9)	3.1	Amended and Restated Certificate of Incorporation, filed July 17, 2000.
(9)	3.1.1	Certificate of Amendment to Amended and Restated Certificate of Incorporation, filed February 4, 2003.
(16)	3.1.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation, filed December 10, 2004.
(26)	3.1.3	Certificate of Ownership and Merger, filed September 6, 2005.
(9)	3.2	Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock, filed June 29, 2001.
(9)	3.2.1	Certificate of Correction to Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock, filed July 23, 2001.
(9)	3.3	Certificate of Designations, Preferences and Rights of Series B Convertible Preferred Stock, filed March 22, 2002.
(9)	3.4	Certificate of Designations, Preferences and Rights of Series C Convertible Preferred Stock, filed November 15, 2002.
(9)	3.4.1	Certificate of Amendment to Certificate of Designations, Preferences and Rights of Series C Convertible Preferred Stock, filed February 4, 2003.
(4)	3.5	Bylaws, as currently in effect.
(3)	4.1	Reference is made to Exhibits 3.1 through 3.4.1.

Exhibit Footnote	Exhibit Number	
(26)	4.2	Specimen Stock Certificate.
(16)	4.3	Contingent Value Rights Agreement, dated December 10, 2004, by and between ViroLogic, Inc., and U.S. Bank National Association as trustee.
(1)	10.1	Office Lease by and between ViroLogic and Oyster Point Tech Center LLC dated as of May 25, 1999.
(1)	10.2	Office Lease by and between ViroLogic and Trammell Crow Northern California Development, Inc. dated as of November 23, 1999.
(1)	10.3	Loan and Security Agreement by and between ViroLogic and MMC/ GATX Partnership No. 1 dated as of January 30, 1998.
(1)†	10.4	Employment Agreement by and between ViroLogic and William D. Young dated September 29, 1999.
(1)†	10.5	2000 Employee Stock Purchase Plan and related offering documents.
(1)	10.6	Equipment Financing Agreement dated March 28, 2000 with Pentech Financial Services, Inc.
(2)†	10.7	ViroLogic, Inc. 2000 Equity Incentive Plan, as amended.
(3)†	10.8	Form of Executive Severance Benefits Agreement.
(3)	10.9	Master Lease Agreement dated September 14, 2000 by and between ViroLogic, Inc. and General Electric Capital Corporation.
(4)	10.10	Equipment Financing Agreement by and between ViroLogic and De Lage Landen Financial Services, Inc. dated as of January 29, 2001.
(5)	10.11	Equipment Schedule No. 4 to Master Lease Agreement dated as of August 14, 2000 by and between ViroLogic and General Electric Capital Corporation.
(5)	10.12	Sublease by and between ViroLogic, Inc. and Raven Biotechnologies, Inc.
(1)†	10.13	Form of Indemnity Agreement between the Company and its directors and officers.
(1)†	10.14	Form of Stock Option Agreement under the 2000 Equity Incentive Plan for options granted prior to May 1, 2000.
(1)†	10.15	Form of Stock Option Agreement Pursuant to the 2000 Equity Incentive Plan for options granted after May 1, 2000.
(10)	10.16	Equipment Schedule No. 5 to Master Lease Agreement dated as of August 14, 2000 by and between ViroLogic and General Electric Capital Corporation.
(6)	10.17	Form of (Common) Stock Purchase Warrant issued to holders of Series A Redeemable Convertible Preferred Stock.
(7)	10.18	Sublease, dated as of June 1, 2002, by and between ViroLogic, Inc. and diaDexus, Inc.
(8)	10.19	Form of Stock Purchase Warrant issued to purchasers of Series C Preferred Stock.
(8)	10.20	Form of Stock Purchase Warrant issued to purchasers of Series B Preferred Stock.
(11)	10.21	First Amendment to Sublease, dated as of August 21, 2003, by and between diaDexus, Inc and ViroLogic, Inc.
(14)	10.22	Lease Termination Agreement, dated as of March 22, 2004, by and between Britannia Pointe Grand Limited Partnership and ViroLogic, Inc..

Exhibit Footnote	Exhibit Number	
(15)	10.23	Second Amendment to Sublease, dated as of October 1, 2004, between diaDexus, Inc and ViroLogic, Inc.
(18)†	10.24	ViroLogic, Inc. 2004 Equity Incentive Plan.
(13)	10.25	Registration Rights Agreement, dated as of October 18, 2004, by and among ViroLogic, Inc. and certain entities affiliated with Tang Capital Partners, L.P. and Perry Corp.
(17)†	10.26	Form of Option Agreement under the ViroLogic, Inc. 2004 Equity Incentive Plan.
(20)	10.27	Lease Agreement, dated March 1, 1999, between ACLARA BioSciences, Inc. and The Pear Avenue Group.
(21)†	10.28	Form of Change of Control Agreement between ACLARA BioSciences, Inc. and Alfred Merriweather.
(22)†	10.29	Employment Letter Agreement, dated April 11, 2003, between ACLARA BioSciences, Inc and Michael J. Dunn.
(22)†	10.30	Severance Agreement, dated April 11, 2003, between ACLARA BioSciences, Inc. and Michael J. Dunn.
(20)†	10.31	ACLARA BioSciences, Inc. Amended and Restated 1997 Stock Plan.
(23)†	10.32	ACLARA BioSciences, Inc. NQ03 Stock Plan Non-Statutory Stock Option Agreement.
(24)†	10.33	Form of Amendment to Stock Option Agreement between ACLARA BioSciences, Inc. and each of Alfred Merriweather and Michael Dunn.
(27)†	10.34	ViroLogic, Inc. 2005 Bonus Plan Description.
(27)†	10.35	ViroLogic, Inc. Non-Employee Director Cash Compensation Arrangements.
*	10.36	Referral Testing Agreement, between Monogram Biosciences, Inc. and Quest Diagnostics Incorporated, dated October 1, 2005.
	23.1	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.
	23.2	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
	24.1	Power of Attorney is contained on the signature page.
	31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(A) or Rule 15d-14(A) promulgated under the Securities Exchange Act of 1934.
	31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(A) or Rule 15d-14(A) promulgated under the Securities Exchange Act of 1934.
	32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 and Rule 13a-14(B) or Rule 15d-14(B) promulgated under the Securities Exchange Act of 1934.

† Indicates management or compensatory plan or arrangement.

(*) Confidential treatment has been requested for portions of this document, which are omitted and filed separately with the SEC.

(1) Filed as an exhibit to our Registration Statement on Form S-1 (No. 333-30896) or amendments thereto and incorporated herein by reference.

(2) Filed as an exhibit to our Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 and incorporated herein by reference.

(3) Filed as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2000 and incorporated herein by reference.
(4) Filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 and incorporated herein by reference.
(5) Filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 and incorporated herein by reference.
(6) Filed as an exhibit to our Current Report on Form 8-K filed on March 26, 2002 and incorporated herein by reference.
(7) Filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 and incorporated herein by reference.
(8) Filed as an exhibit to our Current Report on Form 8-K filed on November 25, 2002 and incorporated herein by reference.
(9) Filed as an exhibit to our Registration Statement on Form S-3 (No. 333-102995) and incorporated herein by reference.
(10) Filed as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated herein by reference.
(11) Filed as an exhibit to our Quarterly Report on Form 10-Q for the Quarter ended September 30, 2003 and incorporated herein by reference.
(12) Filed as an exhibit to our Current Report on Form 8-K filed on June 1, 2004 and incorporated herein by reference.
(13) Filed as an exhibit to our Current Report on Form 8-K filed on October 19, 2004 and incorporated herein by reference.
(14) Filed as an exhibit to our Quarterly Report of Form 10-Q for the quarter ended March 31, 2004 and incorporated herein by reference.
(15) Filed as an exhibit to our Current Report on Form 8-K filed on November 4, 2004 and incorporated herein by reference.
(16) Filed as an exhibit to our Current Report on Form 8-K filed on December 10, 2004 and incorporated herein by reference.
(17) Filed as an exhibit to our Current Report on Form 8-K filed on December 22, 2004 and incorporated herein by reference.
(18) Filed as an exhibit to our Registration Statement on Form S-8 (No. 333-121437) filed on December 20, 2004 and incorporated herein by reference.
(19) Filed as an exhibit to our Registration Statement on Form S-4 (No. 333-120211) and incorporated herein by reference.
(20) Filed as an exhibit to ACLARA BioSciences, Inc. Registration Statement on Form S-1 (No. 333-95107) or amendments thereto and incorporated herein by reference.
(21) Filed as an exhibit to ACLARA BioSciences, Inc. Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference.
(22) Filed as an exhibit to ACLARA BioSciences, Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 and incorporated herein by reference.
(23) Filed as an exhibit to ACLARA BioSciences, Inc. Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference.
(24) Filed as an exhibit to ACLARA BioSciences, Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 and incorporated herein by reference.
(25) Filed as an exhibit to our Quarterly Report on Form 10-Q for the Quarter ended June 30, 2004 and incorporated herein by reference.
(26) Filed as an exhibit to our Current Report on Form 8-K filed on September 8, 2005 and incorporated herein by reference.
(27) Filed as an exhibit to our Quarterly Report on Form 10-Q for the Quarter ended March 31, 2005 and incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Monogram Biosciences, Inc.

By: /s/ WILLIAM D. YOUNG
William D. Young
Chief Executive Officer

Date: March 15, 2006

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints William D. Young, Kathy L. Hibbs and Alfred G. Merriweather, and each of them, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place, and stead, in any and all capacities, to sign any and all amendments to this Report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming that all said attorneys-in-fact and agents, or any of them or their or his substitute or substituted, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ WILLIAM D. YOUNG **William D. Young**	Chairman, Chief Executive Officer and Director (Principal Executive Officer)	March 15, 2006
/s/ ALFRED G. MERRIWEATHER **Alfred G. Merriweather**	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 15, 2006
/s/ THOMAS R. BARUCH **Thomas R. Baruch**	Director	March 15, 2006
/s/ EDMON JENNINGS **Edmon Jennings**	Director	March 15, 2006
/s/ WILLIAM JENKINS, M.D. **William Jenkins, M.D.**	Director	March 15, 2006
/s/ CRISTINA H. KEPNER **Cristina H. Kepner**	Director	March 15, 2006
/s/ DAVID H. PERSING M.D., PH.D. **David H. Persing, M.D., Ph.D.**	Director	March 15, 2006
/s/ JOHN D. MENDLEIN, PH.D., J.D. **John D. Mendlein, Ph.D., J.D.**	Director	March 15, 2006

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

(IN THOUSANDS)

Classification	Balance at Beginning of Period	Additions Charged to Operating Costs and Expenses	Deductions	Balance at End of Period
Allowance for doubtful accounts:				
Year ended December 31, 2005	$595	$826	$(377)	$1,044
Year ended December 31, 2004	$643	$319	$(367)	$ 595
Year ended December 31, 2003	$989	$101	$(447)	$ 643

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A
AMENDMENT No. 1

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period From to

Commission file No. 000-30369

MONOGRAM BIOSCIENCES, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	**94-3234479**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer identification no.)**
345 Oyster Point Blvd South San Francisco, California	**94080**
(Address of principal executive offices)	**(Zip code)**

Registrant's Telephone Number, Including Area Code: (650) 635-1100

Securities Registered Pursuant to Section 12(b) of the Act:
None

Securities Registered Pursuant to Section 12(g) of the Act:
Common Stock, $0.001 Par Value
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ☐.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2005 was $222,288,106.*

The number of shares outstanding of the Registrant's Common Stock was 130,181,082 as of March 31, 2006.

* Excludes 36,704,822 shares of Common Stock held by directors, officers and stockholders whose beneficial ownership exceeds 5% of the Registrant's Common Stock outstanding. The number of shares owned by such persons was determined based upon information supplied by such persons and upon Schedules 13D and 13G, if any, filed with the SEC. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the Registrant, that such person is controlled by or under common control with the Registrant, or that such persons are affiliates for any other purpose.

EXPLANATORY NOTE: This Amendment No. 1 on Form 10-K/A ("Amendment No. 1") amends the Registrant's Annual Report on Form 10-K, as filed by the Registrant on March 16, 2006 (the "Report"), and is being filed solely to replace Part III, Item 10 through Item 14. The reference on the cover of the Report to the incorporation by reference of the Registrant's Definitive Proxy Statement into Part III of the Report is hereby amended to delete that reference. Except as otherwise stated herein, no other information contained in the Report has been updated by this Amendment No. 1.

MONOGRAM BIOSCIENCES, INC.
ANNUAL REPORT ON FORM 10-K/A
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005
Amendment No. 1

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This Amendment No. 1 contains certain forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 including, without limitation, statements regarding development and commercialization of our proposed products and services, our anticipated rate of capital usage and the possible growth of our business into new markets. These statements, which sometimes include words such as "expect," "goal," "may," "anticipate," "should," "continue," or "will," reflect our expectations and assumptions as of the date of this Annual Report based on currently available operating, financial and competitive information. Actual results could differ materially from those in the forward-looking statements as a result of a number of factors, including our ability to successfully complete the development and clinical validation of eTag assays and commercialize these assays for guiding treatment of cancer patients, the market acceptance of our products, the effectiveness of competitive products, new products and technological approaches, the ability to successfully integrate ACLARA's operations into ours, the potential impact of the Contingent Value Rights on our financial position, the risks associated with our dependence on patents and proprietary rights, the possible infringement of the intellectual property rights of others, and our ability to raise additional capital if needed. These factors and others are more fully described in "Risk Factors Related to Our Business" and elsewhere in our Report, as amended. We assume no obligation to update any forward-looking statements.

PART III

Item 10. *Directors and Executive Officers of the Registrant*

The following table sets forth information about our directors and executive officers as of April 28, 2006:

Name	Age	Position
William D. Young	61	Chairman of the Board, Chief Executive Officer and Director
Thomas R. Baruch, J.D.	67	Director
William Jenkins, M.D.	58	Director
Edmon R. Jennings	59	Director
Cristina H. Kepner	60	Director
John D. Mendlein, J.D., Ph.D.	46	Director
David H. Persing, M.D., Ph.D.	50	Director
Michael P. Bates, M.D.	49	Vice President, Clinical Research
Tien T. Bui	41	Vice President, Medical Affairs
Michael J. Dunn	50	Chief Business Officer
Kathy L. Hibbs	42	Vice President, General Counsel
Kenneth N. Hitchner	52	Vice President, Pharmaceutical Collaborations
Alfred G. Merriweather	52	Vice President, Finance and Chief Financial Officer
Christos J. Petropoulos, Ph. D.	52	Vice President, Research and Development and Chief Scientific Officer
William J. Welch	44	Senior Vice President and Chief Commercial Officer
Jeannette Whitcomb, Ph.D.	45	Vice President, Operations

William D. Young has served as our Chief Executive Officer since November 1999 and has served as the Chairman of the Board since May 1999. From March 1997 to October 1999, Mr. Young was Chief Operating Officer at Genentech, Inc., a biotechnology company. As COO at Genentech, Mr. Young was responsible for all of the company's development, operations and commercial functions. Mr. Young joined Genentech in 1980 as Director of Manufacturing and Process Sciences and held various executive positions prior to becoming COO. Prior to joining Genentech, Mr. Young was employed by Eli Lilly and Company for 14 years. Mr. Young is a member of the board of directors of Biogen IDEC, Inc., Human Genome Sciences, Inc. and Theravance, Inc. He received his bachelor's degree in chemical engineering from Purdue University, his M.B.A. from Indiana University and an honorary Doctorate in Engineering from Purdue University. He was elected to the National Academy of Engineering, USA, in 1993.

Thomas R. Baruch, J.D. has served as a director since December 2004. Mr. Baruch was Chairman of ACLARA Biosciences, Inc.'s, or ACLARA's, board of directors from April 1995 to December 2004, when we merged with ACLARA. Since 1988, he has been a General Partner of CMEA Ventures, a venture capital firm, and the President of CMEA Development Corp. Moreover, from 1990 to 1996, Mr. Baruch served as a special partner of New Enterprise Associates. Prior to his experience with CMEA Ventures, Mr. Baruch founded Microwave Technology, Inc., and served as its President and Chief Executive Officer from 1983 to 1989. Before that, he held senior management and venture investment positions at Exxon Corporation, including the position of President of the Materials Division of Exxon Enterprises, Inc. Mr. Baruch is a member of the board of directors of Symyx Technologies, Inc. Mr. Baruch holds a B.S. degree from Rensselaer Polytechnic Institute and received a J.D. degree from Capital University.

William Jenkins, M.D. has served as a director since September 2000. Dr. Jenkins has been a consultant and advisor to pharmaceutical companies and investment and venture capital firms in the health sector since 1999. From 1997 to 1999, he served as Head of Clinical Development and Regulatory Affairs for Ciba-Geigy, and later for post-merger Novartis Pharma AG. Prior to that, Dr. Jenkins was head of worldwide clinical research at Glaxo and a Deputy Head in the U.K. Drug Regulatory Agency. Dr. Jenkins is a member of the Board of Directors of Tanox, Inc., BTG plc, Esbatech AG and Eurand Pharmaceutical Holdings B.V. Dr. Jenkins received his M.D. from Cambridge University and has a specialist accreditation in internal medicine and gastroenterology.

Edmon R. Jennings has served as a director since May 2001. Since July 2003, Mr. Jennings has served as President and CEO of Angiogenix, Inc., a biopharmaceutical company. From February 2000 to June 2003, Mr. Jennings was Chief Commercialization Officer at Pain Therapeutics, Inc., a medical research and development company. From 1985 to 2000, Mr. Jennings held senior management positions at Genentech, Inc., including Vice President of Corporate Development, Vice President of Sales and Marketing and Vice President of Sales. Prior to Genentech, for twelve years Mr. Jennings held positions with Bristol-Myers Oncology and Bristol Laboratories, both of which were divisions of Bristol-Myers (now Bristol-Myers Squibb), a pharmaceutical company. Mr. Jennings received his B.A. in liberal arts from the University of Michigan at Ann Arbor.

Cristina H. Kepner has served as a director since May 1996. Ms. Kepner is Advisor at Invemed Associates LLC, an investment banking firm. From 1978 to December 2000, Ms. Kepner was a director, Executive Vice President and Corporate Finance Director at Invemed Associates LLC. Ms. Kepner serves on the board of directors of Quipp, Inc. and Cepheid. She is Chairman of the Board of Quipp, Inc. She received her B.A. from Pace University.

John D. Mendlein, J.D., Ph.D. has served as a director since December 2004. Dr. Mendlein was a member of ACLARA's board of directors from April 2003 to December 2004. Dr. Mendlein has been Chairman and Chief Executive Officer of Compound Therapeutics Inc., a biotechnology company, since 2005. Prior to joining Compound Therapeutics, Dr. Mendlein served as Chairman and Chief Executive Officer of Affinium Pharmaceuticals, Inc., from 2000 until 2005. Prior to joining Affinium, Dr. Mendlein served as Chief Knowledge Officer, General Counsel and Senior Vice President, Intellectual Property of Aurora Biosciences Corporation, from 1996 until 2000. Dr. Mendlein holds a Ph.D. in physiology and biophysics from the University of California, Los Angeles and a J.D. degree from the University of California, Hastings College of Law.

David H. Persing, M.D., Ph.D. has served as a director since December 2000. Dr. Persing received his B.A. degree in Biochemistry from San Jose State University, and his M.D. and Ph.D. (Biochemistry and Biophysics) concurrently from the University of California, San Francisco. After completion of his residency in Clinical Pathology and fellowship training at Yale University in 1989, Dr. Persing was appointed to the medical and research staff of the Mayo Clinic, where he became Director of the Molecular Microbiology Laboratory and an Associate Professor at the Mayo Medical School. Dr. Persing has been Executive Vice President, Chief Medical and Technology Officer of Cepheid since August 2005 and has served on the board of directors of Cepheid since April 2004. Prior to his experience with Cepheid, Dr. Persing was the Senior Vice President and Chief Scientific

Officer at Corixa Corporation, a research and development-based biotechnology company, from 1999 to 2005. Additionally, he served as a Principal Investigator in the Infectious Disease Research Institute, a non-profit research organization.

Michael P. Bates, M.D. joined our Clinical Research group as Medical Director in January 2001, was promoted to Senior Director in 2003 and was named Vice President of Clinical Research in June 2004. Prior to joining Monogram, Dr. Bates completed his internship and residency in Internal Medicine at the University of California, San Francisco, before pursuing fellowship training in Cardiology at Duke University in Durham, North Carolina, and in Infectious Diseases at the University of Washington in Seattle, Washington. Following two years on the junior faculty at the University of Washington and the Fred Hutchinson Cancer Research Center in Seattle, Dr. Bates moved to industry. Dr. Bates was Regional Medical Director/Medical Liaison for Roche, focusing on virology from February 1999 to December 2000.

Tien T. Bui joined Monogram as National Sales Director in November 2000, was named Vice President of Sales in September 2001 and became the Vice President of Sales and Marketing in November 2002 and was named Vice President of Medical Affairs in March 2006. Before joining Monogram, Ms. Bui was the Virology Sales Director for DuPont Pharmaceuticals' Western Business Unit. In addition to her most recent sales management position at DuPont, she served that company for over 10 years, from 1990 to 2000, in various sales and marketing roles, including: physician and hospital sales; clinical development and education; healthcare policy and government affairs; and strategic market development. Ms. Bui received her bachelor's degree in international business from San Francisco State University and also studied abroad at The University of Liege, Belgium.

Michael J. Dunn has served as our Chief Business Officer since our merger with ACLARA in December 2004. From April 2003 to December 2004, Mr. Dunn was Chief Business Officer for ACLARA BioSciences, Inc. From March 2002 to April 2003, Mr. Dunn served as Executive Vice President of Business Development for ActivX Bioscience, Inc., a biotechnology company. From July 1998 to March 2002, Mr. Dunn was Vice President of Business Development for Aurora Biosciences Corporation, a biotechnology tools company. From 1995 to 1998, Mr. Dunn was Vice President of Business Development for SIBIA Neurosciences, Inc. Mr. Dunn has an M.B.A. from the University of San Diego and a B.A. in biology from the University of Chicago.

Kathy L. Hibbs joined Monogram as Vice President, General Counsel in April 2001. Prior to joining Monogram, Ms. Hibbs was Vice President and General Counsel for Multitude, Inc., an Internet telecommunications company, which filed a petition for bankruptcy in 2001. Prior to that, from 1996 to 2000, she served as Senior Corporate Counsel at Varian Medical Systems, Inc., a leading manufacturer of integrated cancer therapy systems. At Varian, she was responsible for numerous legal matters including regulatory compliance, employment law, litigation and SEC reporting. Before her employment with Varian, Ms. Hibbs worked as a litigator for two California law firms and dealt with various legal issues, including civil rights and securities law. She received her J.D. degree from the University of California, Hastings College of Law, and her bachelor's degree in political science from the University of California, Riverside.

Kenneth N. Hitchner joined Monogram as Director of Project Management in May 1999 and was named Vice President of Pharmaceutical Collaborations in October 2003. From December 1997 to May 1999 Mr. Hitchner was the Director of Project Management at Gilead Sciences. Prior to Gilead, he was with Genentech for fifteen years where he held a number of positions including the Director of Product Development and Global Project Leader. Mr. Hitchner received his bachelor's degree in Zoology from DePauw University and a Masters Degree in Biology from San Francisco State University.

Alfred G. Merriweather has served as our Chief Financial Officer since our merger with ACLARA in December 2004. From December 2001 to December 2004, Mr. Merriweather served as Vice President, Finance, Chief Financial Officer and Secretary of ACLARA BioSciences, Inc. From 1999 to 2001, he was Vice President and Chief Financial Officer for Citadon, Inc., a software company. From 1996 to 1999, Mr. Merriweather was

Vice President of Finance and Chief Financial Officer of Symphonix Devices, Inc., a manufacturer of implantable medical devices. Form 1993 to 1996, Mr. Merriweather was Vice President of Finance and Chief Financial Officer of LipoMatrix, Inc., a medical device company based in Neuchatel, Switzerland. Prior to that, Mr. Merriweather was Vice President of Finance and Chief Financial Officer of Laserscope, a manufacturer of surgical laser systems. Mr. Merriweather holds a B.A. from The University of Cambridge, England.

Christos J. Petropoulos, Ph.D. joined Monogram as our Director of Research and Development in August 1996, became Senior Director of Research and Development in September 1997, was named our Vice President, Research and Development in November 1999, was named our Vice President, Research and Development, Virology and Chief Scientific Officer in December 2004 and was named Vice President of Research and Development and Chief Scientific Officer in October 2005. From 1992 to 1996, Dr. Petropoulos was a scientist at Genentech where he headed the Molecular Virology Laboratory and the Research Virology and Molecular Detection Laboratories from 1994 to 1996. Dr. Petropoulos received his Ph.D. in molecular and cell biology from Brown University.

William J. Welch has served as our Senior Vice President and Chief Commercial Officer since September 2005. From 1998 to 1999 and from 2001 to August 2005, Mr. Welch was with LaJolla Pharmaceutical, Inc., most recently as Vice President, Sales & Marketing. From 1999 to 2001, Mr. Welch was Vice President of Global Marketing for Dade Behring MicroScan where he managed marketing and strategic development for a $150 million business. From 1993 to 1998, Mr. Welch held a number of management positions with Abbott Laboratories, including General Manager of the Ambulatory Infusion Systems Division. Mr. Welch holds a BS from the University of California at Berkeley and an MBA from Harvard University.

Jeannette M. Whitcomb, Ph.D. joined Monogram as one of the first scientists in the Research and Development department in 1996, transitioned to the Operations group in 2002 and was named Vice President of Operations in June 2003. Prior to joining Monogram, Dr. Whitcomb was a Postdoctoral Fellow in Dr. Stephen H. Hughes' lab at the National Cancer Institute — Frederick Cancer Research and Development Center. Prior to that, she was a Fogerty Fellow in Dr. Peter A. Cerutti's lab at the Swiss Institute for Experimental Cancer Research in Lausanne, Switzerland. Dr. Whitcomb received her bachelor's degree in Biology from Widener University in Chester, Pennsylvania and her Ph.D. in Microbiology and Immunology from Temple University School of Medicine in Philadelphia.

Audit Committee

The Audit Committee of the Board of Directors oversees our corporate accounting and financial reporting process. For this purpose, the Audit Committee performs several functions. Three directors comprise the Audit Committee: Cristina H. Kepner (Chair), William Jenkins and Edmon R. Jennings. The Board of Directors annually reviews the Nasdaq listing standards definition of independence for Audit Committee members and has determined that all members of the Company's Audit Committee are independent (as independence is currently defined in Rule 4350(d)(2)(A)(i) and (ii) of the Nasdaq listing standards). The Board of Directors has determined that Cristina H. Kepner qualifies as an "audit committee financial expert," as defined in applicable SEC rules.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 (the "1934 Act") requires our directors and executive officers, and persons who own more than ten percent of a registered class of our equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock and other equity securities. Officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file.

To our knowledge, based solely on a review of copies of such reports furnished to us and written representations that no other reports were required, during the fiscal year ended December 31, 2005, all

Section 16(a) filing requirements applicable to our officers, directors and greater than ten percent beneficial owners were complied with; except that one report, covering one transaction, was filed late by Mr. Baruch.

Code of Ethics

We have adopted a Code of Business Conduct and Ethics that applies to our directors and employees (including our principal executive officer, principal financial officer, principal accounting officer and controller), and have posted the text of the policy on our website (www.monograbio.com) in connection with "Investor" materials; however, information found on our website is not incorporated by reference into this report. In addition, we intend to promptly disclose (i) the nature of any amendment to the policy that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions and (ii) the nature of any waiver, including an implicit waiver, from a provision of the policy that is granted to one of these specified individuals, the name of such person who is granted the waiver and the date of the waiver on our website in the future.

Item 11. *Executive Compensation*

Compensation of Directors

Each of our non-employee directors receives an annual retainer of $15,000, paid in equal quarterly installments. In addition, each non-employee director receives a fee of $1,500 for each Board of Directors meeting attended and a fee of $500 for each committee meeting attended by committee members. In the fiscal year ended December 31, 2005, the total compensation paid to non-employee directors was $123,500. The members of the Board of Directors are also eligible for reimbursement for their expenses incurred in attending Board meetings in accordance with our policy.

All of our directors are eligible to participate in our 2004 Equity Incentive Plan, or the 2004 Plan. Option grants to non-employee directors are discretionary. However, the Board of Directors has adopted a policy pursuant to which it makes initial grants of stock options to new non-employee directors at their time of election to the Board of Directors, and, on an annual basis, grants stock options to its continuing non-employee directors. During the fiscal year ended December 31, 2005, we granted each of our six continuing non-employee directors options to purchase 20,000 shares of common stock. These options vest monthly over a one-year period; provided that the vesting may accelerate and all shares subject to the options may become immediately exercisable in the event of a change in control of us. In total, we granted options to purchase 120,000 shares of our common stock to our non-employee directors during the fiscal year ended December 31, 2005, at a weighted average exercise price of $2.40 per share.

Compensation of Executive Officers

Summary of Compensation

The following table shows for the fiscal years ended December 31, 2003, 2004 and 2005, compensation awarded or paid to, or earned by, our Chief Executive Officer and our other four most highly compensated executive officers at December 31, 2005 and one former executive officer who departed during the fiscal year 2005 (the "Named Executive Officers"):

		Annual Compensation			Long Term Compensation	
Name and Principal Position	Year	Salary ($)	Bonus ($)	Other Annual Compensation ($)	Awards Securities Underlying Options/SARs (#)	All Other Compensation ($)
William D. Young	2005	429,999	—	—	1,650,000	3,042(1)
Chief Executive Officer	2004	308,269	—	—	300,000	3,250(1)
	2003	280,000	—	—	300,000	3,000(1)
Christos J. Petropoulos, Ph.D.						
Vice President, Research and	2005	265,000	—	—	600,000	2,600(1)
Development, and Chief Scientific	2004	183,165	—	—	75,000	2,600(1)
Officer	2003	171,000	—	—	50,000	2,600(1)
Michael P. Bates	2005	250,000	—	—	300,000	33,034(2)
Vice President, Clinical Research	2004	210,577	—	—	50,000	37,150(3)
	2003	190,076	—	—	35,000	33,072(4)
Kathy L. Hibbs	2005	245,250	—	—	300,000	3,042(1)
Vice President, General Counsel	2004	178,094	—	—	75,000	3,250(1)
	2003	166,500	—	—	50,000	2,081(1)
Michael J. Dunn	2005	290,014	—	—	100,000	3,500(1)
Chief Business Officer	2004	10,894	—	—	—	—
	2003	—	—	—	—	—
Sharat Singh	2005	208,936	5,000	—	—	83,323(5)
Former Chief Technical Officer,	2004	10,192	—	—	—	—
Oncology	2003	—	—	—	—	—

(1) Consists of matching payments under our 401(k) plan in the form of shares of our common stock.

(2) Consists of $3,042 of matching payments under our 401(k) plan in the form of shares of our common stock and $29,992 of housing assistance pursuant to an agreement dated November 20, 2000.

(3) Consists of $3,250 of matching payments under our 401(k) plan in the form of shares of our common stock and $33,900 of housing assistance pursuant to an agreement dated November 20, 2000.

(4) Consists of $3,000 of matching payments under our 401(k) plan in the form of shares of our common stock and $30,072 of housing assistance pursuant to an agreement dated November 20, 2000.

(5) Consists of $27,267 of paid-out vacation time and $56,056 severance payment.

Stock Option Grants and Exercises

We grant options to our executive officers under our 2004 Plan. Prior to the adoption and approval of the 2004 Plan, we granted options to our executive officers under our 2000 Equity Incentive Plan, which had been previously adopted in 1996 and was amended and renamed in February 2000. In December 2004, we assumed the following ACLARA plans and option agreements upon the merger with ACLARA: (i) the 1995 Stock Plan, (ii) the Amended and Restated 1997 Stock Plan, and (iii) a non-qualified option agreement. We will not make any future grants under the assumed ACLARA plans.

As of March 31, 2006, options to purchase a total of 16,313,936 shares were outstanding under our 2004 Plan, our 2000 Equity Incentive Plan and the assumed ACLARA plans. As of March 31, 2006, 6,177,004 shares remained available for grant under the 2004 Plan, and no shares were available for grant under the 2000 Equity Incentive Plan or any of the assumed ACLARA plans.

The following tables show for the fiscal year ended December 31, 2005 certain information regarding options granted to, exercised by, and held at year end by, the Named Executive Officers:

OPTION/SAR GRANTS IN LAST FISCAL YEAR

Name	Number of Securities Underlying Options Granted	Percentage of Total Options Granted to Employees in Year 2005	Exercise Price Per Share	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5%	10%
William D. Young	1,650,000	23.5%	$2.28	3-1-13	$1,796,187	$4,302,181
Christos J. Petropoulos, Ph.D.	600,000	8.5%	$2.28	3-1-13	$ 653,159	$1,564,429
Michael P. Bates	300,000	4.3%	$2.28	3-1-13	$ 326,580	$ 782,215
Kathy L. Hibbs	300,000	4.3%	$2.28	3-1-13	$ 326,580	$ 782,215
Michael J. Dunn	100,000	1.4%	$2.28	3-1-13	$ 108,860	$ 260,738
Sharat Singh	—	— %	$ —	—	$ —	$ —

The figures in the table above represent options granted under the 2004 Plan. Options generally vest over a four-year period, 25% after one year and 2.083% per month thereafter. The percentage of total options in the table above was calculated based on options to purchase an aggregate of 7,031,750 shares of our common stock granted to our employees in 2005. All options were granted at an exercise price equal to the fair value of our common stock on the date of grant.

The potential realizable value is based on the term of the option at its time of grant, which, for the foregoing options, is eight years. It is calculated by assuming that the stock price on the date of grant appreciates at the indicated annual rate, compounded annually for the entire term of the option and that the option is exercised and sold on the last day of its term for the appreciated stock price. These amounts represent certain assumed rates of appreciation only, in accordance with the rules of the SEC, and do not reflect our estimate or projection of future stock price performance. Actual gains, if any, are dependent on the actual future performance of the common stock and no gain to the optionee is possible unless the stock price increases over the option term, which will benefit all stockholders.

FISCAL YEAR-END OPTION/SAR VALUES

The following table sets forth information concerning the number and value of exercisable and unexercisable options held by each of the Named Executive Officers as of December 31, 2005. None of our Named Executive Officers exercised options during 2005. The value of unexercised in-the-money options at December 31, 2005 represents an amount equal to the difference between the closing price of the common stock on December 30, 2005 of $1.87 per share and the option exercise price, multiplied by the number of unexercised in-the-money options. An option is in-the-money if the fair value of the underlying shares exceeds the exercise price of the options. The value realized upon exercise represents the difference between the price of the common stock on the date of exercise and the exercise price of the option, multiplied by the number of shares exercised.

	Number of Securities Underlying Unexercised Options at December 31, 2005		Value of Unexercised In-the-Money Options at December 31, 2005	
Name	Exercisable	Unexercisable	Exercisable	Unexercisable
William D. Young	1,411,666	1,938,334	$ 67,500	$ 40,500
Christos J. Petropoulos, Ph.D.	206,668	662,188	$ 20,475	$ 6,750
Michael P. Bates	96,270	340,730	$ 10,687	$ 5,513
Kathy L. Hibbs	195,520	361,980	$ 16,350	$ 6,750
Michael J. Dunn	463,955	358,545	$267,749	133,876
Sharat Singh	1,425,614	—	$385,475	$ —

Employment, Severance and Change of Control Agreements

William D. Young

We have an agreement with William D. Young governing his employment as our Chief Executive Officer. This employment agreement provides for an initial base salary of $300,000 per year, plus a yearly incentive bonus as part of our bonus program based on objectives established by the Board of Directors after consultation with Mr. Young, plus a yearly special bonus of between $50,000 and $100,000, grossed up for tax purposes. In addition, the agreement contains a non-solicitation agreement. Mr. Young recommended that his salary be reduced as part of the November 2002 business restructuring. The Compensation Committee of the Board of Directors determined, and Mr. Young agreed, that Mr. Young's base salary would be reduced by $50,000 to $280,000 beginning in November 2002 and that no bonuses would be paid for services performed by Mr. Young during 2002 or 2003 pursuant to this agreement.

As required by the agreement, prior to the commencement of Mr. Young's employment, we also granted him a stock bonus award of 150,000 fully vested shares of the common stock, in consideration of his past service as our Chairman of the Board prior to becoming our Chief Executive Officer. The agreement also provides for the following:

- a cash bonus in the gross amount of $180,000, granted on January 15, 2000, and an additional cash bonus in the gross amount of $180,000, granted on April 15, 2000;
- an incentive stock option under our 2000 Equity Incentive Plan covering 150,000 shares of the common stock, which is now fully vested;
- a non-statutory stock option, granted outside of our 2000 Equity Incentive Plan, covering 250,000 shares of the common stock, which is now fully vested; and
- a non-statutory stock option, granted outside of our 2000 Equity Incentive Plan, covering 250,000 shares of the common stock, which is now fully vested.

Any of these options may be exercised either by cash or by delivery of a promissory note.

Our agreement with Mr. Young specifies that Mr. Young's employment is at-will. If we terminate his employment for any reason other than for cause, however, or if his employment is terminated as a result of death or permanent disability, we have also agreed to continue to pay him, or his estate, his base salary, at the level in effect at the time of termination, for an additional 12 months. Also, we have agreed that in any of these events the vesting of his options shall accelerate, either for an additional 12 months or, after he has been employed for more than two years, in full.

Executive Severance Agreements and Stock Option Acceleration Provisions

We have entered into executive severance benefits agreements with each of our executive officers other than William Young. These executive severance benefits agreements provide that if the executive is terminated without cause or constructively terminated within three months prior to or twenty-four months after a change in control then the executive will receive a one time cash severance payment equal to twelve months of the executive's base salary plus an amount equal to the bonus that the executive received for the prior year.

The stock option agreements we have entered into with our executive officers in connection with stock option grants made to them under the 2004 Plan provide for acceleration of vesting of the stock option if the executive is terminated without cause or for good reason as of, or within 13 months after, a Change in Control. Options granted to executives under our 2000 Equity Incentive Plan, pursuant to the terms of that plan, are also subject to accelerated vesting if the executive is terminated without cause or for good reason as of, or within 13 months after, a Change in Control.

Sharat Singh

On September 8, 2005, we entered into a separation and release agreement with Dr. Sharat Singh, pursuant to which Dr. Singh will receive as severance one year's base salary continuation in the amount of $265,000, payment of a bonus in the amount of $79,500, full vesting of all Monogram stock options held by Dr. Singh, and payment of health insurance premiums for up to one year.

Compensation Committee Interlocks and Insider Participation

During the fiscal year ended December 31, 2005, the following non-employee directors served as members of the Compensation Committee: William Jenkins (Chair), Cristina H. Kepner, John D. Mendlein and David H. Persing. During that fiscal year, none of our executive officers served as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our Board of Directors or Compensation Committee.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information regarding the ownership of our common stock as of March 31, 2006 by: (i) each director and nominee for director; (ii) each of the executive officers named in the Summary Compensation Table; (iii) all of our executive officers and directors as a group; and (iv) all those known by us to be beneficial owners of more than five percent of our common stock.

Beneficial ownership is determined according to the rules of the Securities and Exchange Commission, and generally means that a person has beneficial ownership of a security if he or she possesses sole or shared voting or investment power of that security, and includes options and warrants that are currently exercisable or exercisable within 60 days of March 31, 2006. Some of the information with respect to beneficial ownership has been furnished to us by each director, officer or 5% or more stockholder, as the case may be. Except as otherwise indicated, we believe that the beneficial owners of the common stock listed below, based on the information each of them has given us, have sole investment and voting power with respect to their shares, except where community property laws may apply.

This table lists applicable percentage ownership based on 130,181,082 shares of common stock outstanding as of March 31, 2006. Options and warrants to purchase shares of the common stock that are exercisable within 60 days of March 31, 2006, are deemed to be beneficially owned by the persons holding these options and warrants for the purpose of computing percentage ownership of that person, but are not treated as outstanding for the purpose of computing any other person's ownership percentage. Shares underlying options, warrants and convertible securities that are deemed beneficially owned are listed in this table separately in the column labeled "Shares Subject to Options, Warrants and Convertible Securities." These shares are included in the number of shares listed in the column labeled "Total Number."

	Shares Beneficially Owned (1)		
Name of Beneficial Owner	Total Number	Shares Subject to Options, Warrants and Convertible Securities	Percent of Class Beneficially Owned
5% Stockholders			
Perry Corp. (2)	24,474,000	—	18.80%
Deutsche Bank AG (3)	9,587,626	—	7.36%
Stephens Investment Management LLC (4)	12,041,113	—	9.25%
Directors and Executive Officers			
William D. Young	2,209,383(6)	1,962,500	1.67%
Christos J. Petropoulos, Ph.D.	496,881(7)	395,939	*
Kathy Hibbs	317,041(8)	297,083	*
Cristina H. Kepner	165,850	105,000	*
Michael J. Dunn	592,507(9)	568,381	*
David H. Persing, M.D., Ph.D.	115,000	105,000	*
William Jenkins, M.D.	105,000	105,000	*
Edmon R. Jennings	96,100	95,000	*
Michael P. Bates, M.D.	214,212(10)	193,041	*
Thomas Baruch, J.D. (5)	503,544	101,600	*
John D. Mendlein, J.D., Ph.D.	152,600	152,600	*
Sharat Singh	—	731,000(11)	*
All directors and executive officers as a group (16 persons)	6,391,933	5,310,310	4.72%

* Less than one percent.

(1) Unless otherwise indicated, this table is based upon information supplied by officers, directors and principal stockholders and Schedules 13D and 13G filed with the Securities and Exchange Commission (the "SEC"). Unless otherwise indicated, the address of each person in this table is c/o Monogram Biosciences, Inc., 345 Oyster Point Boulevard, South San Francisco, California 94080.

(2) These shares are held for the accounts of two or more private investment funds for which Perry Corp. acts as general partner and/or investment advisor. Perry Corp. is a private investment firm and Richard C. Perry is the President and sole stockholder of Perry Corp. Richard Perry disclaims any beneficial ownership interest of the shares of common stock held by any funds for which Perry Corp. acts as the general partner and/or investment advisor, except for that portion of such shares that relates to his economic interest in such shares. The business address for Perry Corp. is 767 Fifth Avenue, New York, New York 10153. This information is based solely on a Schedule 13G filed with the SEC on February 13, 2006.

(3) The business address for Deutsche Bank AG is Taunusanlage 12, D-60325 Frankfurt am Main, Federal Republic of Germany. This information is based solely on a Schedule 13G filed with the SEC on January 31, 2006.

(4) The business address for Stephens Investment Management LLC is One Sansome Street, Suite 2900, San Francisco, CA 94104. This information is based solely on a Form 13F, Amendment No. 1, filed with the SEC on March 2, 2006.

(5) Total number of shares beneficially owned includes 289,514 shares held by CMEA Life Sciences Fund L.P. Mr. Baruch has shared voting and investment power over these shares as a General Partner of CMEA Life Sciences Fund L.P.

(6) Total number of shares beneficially owned includes 6,850 shares that are held in trust by the Company's 401(k) plan as part of matching contributions in the form of common stock.

(7) Total number of shares beneficially owned includes 6,464 shares that are held in trust by the Company's 401(k) plan as part of matching contributions in the form of common stock.

(8) Total number of shares beneficially owned includes 6,318 shares that are held in trust by the Company's 401(k) plan as part of matching contributions in the form of common stock.

(9) Total number of shares beneficially owned includes 1,872 shares that are held in trust by the Company's 401(k) plan as part of matching contributions in the form of common stock.

(10) Total number of shares beneficially owned includes 6,562 shares that are held in trust by the Company's 401(k) plan as part of matching contributions in the form of common stock.

(11) This information is based solely on the Company's records.

Equity Compensation Plan Information

The following table sets forth certain information as of December 31, 2005 regarding our equity compensation plans:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	18,340,968	$2.42	6,378,860
Equity compensation plans not approved by security holders	500,000(1)	3.14	—
Total	18,840,968	2.44	6,378,860

(1) Consists of non-statutory stock options granted to William D. Young outside of the Company's 2000 Equity Incentive Plan pursuant to the terms of an employment agreement between Mr. Young and the Company described in Item 11 above under "Employment, Severance and Change of Control Agreements."

Item 13. ***Certain Relationships and Related Transactions***

Indemnity Agreements

Monogram has entered into indemnity agreements with each of its directors which provide, among other things, that we will indemnify such director, under the circumstances and to the extent provided for therein, for expenses, damages, judgments, fines and settlements he or she may be required to pay in actions or proceedings which he or she is or may be made a party by reason of his or her position as a director of Monogram, and otherwise to the fullest extent permitted under Delaware law and the Company's Bylaws. Monogram also intends to enter into these agreements with Monogram's future directors.

Merger with ACLARA BioSciences, Inc.

In connection with our December 2004 merger with ACLARA, we issued approximately 61.9 million shares of our common stock and approximately 61.9 million contingent value rights, or CVRs, to ACLARA stockholders. Thomas R. Baruch and John Mendlein, members of our Board of Directors, were directors of ACLARA prior to the merger. Alfred G. Merriweather, Michael J. Dunn and Sharat Singh were executive officers of ACLARA prior to the merger. In connection with the merger, each share of ACLARA common stock held by each of these former ACLARA directors and officers was exchanged for 1.7 shares of our common stock and 1.7 CVRs. In addition, options to acquire shares of ACLARA common stock held by these former ACLARA directors and officers were converted into options to acquire shares of our common stock and CVRs, at the same ratio.

Employment, Severance and Change of Control Agreements

Information regarding Employment, Severance and Change of Control Agreements is located in Part III, Item 11 of the Annual Report, as amended, under the caption "Employment, Severance and Change of Control Agreements."

Item 14. ***Principal Accounting Fees and Services***

Audit Fees

In August 2005 we dismissed Ernst & Young LLP as our independent registered public accounting firm and engaged PricewaterhouseCoopers LLP as our independent registered public accounting firm to audit our financial statements for the fiscal year ended December 31, 2005. Fees for audit services totaled $0.3 million in 2005, of which $0.1 million was paid to Ernst & Young LLP and $0.2 million was paid to PricewaterhouseCoopers LLP, and $0.8 million in 2004, all of which were paid to Ernst & Young LLP. The fees for audit services included fees associated with the annual audit of the financial statements included in our Annual Report on Form 10-K, procedures related to attestation of the effectiveness of internal controls over financial reporting under the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, and the reviews of Monogram's quarterly reports on Form 10-Q and other SEC filings, including the joint proxy statement/prospectus related to the merger with ACLARA in 2004.

Audit-Related Fees

There were no fees for audit-related services in 2005. Fees for audit related services totaled $0.2 million in 2004, all of which were paid to Ernst & Young LLP, representing fees associated with due diligence related to the merger with ACLARA.

Tax Fees

There were no fees for tax related services in 2005 paid to PricewaterhouseCoopers LLP or Ernst & Young LLP. Fees for tax services, including tax compliance and tax advice, totaled approximately $ 47,000 in 2004, all of which were paid to Ernst & Young LLP.

All Other Fees

Fees for other services totaled $1,500 in 2005 paid to PricewaterhouseCoopers LLP for online services. There were no fees for other services not included above in 2004.

All fees described above were pre-approved by the Audit Committee.

PRE-APPROVAL POLICIES AND PROCEDURES.

The Audit Committee has adopted a policy for the pre-approval of audit, review and attest services, as well as permitted non-audit services to be performed by our independent registered public accounting firm. The engagement to perform services may be approved on an explicit case-by-case basis before the independent registered public accounting firm is engaged to provide each service or the engagement may be pre-approved on a collective basis. These services may include audit services, audit-related services, tax services and other services. The Audit Committee has delegated specific pre-approval authority to Ms. Kepner, the Chair of the Audit Committee. These pre-approvals are reported to the Audit Committee at its next scheduled meeting.

The Audit Committee has determined that the rendering of the services other than audit services by PricewaterhouseCoopers LLP and Ernst & Young LLP, as applicable, is compatible with maintaining the independent registered public accounting firms' independence.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Monogram Biosciences, Inc.

By: /s/ WILLIAM D. YOUNG
William D. Young
Chief Executive Officer

Date: April 28, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ WILLIAM D. YOUNG **William D. Young**	Chairman, Chief Executive Officer and Director (Principal Executive Officer)	April 28, 2006
/s/ ALFRED G. MERRIWEATHER **Alfred G. Merriweather**	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	April 28, 2006
* **Thomas R. Baruch, J.D.**	Director	April 28, 2006
* **Edmon Jennings**	Director	April 28, 2006
* **William Jenkins, M.D.**	Director	April 28, 2006
* **Cristina H. Kepner**	Director	April 28, 2006
* **David H. Persing, M.D., Ph.D.**	Director	April 28, 2006
* **John D. Mendlein, J.D., Ph.D.**	Director	April 28, 2006

* By: /s/ WILLIAM D. YOUNG
William. D. Young
Attorney-in-fact

EXHIBIT INDEX

Exhibit Footnote	Exhibit Number	
(12)	2.1	Agreement and Plan of Merger and Reorganization, dated as of May 28, 2004, by and among ViroLogic, Inc., Apollo Acquisition Sub, Inc., Apollo Merger Subsidiary, LLC and ACLARA BioSciences, Inc.
(13)	2.2	Amendment No. 1 to Agreement and Plan of Merger and Reorganization, dated as of October 18, 2004, by and among ViroLogic, Inc., Apollo Acquisition Sub, Inc., Apollo Merger Subsidiary, LLC and ACLARA BioSciences, Inc.
(9)	3.1	Amended and Restated Certificate of Incorporation, filed July 17, 2000.
(9)	3.1.1	Certificate of Amendment to Amended and Restated Certificate of Incorporation, filed February 4, 2003.
(16)	3.1.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation, filed December 10, 2004.
(26)	3.1.3	Certificate of Ownership and Merger, filed September 6, 2005.
(9)	3.2	Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock, filed June 29, 2001.
(9)	3.2.1	Certificate of Correction to Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock, filed July 23, 2001.
(9)	3.3	Certificate of Designations, Preferences and Rights of Series B Convertible Preferred Stock, filed March 22, 2002.
(9)	3.4	Certificate of Designations, Preferences and Rights of Series C Convertible Preferred Stock, filed November 15, 2002.
(9)	3.4.1	Certificate of Amendment to Certificate of Designations, Preferences and Rights of Series C Convertible Preferred Stock, filed February 4, 2003.
(4)	3.5	Bylaws, as currently in effect.
(3)	4.1	Reference is made to Exhibits 3.1 through 3.4.1.
(26)	4.2	Specimen Stock Certificate.
(16)	4.3	Contingent Value Rights Agreement, dated December 10, 2004, by and between ViroLogic, Inc., and U.S. Bank National Association as trustee.
(1)	10.1	Office Lease by and between ViroLogic and Oyster Point Tech Center LLC dated as of May 25, 1999.
(1)	10.2	Office Lease by and between ViroLogic and Trammell Crow Northern California Development, Inc. dated as of November 23, 1999.
(1)	10.3	Loan and Security Agreement by and between ViroLogic and MMC/ GATX Partnership No. 1 dated as of January 30, 1998.
(1)†	10.4	Employment Agreement by and between ViroLogic and William D. Young dated September 29, 1999.
(1)†	10.5	2000 Employee Stock Purchase Plan and related offering documents.
(1)	10.6	Equipment Financing Agreement dated March 28, 2000 with Pentech Financial Services, Inc.
(2)†	10.7	ViroLogic, Inc. 2000 Equity Incentive Plan, as amended.

Exhibit Footnote	Exhibit Number	
(3)†	10.8	Form of Executive Severance Benefits Agreement.
(3)	10.9	Master Lease Agreement dated September 14, 2000 by and between ViroLogic, Inc. and General Electric Capital Corporation.
(4)	10.10	Equipment Financing Agreement by and between ViroLogic and De Lage Landen Financial Services, Inc. dated as of January 29, 2001.
(5)	10.11	Equipment Schedule No. 4 to Master Lease Agreement dated as of August 14, 2000 by and between ViroLogic and General Electric Capital Corporation.
(5)	10.12	Sublease by and between ViroLogic, Inc. and Raven Biotechnologies, Inc.
(1)†	10.13	Form of Indemnity Agreement between the Company and its directors and officers.
(1)†	10.14	Form of Stock Option Agreement under the 2000 Equity Incentive Plan for options granted prior to May 1, 2000.
(1)†	10.15	Form of Stock Option Agreement Pursuant to the 2000 Equity Incentive Plan for options granted after May 1, 2000.
(10)	10.16	Equipment Schedule No. 5 to Master Lease Agreement dated as of August 14, 2000 by and between ViroLogic and General Electric Capital Corporation.
(6)	10.17	Form of (Common) Stock Purchase Warrant issued to holders of Series A Redeemable Convertible Preferred Stock.
(7)	10.18	Sublease, dated as of June 1, 2002, by and between ViroLogic, Inc. and diaDexus, Inc.
(8)	10.19	Form of Stock Purchase Warrant issued to purchasers of Series C Preferred Stock.
(8)	10.20	Form of Stock Purchase Warrant issued to purchasers of Series B Preferred Stock.
(11)	10.21	First Amendment to Sublease, dated as of August 21, 2003, by and between diaDexus, Inc and ViroLogic, Inc.
(14)	10.22	Lease Termination Agreement, dated as of March 22, 2004, by and between Britannia Pointe Grand Limited Partnership and ViroLogic, Inc.
(15)	10.23	Second Amendment to Sublease, dated as of October 1, 2004, between diaDexus, Inc and ViroLogic, Inc.
(18)†	10.24	ViroLogic, Inc. 2004 Equity Incentive Plan.
(13)	10.25	Registration Rights Agreement, dated as of October 18, 2004, by and among ViroLogic, Inc. and certain entities affiliated with Tang Capital Partners, L.P. and Perry Corp.
(17)†	10.26	Form of Option Agreement under the ViroLogic, Inc. 2004 Equity Incentive Plan.
(20)	10.27	Lease Agreement, dated March 1, 1999, between ACLARA BioSciences, Inc. and The Pear Avenue Group.
(21)†	10.28	Form of Change of Control Agreement between ACLARA BioSciences, Inc. and Alfred Merriweather.
(22)†	10.29	Employment Letter Agreement, dated April 11, 2003, between ACLARA BioSciences, Inc and Michael J. Dunn.
(22)†	10.30	Severance Agreement, dated April 11, 2003, between ACLARA BioSciences, Inc. and Michael J. Dunn.
(20)†	10.31	ACLARA BioSciences, Inc. Amended and Restated 1997 Stock Plan.

Exhibit Footnote	Exhibit Number	
(23)†	10.32	ACLARA BioSciences, Inc. NQ03 Stock Plan Non-Statutory Stock Option Agreement.
(24)†	10.33	Form of Amendment to Stock Option Agreement between ACLARA BioSciences, Inc. and each of Alfred Merriweather and Michael Dunn.
(27) †	10.34	ViroLogic, Inc. 2005 Bonus Plan Description.
(27) †	10.35	ViroLogic, Inc. Non-Employee Director Cash Compensation Arrangements.
* **	10.36	Referral Testing Agreement, between Monogram Biosciences, Inc. and Quest Diagnostics Incorporated, dated October 1, 2005.
**	23.1	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.
**	23.2	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
**	24.1	Power of Attorney is contained on the signature page.
**	31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(A) or Rule 15d-14(A) promulgated under the Securities Exchange Act of 1934.
**	31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(A) or Rule 15d-14(A) promulgated under the Securities Exchange Act of 1934.
	31.3	Certification of Chief Executive Officer pursuant to Rule 13a-14(A) or Rule 15d-14(A) promulgated under the Securities Exchange Act of 1934.
	31.4	Certification of Chief Financial Officer pursuant to Rule 13a-14(A) or Rule 15d-14(A) promulgated under the Securities Exchange Act of 1934.
**	32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 and Rule 13a-14(B) or Rule 15d-14(B) promulgated under the Securities Exchange Act of 1934.

† Indicates management or compensatory plan or arrangement.

* Confidential treatment has been requested for portions of this document, which are omitted and filed separately with the SEC.

** Previously filed.

(1) Filed as an exhibit to our Registration Statement on Form S-1 (No. 333-30896) or amendments thereto and incorporated herein by reference.

(2) Filed as an exhibit to our Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 and incorporated herein by reference.

(3) Filed as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2000 and incorporated herein by reference.

(4) Filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 and incorporated herein by reference.

(5) Filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 and incorporated herein by reference.

(6) Filed as an exhibit to our Current Report on Form 8-K filed on March 26, 2002 and incorporated herein by reference.

(7) Filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 and incorporated herein by reference.

(8) Filed as an exhibit to our Current Report on Form 8-K filed on November 25, 2002 and incorporated herein by reference.

(9) Filed as an exhibit to our Registration Statement on Form S-3 (No. 333-102995) and incorporated herein by reference.

(10) Filed as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated herein by reference.
(11) Filed as an exhibit to our Quarterly Report on Form 10-Q for the Quarter ended September 30, 2003 and incorporated herein by reference.
(12) Filed as an exhibit to our Current Report on Form 8-K filed on June 1, 2004 and incorporated herein by reference.
(13) Filed as an exhibit to our Current Report on Form 8-K filed on October 19, 2004 and incorporated herein by reference.
(14) Filed as an exhibit to our Quarterly Report of Form 10-Q for the quarter ended March 31, 2004 and incorporated herein by reference.
(15) Filed as an exhibit to our Current Report on Form 8-K filed on November 4, 2004 and incorporated herein by reference.
(16) Filed as an exhibit to our Current Report on Form 8-K filed on December 10, 2004 and incorporated herein by reference.
(17) Filed as an exhibit to our Current Report on Form 8-K filed on December 22, 2004 and incorporated herein by reference.
(18) Filed as an exhibit to our Registration Statement on Form S-8 (No. 333-121437) filed on December 20, 2004 and incorporated herein by reference.
(19) Filed as an exhibit to our Registration Statement on Form S-4 (No. 333-120211) and incorporated herein by reference.
(20) Filed as an exhibit to ACLARA BioSciences, Inc. Registration Statement on Form S-1 (No. 333-95107) or amendments thereto and incorporated herein by reference.
(21) Filed as an exhibit to ACLARA BioSciences, Inc. Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference.
(22) Filed as an exhibit to ACLARA BioSciences, Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 and incorporated herein by reference.
(23) Filed as an exhibit to ACLARA BioSciences, Inc. Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference.
(24) Filed as an exhibit to ACLARA BioSciences, Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 and incorporated herein by reference.
(25) Filed as an exhibit to our Quarterly Report on Form 10-Q for the Quarter ended June 30, 2004 and incorporated herein by reference.
(26) Filed as an exhibit to our Current Report on Form 8-K filed on September 8, 2005 and incorporated herein by reference.
(27) Filed as an exhibit to our Quarterly Report on Form 10-Q for the Quarter ended March 31, 2005 and incorporated herein by reference.

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CORPORATE DIRECTORY

EXECUTIVE OFFICERS

William D. Young
Chairman of the Board and
Chief Executive Officer

Alfred G. Merriweather
Vice President
Finance and Chief Financial Officer

Michael P. Bates, M.D.
Vice President
Clinical Research

Tien T. Bui
Vice President
Medical Affairs

Michael J. Dunn
Chief Business Officer

Kathy L. Hibbs
Vice President
General Counsel

Kenneth N. Hitchner
Vice President
Pharmaceutical Collaborations

Christos J. Petropoulos, Ph.D.
Vice President and
Chief Scientific Officer,
Research and Development

William J. Welch
Senior Vice President
Chief Commercial Officer

Jeannette Whitcomb, Ph.D.
Vice President
Operations

Patty Wray
Vice President
Human Resources

BOARD OF DIRECTORS

Thomas R. Baruch, J.D.
General Partner
CMEA Ventures

William Jenkins, M.D.
Principal
William Jenkins Pharma
Consulting

Edmon R. Jennings
President and CEO
Angiogenix, Inc.

Cristina H. Kepner
Advisor
Invemed Associates LLC,

John D. Mendlein, J.D., Ph.D
Chief Executive Officer
Compound Therapeutics

David H. Persing, M.D., Ph.D.
Executive Vice President, Chief
Medical & Technology Officer
Cepheid Corporation

William D. Young
Chairman of the Board and
Chief Executive Officer
Monogram Biosciences, Inc.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP
Ten Almaden Blvd., Suite 1600
San Jose, CA 95113

LEGAL COUNSEL

Cooley Godward Kronish LLP
4401 Eastgate Mall
San Diego, CA 92121-1909

REGISTRAR AND TRANSFER AGENT

American Stock Transfer &
Trust Company
59 Maiden Lane
New York, NY 10038
718-921-8200

STOCK INFORMATION

Monogram Biosciences, Inc. common stock is traded on the NASDAQ Global Stock Market under the symbol MGRM.

ANNUAL MEETING

The annual meeting of stockholders will be held at 9:00 am PT on December 6, 2006 at Monogram Biosciences, Inc. headquarters located at 345 Oyster Point Blvd, South San Francisco, CA 94080

INVESTOR RELATIONS

Further information on the company may be obtained by sending an email to *info@monogrambio.com* or by calling 650-635-1100

QUARTERLY REPORTING AND OTHER INFORMATION

Quarterly reports, Annual Reports on Form 10-K, press releases and other information regarding the Company and its technology are available on the Internet: *www.monogrambio.com*

FORM 10-K

A copy of the Company's Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2005, which is filed with the Securities and Exchange Commission and includes the Company's financial statements for the fiscal year ended December 31, 2005, is available upon request, free of charge.
Write to:

Investor Relations
Monogram Biosciences, Inc.
345 Oyster Point Blvd
South San Francisco,
CA 94080-1913

biosciences
monogram

345 OYSTER POINT BLVD
SOUTH SAN FRANCISCO, CA
94080-1913
650-635-1100