MedImmune, Inc.

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The People to Excel—the Technology to Lead

Annual Report

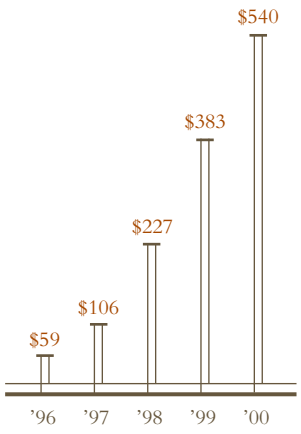
Financial Highlights

(all items in millions except per share data)

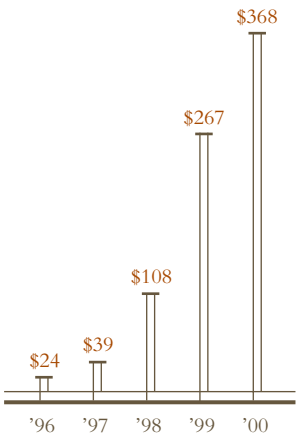
	2000	1999	1998	1997	1996
Consolidated Statements of Operations Data					
Product Sales	$ 496	$ 357	$ 184	$ 78	$ 47
Total Revenues	540	383	227	106	59
Gross Profit	368	267	108	39	24
Net Earnings/(Loss)*	145	93	47	(45)	(39)
Per Share Data					
Basic Earnings/(Loss)*	0.69	0.49	0.28	(0.30)	(0.29)
Diluted Earnings/(Loss)*	0.66	0.44	0.24	(0.30)	(0.29)
Consolidated Balance Sheet Data					
Cash and Investments	526	270	177	101	75
Working Capital	536	303	187	89	147
Total Assets	1,007	648	406	233	106
Long-Term Debt	10	12	88	90	4
Total Stockholders' Equity	844	537	249	88	81

**For the year 2000, before the cumulative effect of change in accounting principle.*

Total Revenues
(IN MILLIONS)



Gross Profit
(IN MILLIONS)



Total Assets
(IN MILLIONS)

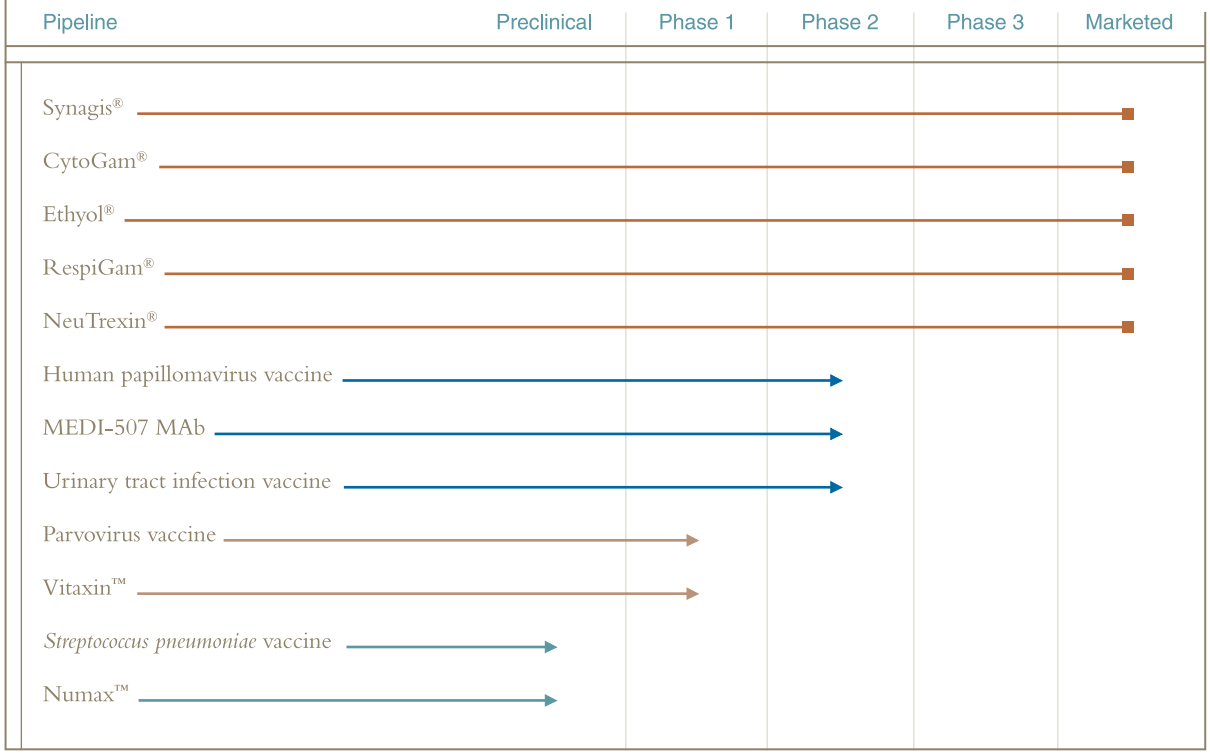
MedImmune, Inc. is a biotechnology company focused on developing and marketing products that address medical needs in areas such as infectious disease, immune regulation and cancer. Headquartered in Gaithersburg, Maryland, MedImmune has manufacturing facilities in Frederick, Maryland and Nijmegen, the Netherlands.

2000 Highlights

- Revenues grew 41 percent to $540 million
- Earnings increased 56 percent to $145 million*
- Worldwide end-user sales of Synagis® grew 46 percent to $434 million
- Major manufacturing breakthrough discovered in antibody development
- Plasma section of Frederick Manufacturing Center approved by FDA
- RSV franchise expanded to develop next generation of antibodies
- Three major projects advanced into Phase II clinical development
- New strategic partnerships established

**Before cumulative effect of change in accounting principle*

MedImmune 2000



Dear Shareholders:

After thirteen years since its founding, MedImmune is now a well-established, fully integrated biopharmaceutical company with capabilities across the entire spectrum of drug development. We believe we have assembled one of the best management teams in areas essential to achieving long-term success, including research, process development, clinical development, data analysis, regulatory affairs, quality control, manufacturing and sales and marketing. With these core competencies firmly in place, we are pleased to report that the combined efforts of the company's employees are focused on making MedImmune one of the most successful biotechnology companies of the new millennium.

In 2000, we maintained our positive financial momentum, posting our third consecutive year of double-digit increases in both revenues and earnings. As one of the few biotechnology companies that is solidly profitable, our strong financial results have established us as one of the top-tier biotechnology companies in the world. Our growth, of course, is led by the scientific and commercial success of our breakthrough product, Synagis®, the first and still the only monoclonal antibody approved by the U.S. Food and Drug Administration (FDA) to prevent an infectious disease. Worldwide end-user sales of Synagis® for the calendar year 2000 increased 46 percent over 1999 to $434 million. This continued growth of sales of Synagis® drove our total revenues for 2000 to a new record of $540 million. Our net earnings for the year were $147 million, excluding one-time items and the impact of the cumulative effect of a change in accounting principle as a result of implementing the SEC's Staff Accounting Bulletin No. 101.

In December 2000, we achieved yet another major corporate milestone by gaining FDA clearance for the plasma section of our Frederick Manufacturing Center (FMC), just one year after the FDA approved the antibody production area of the plant. Our process development specialists also achieved a major breakthrough by discovering a new process that triples the yield in our cell fermentation process. This accomplishment allows us to channel significant financial resources toward other growth opportunities instead of having to invest in the physical expansion of our manufacturing facilities. This breakthrough may also prove to be a revenue source for the company as we evaluate the possibility of applying this proprietary scientific knowledge to the production of other proteins. As such, our process development and manufacturing expertise has become a major new asset for the company, which we fully intend to leverage for future growth.

MedImmune now markets five products and has eight products in clinical development. Our clinical development teams made significant progress during 2000, advancing several projects from Phase I clinical testing into Phase II. The programs currently moving the swiftest are our vaccine to prevent urinary tract infections caused by *Escherichia coli (E. coli),* our vaccine to prevent cervical cancer caused by human papillomavirus, and our monoclonal antibody, MEDI-507, initially being developed to treat psoriasis. As we continue advancing the development programs for these products throughout 2001, we believe data needed to make pivotal Phase III clinical trial decisions could be available by the fourth quarter of 2001. With these and other programs underway, we believe the expanse of our clinical effort at the outset of 2001 is quite impressive.

Our preclinical efforts have also made significant progress in several areas, including the creation of potential new generations of products currently on the market or in development. As we have proven with the development of RespiGam® and Synagis®, creating a franchise in a particular disease category can be extremely rewarding. In 2000, we announced our intent to develop a third-generation anti-RSV product, called Numax™, which we hope to move into human clinical testing in 2001. In early 2001, we also announced our interest in evaluating the potential to develop a radio-sensitized version of Vitaxin™, our anti-angiogenesis antibody, which could result in improved anti-cancer therapeutic capabilities and create imaging possibilities.

To assure our ability to maintain long-term growth, we are complementing our internal development activities with an aggressive external search for new products and technology to add to our promising pipeline. An example of this effort was the acquisition of U.S. Bioscience in late 1999, which significantly expanded our traditional focus on infectious disease and transplantation to the field of oncology. This past year we completed the integration of U.S. Bioscience into our organization as our oncology subsidiary, now known as MedImmune Oncology, Inc. In 2000, this subsidiary marketed two cancer products and conducted a number of studies for three cancer-focused products. As we look to the future, we will continue to emphasize oncology as an important area for opportunities and growth.

Historically, one of MedImmune's strengths has been its ability to establish and leverage relationships with other biotechnology, pharmaceutical and scientific organizations. This past year we built further upon this solid foundation by concluding agreements with a number of companies for research, development and marketing purposes, including GlaxoSmithKline, Medarex, Inc. and Alkermes, Inc. We believe that these partnerships will help provide for growth and success in the years to come.

We believe the year 2000 was an extraordinary year for MedImmune and its shareholders. The company has established itself as one of the few successfully profitable biotechnology companies. Our successes thus far have been recognized by the addition of the company to the Nasdaq 100 index in late December 1999, the S&P 500 in June 2000, and the S&P 100 in December 2000. On October 1, we paved the way for what we believe will be the next decade of success when we transitioned leadership of the company from Dr. Wayne T. Hockmeyer, the company's founder, to David M. Mott, a nine-year veteran of the company. We believe MedImmune's future will be as bright under Mr. Mott's leadership as our past has been under Dr. Hockmeyer's thirteen-year tenure. On behalf of MedImmune and its employees, we thank you for your support and hope that you share our enthusiasm for the future of MedImmune.

Wayne T. Hockmeyer, Ph.D.
Chairman

David M. Mott
Chief Executive Officer

Achieving Goals

By the age of two, nearly every child will become infected at least once with respiratory syncytial virus (RSV), a common virus that is most active in the Northern Hemisphere from October through May. Most children infected with RSV will appear to have a cold and clear the infection quickly. However, it has been estimated that without preventative treatment, about 125,000 children in the United States under one year of age will be hospitalized each year due to RSV, and as many as two percent of these children may die from the disease. Those children at highest risk of hospitalization, and possibly death, from RSV are the more than 300,000 babies born prematurely each year or with certain cardio-pulmonary conditions, such as chronic lung disease or congenital heart disease. These high-risk infants usually have immune systems not equipped to adequately fight off an RSV infection, as well as underdeveloped lungs that may cause any respiratory infection to become a life-threatening event. Once hospitalized, these infants may have extended stays, often in the pediatric intensive care unit and on mechanical ventilation at costs that can exceed $70,000 per child.

In September 1998, MedImmune introduced Synagis®, a humanized monoclonal antibody used to prevent serious lower respiratory tract disease caused by RSV in pediatric patients at high risk of RSV disease. The product was the first—and is still the only—monoclonal antibody approved to prevent an infectious disease. This scientific breakthrough not only marked a major milestone for the company, but also proved that the wide-scale research efforts in the field of biotechnology could produce safe and effective medications for diseases that have never before been treated.

MedImmune's first priority for developing a drug for this most-fragile pediatric population was, of course, safety. The pivotal trials showed that monthly injections of Synagis® were safe and generally well tolerated in the high-risk pediatric population studied. Since then, the safety profile of Synagis® has continued to be exemplary. By the end of 2000, more than 200,000 children had been safely treated with Synagis®.

Beyond its strong safety record, Synagis® continues to show that it is highly effective in reducing the rate of hospitalization due to RSV among high-risk infants. In November 2000, MedImmune announced data from two outcomes studies that showed that the prophylactic use of Synagis® significantly reduced hospitalization rates among high-risk infants due to RSV. Data from a study conducted during the 1999–2000 RSV season were published in the November 2000 issue of the *Journal of Respiratory Diseases for Pediatricians*, while data from a similar study conducted during the 1998–1999 RSV season were published in the November 2000 issue of the *Pediatric Infectious Disease Journal*.

As President and Chief Operating Officer, Melvin D. Booth oversees the manufacturing, and sales and marketing of MedImmune's flagship product.

Synagis® (palivizumab)

Synagis®

Synagis® is used to prevent high-risk infants from serious RSV disease, the leading cause of bronchiolitis and viral pneumonia in infants and young children worldwide. It is the first and still the only monoclonal antibody approved to prevent an infectious disease. Through the end of 2000, Synagis® had been used in over 200,000 infants to help prevent serious RSV.

Syd Johnson, Ph.D., David Pfarr and Nita K. Patel are veteran MedImmune scientists instrumental in the discovery of Synagis®, now working to develop Numax™.

Both studies were retrospective chart reviews of premature and other high-risk infants prophylaxed with Synagis®. The 1999–2000 data showed that 68 of the 2,830 (2.4 percent) patients included in this survey were hospitalized with an RSV lower respiratory infection from September 1999 to May 2000. The 1998–1999 survey, which involved 1,839 high-risk infants, showed that 42 of the 1,839 (2.3 percent) children prophylaxed with Synagis® were hospitalized with an RSV infection. Results of these studies compare favorably with MedImmune's pivotal clinical trial results in which prophylaxis reduced the rate of hospitalization 55 percent—from 10.6 percent in the placebo group to 4.8 percent in those children receiving Synagis®. These results also compare favorably to the higher rates of RSV hospitalization, up to 25 percent, typically reported in epidemiology studies of RSV in high-risk infants.

Sales of Synagis® in the U.S. reflect the product's excellent clinical profile. Six months after MedImmune and its marketing partner, the Ross Division of Abbott Laboratories, launched Synagis®, it became the most successful pediatric product ever marketed in the United States. In its first RSV season, Synagis® sold $223 million in the U.S. In the 1999–2000 season, U.S. sales grew 55 percent to $346 million. In the first half of the 2000–2001 RSV season, U.S. sales of Synagis® reached $223 million, a 32-percent increase over the comparable period for the previous season.

MedImmune's marketing efforts are focused on broadening awareness of RSV disease, as well as the availability of Synagis® for use in preventing the disease among high-risk infants. To more fully understand the needs of the patients and their families, MedImmune has segmented the overall target market into four main subgroups: *premature infants*—babies born between 32 and 35 weeks of gestational age (approximately 212,000 infants are born in this category each year according to the Centers for Disease Control); *severely premature infants*—babies born at less than 32 weeks gestational age (approximately 76,000 infants*); congenital heart disease patients* (approximately 15,000 infants); as well as other high-risk infants (approximately 15,000). Continued penetration into each of the main subgroups, particularly the largest premature segment, will determine the ultimate success of Synagis®. In 2000, MedImmune's programs focused on improving RSV and product awareness among the top 10,000 pediatric office practices and enhancing patient

Kristen Sabetta, MedImmune's Clinical Marketing Manager in Chicago was among the first sales professionals to educate physicians on the appropriate use of Synagis®, as she is doing here with Dr. Charles MacDonald, a neonatologist at Christ Hospital and Medical Center.

compliance. New MedImmune initiatives included the addition of a 100-person Pediatric Specialty Sales force to complement the Ross sales force of Abbott Laboratories in the pediatric office setting; science-based, educational teleconferences with physicians across the United States; a new reimbursement assistance program called *Secure Plus*; and informative direct-to-parent advertising and public relations campaigns that educate parents to discuss RSV with their child's physician. Further, MedImmune continues to accumulate, present and publish data that support the safety, efficacy and cost/benefit of using Synagis® to prevent RSV infection in high-risk infants.

Abbott International is the exclusive distributor of Synagis® outside the United States. At December 31, 2000, Abbott International had filed new drug applications for the product in 57 countries and gained 42 regulatory approvals. After receiving pricing and reimbursement approvals in the major European markets, Synagis® was officially launched in Europe during September 2000. Of particular note, Abbott International filed an application for Synagis® in Japan in December 2000, which could become an important market in the future.

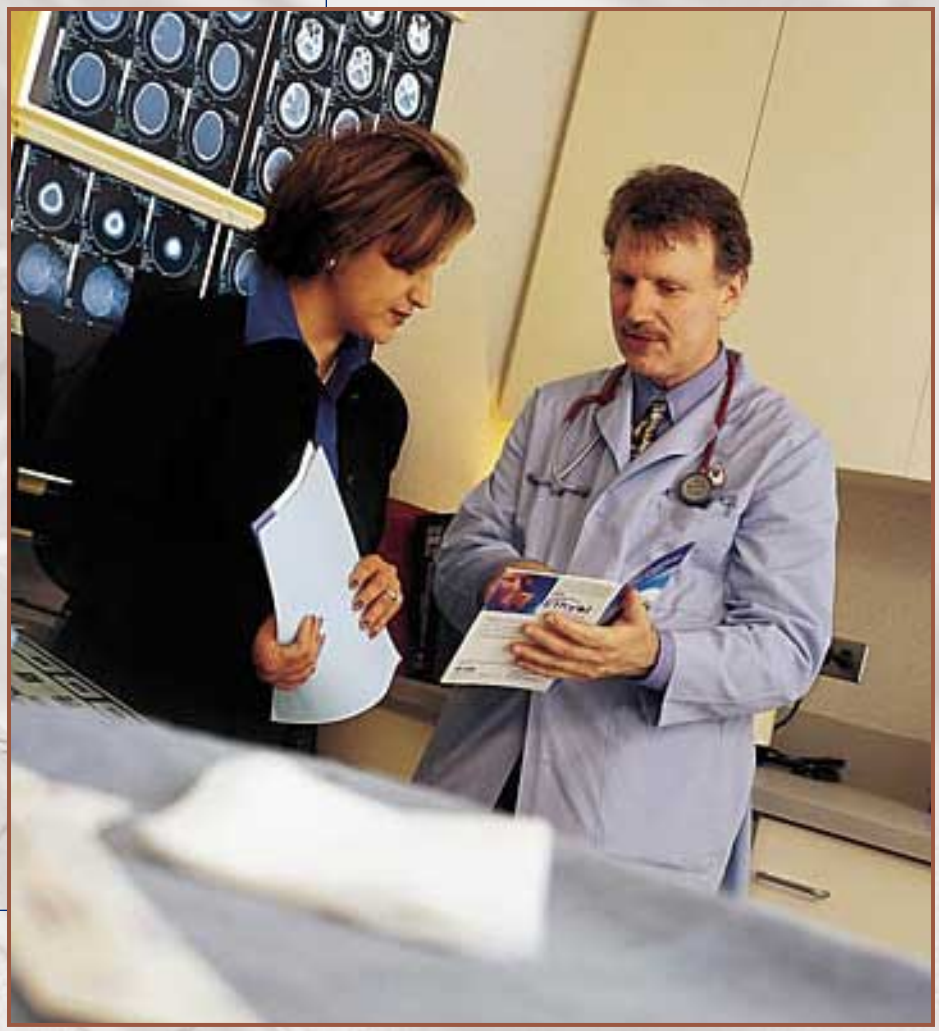
ENHANCING SYNAGIS® MedImmune has become the world's leader in preventing serious RSV disease in high-risk infants. Our anti-RSV franchise started to build momentum in 1996 with the introduction of our first generation product, RespiGam®, a polyclonal antibody produced from human immunoglobulin. Since the introduction of Synagis®, which offered a number of advantages, RespiGam® has largely been replaced in the market. MedImmune is constantly looking for ways to further expand its RSV franchise by improving on Synagis®. In January of 2000, MedImmune introduced a 50-milligram vial to complement the original 100-milligram vial to provide more versatility in doctors' offices and clinics. We are in the midst of evaluating data to support the shelf-life extension of Synagis® to 36 months from the current 30 months. On the clinical front, we continue enrolling and treating patients in our Phase III study focused on infants with congenital heart disease, which we hope to complete by the end of the 2001/2002 RSV season. We expect that these data will be meaningful to the use of Synagis® in this population in both the U.S. and abroad. And finally, we have made great strides toward the development of a liquid formulation of Synagis®. Since the current formulation requires a 20-minute reconstitution time, a liquid formulation should improve the ease of use in the doctor's office.

Margarita Ossorio has been a key researcher at MedImmune for nine years, now focused on understanding the mechanisms by which Ethyol works.

Ethyol® (amifostine)

Ethyol®

Ethyol® is used to prevent or lessen some side effects caused by certain chemotherapy or radiation therapy used to treat ovarian, non-small cell lung and head and neck cancers.



Carolina Eupierre, a territory manager for MedImmune Oncology with four years of oncology sales experience, reviews the cytoprotective properties of Ethyol® with Dr. Mark Kozloff, Medical Director of Oncology, Ingalls Health Systems in Harvey, IL.

Discovering Unique Products

Late in 1999, MedImmune acquired a company focused on developing and marketing innovative and useful products for cancer patients. Throughout 2000, we worked to integrate this business, now known as MedImmune Oncology, Inc., with the clinical, technical, and manufacturing expertise of the company as a whole. The primary focus for MedImmune Oncology to date has been the advancement of Ethyol®.

Scientifically, Ethyol® is a unique product that fills a largely unmet niche in the treatment of cancer. It is not used to treat cancer itself; rather, it is used to reduce the incidence of certain unwanted toxic side effects of anti-cancer therapy. Currently, Ethyol® is administered intravenously prior to patients receiving cisplatin, a commonly used chemotherapy agent, or radiation therapy in the treatment of patients with ovarian, lung or head and neck cancer. Ethyol® was approved by the FDA in 1995 to reduce cumulative kidney toxicities associated with repeated administration of cisplatin in patients with advanced ovarian cancer. In 1996, the FDA allowed an expansion of the approved label of Ethyol® under the Accelerated Approval mechanism to include patients with non-small cell lung cancer who are treated with cisplatin. In June 1999, the FDA approved the use of Ethyol® to reduce the incidence of moderate-to-severe xerostomia (or chronic dry mouth), in patients undergoing post-operative radiation treatment for head and neck cancer, where the radiation port includes a substantial portion of the parotid glands.

MedImmune continues to pursue additional research for Ethyol® and is conducting studies to further expand its use for various indications. In 2001, MedImmune intends to focus its efforts for Ethyol® on studying novel methods of administration, as well as studying the ability of Ethyol® to reduce certain toxicities in patients receiving chemotherapy in combination with radiation therapy.

In 2000, U.S. demand for Ethyol® grew approximately 28 percent over 1999 and worldwide end-user sales of the product were approximately $80 million. In the United States, Ethyol® is promoted under an exclusive marketing and distribution agreement with ALZA Corporation. In the majority of markets outside the U.S., Ethyol® is distributed by Schering-Plough Corporation.

We believe that our ongoing research and development efforts should continue to expand interest in the use of Ethyol® as additional data are generated to support the product's unique properties, particularly in the radiation oncology market. Examples of such support include the published clinical practice recommendations from the *Cancer Care Ontario Practice Guidelines Initiative (Current Oncology* 2000, 7:149–161*)* that support the product's use as an option in reducing the incidence and severity of neurotoxicity, ototoxicity, and nephrotoxicity caused by cisplatin. These recommendations are similar to the practice guidelines adopted by the *American Society of Clinical Oncology* in May 1999, which include additional recommendations for use of Ethyol® to reduce the incidence of radiation-induced xerostomia. Scientific publications of the results from independent studies also further describe and support the use of Ethyol®.

Applying Innovation

CytoGam® is used to prevent cytomegalovirus (CMV) disease associated with transplantation of the kidney, lung, liver, pancreas, and heart. It is a CMV-specific immunotherapy comprised of human immune globulin enriched with anti-CMV antibodies. It was the first product MedImmune marketed through its own sales and marketing organization. CytoGam® was approved by the FDA in April 1990 for the prevention or attenuation of CMV disease in kidney transplant patients. In 1998, CytoGam® received FDA approval of an expanded indication for use in lung, liver, pancreas, and heart transplantations. In 2000, sales of CytoGam® grew modestly over 1999, while strong support continued to develop for the product's unique position in preventing CMV, the most common infection occurring as a result of organ transplantation.

Cytomegalovirus is a member of the herpes virus family that is widely distributed in the human population. Infection can happen through multiple routes. Infants and babies are often infected by their mothers before or during birth, or during breast-feeding. Younger children may be exposed to CMV at day care centers or school, where it can be transmitted through saliva or urine. Young adults are typically infected through sexual transmission. CMV can also be transmitted through blood transfusions and organ transplants.

Surveys indicate that the prevalence of CMV ranges from 40 percent to nearly 100 percent, depending upon population density and socioeconomic status. Despite its wide distribution, CMV is not a major public health threat among healthy individuals. However, for people with compromised immune systems, including transplant patients, CMV can be a serious and life-threatening infection.

The immunosuppressive regimens used during the transplant process impair the body's defense system in a way that exacerbates CMV infection. As a result, CMV infections can be intrinsic to the transplanted organ (such as CMV hepatitis in transplanted livers, CMV pancreatitis in pancreas recipients, CMV pneumonitis in lung and heart/lung recipients, and CMV myocarditis in transplanted hearts), or lead to other opportunistic infections, including bacterial, fungal and parasitic infection.

CytoGam® works to prevent CMV infection by neutralizing the free virus in the system and by enhancing the antibody-specific response against cells already infected with the virus. Studies have shown that CytoGam® significantly reduces the incidence of CMV disease associated with solid organ transplants.

A six-year member of our clinical development team, Joni Love has diligently tracked the safety profiles of many MedImmune products, utilizing her more than 15 years of previous experience in clinical nursing and research.

CytoGam® (cytomegalovirus immune globulin intravenous (human))

CytoGam®

CytoGam® contains a relatively high concentration of antibodies directed against cytomegalovirus (CMV). It works to reduce the incidence of serious CMV disease by raising the relevant antibodies to levels sufficient to attenuate the virus.

In 2000, the FDA approved MedImmune's plasma production facility thanks to the teamwork of manufacturing experts like Eileen Castro-Toro and Rudy Vasquez.

Dr. Christine Dingivan and Manizhe Payton are experienced medical and clinical professionals leading our effort to develop MEDI-507 to treat psoriasis.

In his six years at MedImmune, Ritchie Ireland has helped develop the company's pilot manufacturing purification process.

Our Future

Having launched six products in its 13-year history, MedImmune has established a solid track record of bringing innovative new products to market. To build upon its past successes, MedImmune is advancing eight new products in clinical testing and working on several more in pre-clinical development.

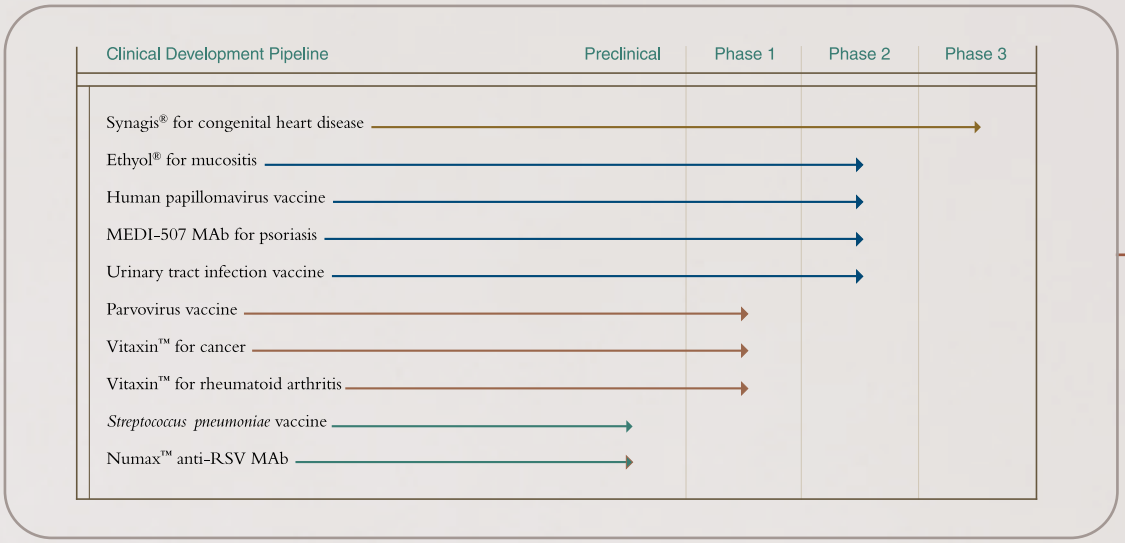
A member of the MedImmune team for twelve years, Yambasu Brewah's research efforts are focused on protecting MedImmune's anti-RSV franchise.

Products in Development

MedImmune's pipeline of product candidates made exceptional progress in 2000. We moved ahead with our Phase III and Phase IV studies for Synagis® and advanced a number of key programs from Phase I into Phase II, particularly our programs for MEDI-507 in psoriasis and our vaccine candidates to prevent urinary tract infections and cervical cancer. We also were granted permission from the FDA to begin clinical trials with our second generation of Vitaxin™ and made several innovative discoveries in our research and process development groups. Supporting this progress, we presented data at various medical meetings throughout 2000 for Synagis®, Ethyol®, MEDI-507 and our vaccine candidates. We expect to do more of the same throughout 2001.

New Generations of Anti-RSV Products In 2000, MedImmune announced its intent to pursue the development of several, potential third-generation anti-RSV products using a variety of different strategies. First, we are collaborating with Alkermes, Inc. to evaluate pulmonary delivery as a potential strategy of administering anti-RSV molecules. The initial work in this area is being conducted in animals with the Synagis® molecule as a proof of principle. We are also evaluating the marketing and clinical aspects of developing such a delivery process. Second, we are making progress on improvements to Synagis® to increase its half-life. This technique would allow us either to decrease the amount of Synagis® injected each month or to reduce the dosing frequency. Studies are now underway in animals to evaluate the benefit of these improvements. Third, we are using the Medarex, Inc. HuMAb-Mouse® technology to generate fully human monoclonal antibodies. We have immunized the Medarex mice and generated more than 25 fully human anti-RSV antibodies, of which several demonstrate neutralizing activity against the virus. We are further characterizing these antibodies using various *in vitro* and *in vivo* assays to determine whether they have sufficient potency to take forward into preclinical development. And fourth, we made significant progress on developing a more potent version of Synagis® that we call Numax™, which began through a collaboration with Applied Molecular Evolution, Inc. In creating Numax™, we made changes to the Synagis® molecule that resulted in several new molecules that were many times more potent in microneutralization studies than Synagis®. During the first half of 2001 we hope to complete the evaluation of the most promising Numax™ molecules and begin clinical development thereafter.

MEDI-507 MEDI-507 is the humanized anti-T cell monoclonal antibody that we are currently studying as a treatment for psoriasis, a condition that affects as many as six million Americans. MEDI-507 appears to have a unique mechanism for selectively suppressing the immune system. This mechanism relates to the binding of CD2, a specific receptor found



on T cells. In 2000, we completed a Phase I single-dose intravenous study and we started two Phase I/II multi-dose studies: one using intravenous administration and the other using subcutaneous administration. Both of these studies were fully enrolled by the end of 2000; however, we subsequently amended the subcutaneous study to add two additional higher dosage groups. In early 2001, we expect to initiate two large Phase II studies, enrolling 120 patients each. Should enrollment proceed as expected, we plan to have these additional studies completed by late 2001.

HUMAN PAPILLOMAVIRUS VACCINE Infection with human papillomavirus (HPV) has been shown to cause cervical cancer, which is the second leading cause of cancer-related death in women worldwide. With more than 24 million Americans estimated to be infected with HPV, there is a clear need for a vaccine to prevent the spread of this virus. In December 1997, MedImmune entered into a collaborative alliance with GlaxoSmithKline to develop a vaccine to prevent cervical cancer caused by the human papillomavirus. More than three years later, we have gathered significant data on our vaccine candidate. In July 2000, data from a Phase I study was presented at the Eighteenth International Papillomavirus Conference in Barcelona, Spain. In this study, which included 48 healthy female volunteers, the vaccine was found to be safe and generally well tolerated at the dosage given. The study also indicated that the vaccine has the potential to induce the desired immune response and to produce antibodies that neutralize the cancer-causing virus. MedImmune and its partner are currently conducting several additional studies, including an epidemiology study and several Phase II studies.

URINARY TRACT INFECTION VACCINE MedImmune's vaccine candidate to prevent and/or treat urinary tract infections made strong progress throughout 2000. In September, data from a Phase I clinical study with our urinary tract infection vaccine was presented at the Interscience Conference on Antimicrobial Agents and Chemotherapy (ICAAC) in Toronto, Canada. Forty-eight healthy, female volunteers were immunized with the vaccine to assess its safety and tolerability. In this study, the vaccine was found to be safe, generally well tolerated and immunogenic. All volunteers who received the vaccine developed antibodies in their blood and when studied in tissue culture, these antibodies were found to prevent the binding of *E.coli,* the bacteria known to cause a majority of urinary tract infections, to bladder cells. Of particular interest, participants with the highest blood antibody levels after vaccination also exhibited detectable antibodies in their

Therese Vardon, JoAnn Suzich, Ph.D. and Masood Khan, Ph.D. are clinical research experts who provide critical support to all MedImmune products in clinical development.

urine and vaginal secretions. Based on these strong indicators, we began a Phase II, double-blind, placebo-controlled study in the fourth quarter of 2000. This trial will enroll 90 women who have a medical history of recurrent urinary tract infections and will determine whether the vaccine reduces the rate of infection in these women. A second Phase II study is expected to begin in the first quarter of 2001. This study will evaluate approximately 300 women who have not yet suffered from a urinary tract infection to determine whether the vaccine will protect against infection. We expect that enrollment in both of these studies will be completed by the second half of 2001.

VITAXIN™ Vitaxin™ is MedImmune's humanized monoclonal antibody that has the potential to inhibit angiogenesis (the growth of new blood vessels) by binding to $\alpha_v\beta_3$, an integrin expressed by endothelial cells and critical to new blood vessel growth. Throughout 2000 we worked on preparing the second generation of this molecule for clinical development and in the fourth quarter received FDA approval to begin human trials. A Phase I pharmacokinetic and safety study in cancer patients is expected to begin in the first quarter of 2001.

In early 2001, we signed a development agreement with Targesome, Inc., a privately held biotechnology company, whereby the companies will evaluate the potential of combining Vitaxin™ with Targesome's proprietary targeting technology and a radioactive tag in an effort to produce improved anti-cancer therapeutic capabilities and create imaging possibilities for Vitaxin™. The theoretical advantage to combining Vitaxin™ with Targesome's technology would be the creation of a radio-labeled antibody that could target the specific site on the endothelial cells expressing $\alpha_v\beta_3$. We believe the combination of Vitaxin™ with Targesome's technology has exciting possibilities, and we look forward to gaining further insight into the science later this year when Targesome plans to begin an initial Phase I study with this molecule.

ADDITIONAL PIPELINE PRODUCTS MedImmune is working on a number of other projects to further expand its product candidate pipeline. During 2000 we made progress on vaccines to prevent *Streptococcus pneumoniae* and B19 Parvovirus infection. In July, we announced that we had granted GlaxoSmithKline a worldwide, exclusive license to our *Streptococcus pneumoniae* vaccine technology, which we believe will greatly enhance the future potential of this product candidate. In the fourth quarter, we completed a Phase I study with the B19 Parvovirus vaccine, showing that the vaccine was immunogenic, safe and well tolerated at the dosage given. As we move through 2001, we expect that our product pipeline will continue to build upon the progress achieved in the past year with these programs and others.

Chris Graham and Susan Meslovich are production and purification experts at MedImmune's manufacturing facility responsible for ensuring high-quality and adequate product supply.

Manufacturing at MedImmune

At a time in the industry when contract manufacturing capacity is in short supply, MedImmune is proud to have strong and stable manufacturing capabilities. Establishing our current manufacturing advantage was done through a careful and well executed strategic plan to become a vertically integrated biopharmaceutical company with expertise at each step of the drug development process—including product development, quality assurance, quality control and large-scale manufacturing. We believed early on that building our own manufacturing facility would provide us greater control over our own products, as well as diminish the risk of having only one manufacturing site responsible for all supply. In 1998, our Frederick manufacturing facility was structurally complete. In November 1999, we acquired a sterile filling, lyophilization, and packaging plant in Nijmegen, the Netherlands as a part of the acquisition of U.S. Bioscience. In December 1999, the FDA approved Frederick's monoclonal antibody production module, allowing us to distribute Synagis® manufactured at the plant, thus complementing the production of Synagis® being done for us under contract by German-based Boehringer Ingelheim Pharma KG. In December 2000, we were pleased to announce that the FDA had also granted approval of the plasma side of the plant, allowing us to begin distributing CytoGam® manufactured from intermediates produced in our Frederick facility.

We are extremely pleased that both areas of our Frederick manufacturing facility have now passed the FDA's stringent evaluation. By way of background, our facility is located on a 33-acre site approximately 30 minutes from our headquarters in Gaithersburg. It has floor space of approximately 145,000 square feet, and includes modules for production of both monoclonal antibody and plasma-derived products, as well as facilities for quality control, warehousing, and manufacturing administration. At this facility, we are currently implementing a remarkable breakthrough developed by MedImmune scientists during the first half of 2000 to increase the cell line productivity of Synagis® by as much as 300 percent. This proprietary breakthrough represents a major advancement in the production of monoclonal antibodies. As such, we are currently evaluating the application of this Enhanced Yield Process to the production of other antibodies.

Report of Management

The management of the Company is responsible for the preparation of the financial statements and related financial information included in this annual report. The statements were prepared in conformity with generally accepted accounting principles, and accordingly, include amounts that are based on informed estimates and judgments.

Management maintains a system of internal controls to provide reasonable assurance that assets are safeguarded and that transactions are properly authorized and accurately recorded. The concept of reasonable assurance is based on the recognition that there are inherent limitations in all systems of internal accounting control and that the costs of such systems should not exceed the benefits expected to be derived. The Company continually reviews and modifies these systems, where appropriate, to maintain such assurance. The system of internal controls includes careful selection, training and development of operating and financial personnel, well-defined organizational responsibilities and communication of Company policies and procedures throughout the organization.

The selection of the Company's independent accountants, PricewaterhouseCoopers LLP, has been approved by the Board of Directors and ratified by the shareholders. The Audit Committee of the Board of Directors, comprised solely of outside directors, meets periodically with the Company's independent accountants and management to review the financial statements and related information and to confirm that they are properly discharging their responsibilities. In addition, the independent accountants and the Company's legal counsel meet with the Audit Committee, without the presence of management, to discuss their findings and their observations on other relevant matters. Recommendations made by PricewaterhouseCoopers LLP are considered and appropriate action is taken to respond to these recommendations.

David M. Mott
Chief Executive Officer

Lawrence C. Hoff
Chairman of the Audit Committee

Management's Discussion and Analysis of Financial Condition and Results of Operations

We are pleased to report to you on our financial condition and results of operations. During 2000, the Company achieved another year of record revenues and earnings. The following discussion should be read in conjunction with the accompanying financial statements and related notes.

Overview

The Company, since inception, has incurred significant operating expenses developing its products and experienced substantial operating losses until achieving profitability in 1998. The profitability was driven by sales of Synagis, the Company's second generation anti-RSV drug which was approved by the FDA on June 18, 1998 and by the Centralized European Agency for the Evaluation of Medicinal Products ("EMEA") in August 1999. Synagis is approved in the United States for the prevention of serious lower respiratory tract disease caused by RSV in pediatric patients at high risk for RSV disease. Because of the seasonal nature of RSV, limited sales, if any, are expected during the second and third quarters of any calendar year, causing results to vary significantly from quarter to quarter. Synagis sales for the 1999/2000 RSV season totaled $357 million. The Company also markets CytoGam for the attenuation of primary CMV disease in kidney, lung, liver, pancreas and heart transplant patients and RespiGam for the prevention of serious lower respiratory tract infection caused by RSV in children under 24 months of age with BPD or a history of prematurity. RespiGam, the Company's first generation anti-RSV drug, has been largely replaced in the marketplace by Synagis.

In November 1999, the Company completed a merger with U.S. Bioscience, Inc. ("USB," now known as MedImmune Oncology, Inc.), in a transaction accounted for as a pooling-of-interests. As a consequence, historical results of MedImmune and USB have been combined. In addition to gaining clinical, marketing and sales personnel specializing in oncology, the Company also added three approved products to its product portfolio, including two oncology products. Ethyol was made commercially available by the Company's U.S. distribution partner, ALZA Corporation ("ALZA") in March 1996. Ethyol was approved by the FDA in December 1995 as a selective cytoprotective agent to reduce the cumulative renal (kidney) toxicity associated with repeated administration of cisplatin in patients with advanced ovarian cancer. In 1996, the label was expanded to include patients with non-small cell lung cancer ("NSCLC"). The label was further expanded in June 1999 to include the prevention of severe dry mouth caused by post-operative radiation treatment in certain head and neck cancer patients. NeuTrexin, introduced in January 1994, is approved for concurrent use with leucovorin administration (leucovorin protection) as an alternative therapy for the treatment of moderate-to-severe *Pneumocystis carinii* pneumonia ("PCP") in immunocompromised patients, including patients with AIDS. Hexalen, introduced in January 1991, is a cytotoxic drug for use as a single agent in the palliative treatment of patients with persistent or recurrent ovarian cancer. In November 2000, the Company sold this product to MGI Pharma for approximately $7.2 million plus future royalties.

Results of Operations

Product Sales (in millions)	2000	1999
Synagis	**$427.0**	$293.0
CytoGam	**36.5**	34.7
Ethyol	**21.4**	19.6
Other Products	**10.9**	9.5
Total	**$495.8**	$356.8

2000 Compared to 1999

Revenues

Product sales in 2000 increased 39% to $495.8 million. The increase is attributable to a number of factors including:

- An increase in sales of Synagis, the Company's largest product, which accounted for 86% and 82% of the Company's 2000 and 1999 product sales, respectively. Sales of Synagis in 2000 increased 46% to $427.0 million over 1999 sales of $293.0 million. Increased domestic demand for the product resulted in a 35% increase in unit volume. A 3.1% domestic price increase which took effect in the second quarter of 2000 also contributed to the sales increase. International sales increased 233% to $27.5 million in 2000 and reflect primarily an increase in unit volume of 215% over the prior year, following approval of Synagis by the EMEA in August 1999. The unit volume increase reflects greater demand for the product as well as inventory stocking by Abbott International. Sales made by the Company to Abbott may not reflect the ultimate demand for the product by the end users. Abbott International acts as the Company's exclusive distributor for Synagis sales outside of the U.S. The terms of the Company's agreement with Abbott provide for the Company to receive 40 to 50 percent of end user sales. The Company initially recognizes sales to Abbott when Synagis is shipped to Abbott based on a contractual, guaranteed transfer price; this amount approximates 60 to 75 percent of the total sales revenue expected to be received for each vial. Following the end of each quarter, Abbott remits to the Company a report detailing end user sales by Abbott for the quarter and the Company recognizes revenue for the additional amount due in excess of the transfer price and up to 40 to 50 percent of the end user selling price. As of December 31, 2000, the

Company and Abbott International had filed international registrations in 58 countries for the approval of Synagis, of which approvals in 43 countries had been obtained. There can be no assurance that approvals by the appropriate regulatory authorities will continue to be granted. Additionally, the Company may not have received pricing and reimbursement approvals in countries for which regulatory approvals have been obtained.

- An increase in CytoGam sales to $36.5 million, or 5% over 1999 sales of $34.7 million. The Company believes that a portion of the CytoGam sales that occurred in both years were as a result of product substitution occurring because of a worldwide shortage of standard IVIG products. During 2000, the supply of standard IVIG products increased, and certain Medicaid agencies have begun to limit or discontinue reimbursement of CytoGam as a substitute for IVIG. Thus, the Company believes CytoGam sales for the 2000 period relating to product substitution have decreased significantly. Partially offsetting the decrease in the substitution business was a moderate increase in usage in transplantation. Overall, unit volumes decreased 5% domestically and 40% internationally when compared to the 1999 year. Despite the unit volume decrease, sales dollars increased due to a domestic price increase of approximately 7% implemented during the second quarter of 2000 and due to a decrease in government rebates paid for the product, principally for Medicaid, related to the IVIG substitution sales. The Company expects that future use of CytoGam as a substitute for standard IVIG products will be limited.
- Increased sales of Ethyol of approximately 9% to $21.4 million over 1999 sales of $19.6 million. Ethyol is sold through distribution partners in the U.S. and internationally; the Company receives a percentage of end user sales and records all related cost of goods sold. In 2000, revenue for Ethyol from ALZA, the Company's U.S. distributor, was $14.8 million versus $14.0 million in 1999. The Company achieved an increase in sales volumes of 7% domestically and 9% internationally as a result of increased demand by the distribution partners. Sales made by the Company to its distribution partners may not reflect the ultimate demand for the product by the end users. In 2000, the Company estimates that end user demand for Ethyol in the U.S. increased by approximately 28%. The difference between end user demand and demand from the Company's distributor represents fluctuations in wholesaler and distributor inventories. In April of 2000, ALZA exercised a one-time option under the distribution agreement to extend its rights to distribute Ethyol in the U.S. until April 2002. In April 2002, the rights to distribute Ethyol will return to the Company and thereafter ALZA will receive a royalty from the Company for nine years based on sales of Ethyol in the United States.
- Sales of other products in 2000 increased $1.4 million, or 15% from the prior year. Sales of other products include primarily sales of NeuTrexin and RespiGam. Also included in other product sales are sales of Hexalen. In November 2000, the Company sold this product to MGI Pharma.

The level of future product sales will be dependent on several factors, including, but not limited to, the timing and extent of future regulatory approvals of the Company's products and product candidates, availability of finished product inventory, approval and commercialization of competitive products and the degree of acceptance of the Company's products in the marketplace.

Other revenues for the year ended December 31, 2000 of $44.7 million increased 68% from 1999 other revenues of $26.6 million. This increase is largely due to the implementation of the Securities and Exchange Commission's ("SEC") Staff Accounting Bulletin No. 101 ("SAB 101") in the fourth quarter of 2000, retroactively to January 1, 2000. SAB 101 summarizes certain of the SEC's views in applying generally accepted accounting principles to certain revenue transactions in financial statements. The implementation of SAB 101 includes amounts previously recognized as revenue relating to up-front payments or milestone payments received by the Company in prior years under arrangements for which performance obligations related to the up-front or milestone payments had been met, but for which the Company is contractually obligated to perform additional research and development activities or other activities in future periods. Generally accepted accounting principles previously required the Company to record the revenue from the up-front and milestone payments as received, when the performance obligations associated with those payments had been fully met. However, following the adoption of the SAB, generally accepted accounting principles now require that the revenue received in conjunction with up-front or milestone payments be recognized over the remaining performance period under the contract as those obligations are fulfilled. In accordance with the SAB, the Company recognized $21.1 million in licensing revenues for the year 2000 related to up-front fees and milestone payments received in prior years. Excluding these revenues, other revenues would have decreased $3.0 million, or 11%, as compared to 1999's level of $26.6 million, and includes primarily $10.0 million from GlaxoSmithKline ("GSK") related to the Company's sale of its *Streptococcus pneumoniae* vaccine technology, $7.8 million earned under a collaborative agreement with GSK for HPV vaccine development, and royalty income due from ALZA in accordance with the terms of the Ethyol distribution agreement. Other revenues in 1999 primarily include $6.2 million received under the HPV vaccine development collaboration with GSK and a payment of $15.0 million from Abbott upon European approval of Synagis. The level of contract revenues in future periods will depend primarily upon the extent to which the Company enters into other collaborative contractual arrangements, if any, and the extent to which the Company achieves certain milestones provided for in its existing agreements.

Cost of Goods Sold

Cost of goods sold rose 41% in 2000 to $127.3 million versus $90.2 million in 1999. This increase is primarily a result of the increase in 2000 sales volumes. Gross margins were 74% for 2000, as compared to 75% for 1999. Included in cost of goods sold for 2000 is a $1.5 million charge associated with the write-off of by-product inventory associated with the Company's plasma production activities. The Company expects gross margins to vary from quarter to quarter, based on the product mix. In addition, the Company expects that on an annual basis for 2001, gross margins will be comparable to those of 2000.

Research and Development Expenses

Research, development and clinical spending expenses increased 11% over the prior year from $59.6 million in 1999 to $66.3 million in 2000, primarily due to higher expenditures on the Company's clinical trials and increased infrastructure costs needed to support the growing number of ongoing clinical trials. The Company is currently administering multiple trials for its products, primarily including: Synagis in infants with congenital heart disease, human papillomavirus vaccine trials, and several trials using MEDI-507. The Company expects clinical spending levels to continue to increase in the coming quarters as the Company moves its product candidates into the clinic and expands the number of trials for certain products already in the clinic.

Selling, Administrative and General Expense

Selling, general and administrative ("SG&A") expense was $157.3 million in 2000 versus $139.4 million in 1999, an increase of 13%. As a percent of product sales, however, SG&A expenses in 2000 decreased from 39% of product sales in 1999 to 32% of product sales in 2000. 1999 expenses include one-time items of $21.2 million for merger and severance related costs associated with the acquisition of USB. A significant portion of the increase in SG&A expense in 2000 relates to co-promotion expenses due to the Ross Products Division of Abbott Laboratories for the promotion of Synagis in the United States; these expenses increase as the domestic sales for Synagis increase. Co-promotion expense is recorded ratably as a percentage of net domestic Synagis sales. Further increases in 2000 were attributable to wage and related expenses incurred in connection with the establishment of the Company's pediatric sales force during 2000 and legal costs relating to several outstanding legal matters, including those related to the MediGene AG and Celltech matters discussed in the notes to the consolidated financial statements. During the fourth quarter of 1999, the Company favorably resolved a prior dispute with one of its partners resulting in receipt of approximately $6.8 million to the Company. Such settlement amount was recorded as a reduction to selling, administrative and general expense in the fourth quarter of 1999.

Other Operating Expenses

Other operating expenses, which reflect manufacturing start-up costs, decreased 47% in 2000 to $9.2 million from $17.4 million in 1999. Expenses in both years include start-up costs for the Company's Frederick Manufacturing Center ("FMC"). Expenses in both the 2000 and 1999 periods include charges for the write-off of certain equipment associated with the Company's plasma production activities of $1.8 million and $1.4 million, respectively. In December 2000, the FDA granted approval for the amendment to the BLA for CytoGam to allow for a portion of the production of CytoGam at the Frederick facility. The Company was granted FDA approval for the manufacture of Synagis at the Frederick facility in December 1999. Currently, the plasma production section of the Frederick facility has excess capacity. Other operating expenses are expected to continue for the foreseeable future until the plasma production section of the facility is fully utilized for its intended purpose.

Interest Income and Expense

Interest income increased 134% to $29.6 million from $12.6 million in 1999 as a result of higher cash balances available for investment and increased yields on investments in the 2000 investment portfolio due to more favorable market conditions. Interest expense in 2000 decreased due to debt paydowns.

Taxes

The Company recorded income tax expense in 2000 of $64.4 million as compared to a benefit of $7.1 million recorded in 1999. The Company's effective tax rate for 2000 was 30.8%. The variation from the statutory rate of 38.6% is principally due to increased credits for research and development expenditures and credits earned for orphan drug status of certain research and development activities. The benefit in 1999 includes the reversal of the Company's valuation allowance against deferred taxes relating to federal net operating losses of USB in the amount of $41.0 million. The recognition of these deferred tax assets had no impact on the Company's 1999 cash flows. Excluding the reversal of the valuation allowance, the Company's income tax expense would have been $33.9 million in 1999, an effective rate of 39.3%. The variation from the statutory rate is also principally due to tax credits for research and development expenditures and credits earned for orphan drug status of certain R&D expenditures, offset by the nondeductibility of certain merger related expenses. The Company expects that its effective tax rate in future periods will be slightly below or approximate to the applicable statutory rates.

Cumulative Effect of a Change in Accounting Principle

The Company recorded a non-cash charge to 2000 earnings of $33.8 million, net of tax, as the cumulative effect of a change in accounting principle for the implementation of SAB 101. The adjustment was applied to the first quarter of 2000 as required by the

SAB and includes amounts previously recognized as revenue relating to up-front payments or milestone payments received by the Company in prior years under arrangements for which performance obligations related to the up-front or milestone payments had been met, but for which the Company is contractually obligated to perform additional research and development activities or other activities in future periods. Generally accepted accounting principles previously required the Company to record the revenue from the up-front and milestone payments as received, when the performance obligations associated with those payments had been fully met. However, following the adoption of the SAB, generally accepted accounting principles now require that the revenue received in conjunction with up-front or milestone payments be recognized over the remaining performance period under the contract as those obligations are fulfilled.

Net Earnings

The Company's 2000 net earnings, which included the cumulative effect of a change in accounting principle, were $111.2 million compared to 1999 net earnings of $93.4 million. Basic earnings per share in 2000 of $0.53 on 209.1 million shares compared to basic earnings of $0.49 in 1999 on 190.4 million shares. Diluted earnings per share in 2000 of $0.50 on 220.4 million shares compared to diluted earnings per share in 1999 of $0.44 on 212.3 million shares. Year 2000 earnings before the cumulative effect of a change in accounting principle were $145.0 million, or $0.69 basic and $0.66 diluted earnings per share. Pro forma net income, which assumes that SAB 101 had been applied retroactively to prior years, was $145.0 million in 2000, or $0.69 basic and $0.66 diluted earnings per share. Pro forma net income in 1999 was $93.7 million, or $0.49 basic and $0.44 diluted earnings per share. 1999 share and per share amounts have been restated to reflect the three-for-one stock split effected in June 2000.

The Company does not believe inflation had a material effect on its financial statements.

These results were consistent with the Company's objectives for the year and with the continued development of its products. The factors that affected 2000 results may continue to affect near-term financial results.

1999 Compared to 1998

Revenues

Product sales of $356.8 million in 1999 increased 94% over 1998 levels of $183.9 million. Synagis accounted for approximately 82% of the Company's 1999 product sales. Sales of Synagis for the year ended December 31, 1999 increased 167% over 1998. Contributing to the growth in 1999 sales were increases of 158% and 443% in domestic and international sales unit volumes, respectively. The domestic volume increase resulted from the combination of increasing demand for the product after its introduction into the market as well as twelve months of sales recorded in 1999, versus only four months of sales recorded in 1998, following the launch of the product in September 1998. In addition, the selling price of Synagis was increased by approximately 5% in May 1999. The Company also experienced increased demand for the product internationally following marketing authorization by the EMEA in August 1999. Prior to the marketing authorization, product was sold in the E.U. and other countries on a "named patient" basis. Abbott International acts as the Company's exclusive distributor for Synagis sales outside of the United States. As of December 31, 1999, the Company and Abbott International had filed international registrations in 46 countries for the approval of Synagis, of which approvals in 28 countries had been obtained.

CytoGam accounted for approximately 10% of the Company's 1999 product sales. CytoGam sales increased to $34.7 million in 1999 from $32.9 million in 1998, an increase of 5%. Domestic sales unit volume increased 14%, international unit volume increased 9% and a price increase of 5% was effective in March 1999. These increases were offset by increased government rebates for the product, principally for Medicaid. In December 1998, the Company received FDA approval for the use of CytoGam in kidney, lung, liver, pancreas and heart transplants, which expanded its labeling from donor-positive/recipient-negative kidney transplant patients. The increase in domestic units sold reflects both an increase in the core business for CytoGam and substitution occurring as a result of the worldwide shortage of standard IVIG products. The increase in international CytoGam sales reflects a greater focus on this market as well as the effects of the worldwide shortage of IVIG products. The increase in government rebates primarily related to the use of CytoGam as an IVIG substitute.

Ethyol accounted for approximately 5% of the Company's sales in 1999. Ethyol revenues increased 51% over 1998 levels. Ethyol is sold through distribution partners in the U.S. and internationally; the Company receives a percentage of end user sales and records all related cost of goods sold. In 1999, revenue for Ethyol from ALZA, the Company's U.S. distributor, was $14.0 million versus $8.8 million in 1998. As a result of achieving a sales milestone in the fourth quarter of 1998, the percentage of end user sales received by the Company from ALZA increased to 25% in 1999 from 20% in 1998. Domestic unit volume decreased by 5%, while international unit volume increased by 24%. In June 1999, the Company received an expanded indication in the U.S. for use of Ethyol in the prevention of severe dry mouth caused by post-operative radiation treatment of certain head and neck cancer patients; a similar expanded indication was approved in the E.U. in 1999.

Sales of other products in 1999 decreased 66% from the prior year, reflecting primarily a switch in customer demand from RespiGam to Synagis. Other product sales in 1998 were reduced by

a $12.5 million reserve for an estimate of potential returns for RespiGam sold during the 1997/1998 RSV season, as a result of the FDA approval of Synagis and switch in customer demand. Other product sales in 1999 were also negatively affected by transitional factors relating to the Company's assumption of full promotional responsibility of two of its products in the United States in mid-1999, following the termination of the co-promotion agreement with ALZA. ALZA now receives a commission based on a percentage of net sales of these two products.

Other revenues for the year ended December 31, 1999 of $26.6 million decreased 39% from 1998 revenues of $43.3 million. In 1999, the Company earned $6.2 million under the GSK collaborative agreement for HPV vaccine development and received a payment of $15.0 million from Abbott upon European approval of Synagis. Other revenues in 1998 included a $15.0 million payment from Abbott received upon FDA approval of Synagis, and a $15.0 million payment from GSK in connection with the signing of the HPV collaborative agreement. Also in 1998, the Company received a $5 million clinical milestone payment from ALZA in connection with the development of Ethyol for use in conjunction with radiation therapy in the treatment of patients with head and neck cancer and $5.7 million in research funding in connection with the GSK agreement.

Cost of Goods Sold

Cost of goods sold rose 19% in 1999 to $90.2 million versus $76.0 million in 1998. This increase was primarily a result of the increase in 1999 sales volumes, offset by certain one-time adjustments in 1998. These one-time adjustments to 1998 included a charge of $11.2 million to cost of sales relating to the writedown of RespiGam inventory, and a credit to cost of sales for the reversal of previously recorded RespiGam royalties that were expected to be due to Massachusetts Health Research Institute ("MHRI"). Excluding these one-time adjustments, gross margins increased to 75% in 1999 from 64% in 1998, due largely to the increase of Synagis sales in proportion to total sales. Synagis has a more favorable margin than the Company's other products.

Research and Development Expenses

Research and development expenses increased 41% over the prior year from $42.2 million in 1998 to $59.6 million in 1999. The increase was largely due to costs associated with the continuing Synagis clinical trials conducted on infants with congenital heart disease. Also contributing to the increase was $6.6 million in expenses associated with the clinical studies of lodenosine (FddA), which began in late 1998, and were placed on a clinical hold status in October 1999, following serious adverse events.

In 1999, the Company also provided research funding to Applied Molecular Evolution, a collaborative partner, in an alliance formed in February 1999 to develop four monoclonal antibodies primarily in the field of oncology. Also in 1999, the Company made a milestone payment upon European approval of Synagis. Also contributing to research and development expenses in 1999 were increases in the infrastructure needed to support the Company as it expanded the number of product candidates in its research and development portfolio, and moved more products into the clinic.

Selling, Administrative and General Expense

Selling, general and administrative ("SG&A") expense was $139.4 million in 1999 versus $78.1 million in 1998, an increase of 79%. Expenses in 1999 included $21.2 million for merger and severance related costs associated with the acquisition of USB. Excluding these merger related costs, SG&A expenses were 33% of product sales in 1999 versus 42% in 1998. A significant portion of the dollar increase related to co-promotion expenses due to Abbott for the promotion of Synagis in the United States; these expenses increase as the sales for Synagis increase. Co-promotion expense is recorded ratably as a percentage of net domestic Synagis sales. Further increases were attributable to recruiting and staffing expenses incurred in connection with the expansion of the Company's sales force in 1999 as the Company assumed full responsibility for the marketing of NeuTrexin and Hexalen from its former distribution partner. During the fourth quarter of 1999, the Company favorably resolved a prior dispute with one of its partners resulting in receipt of approximately $6.8 million to the Company. Such settlement amount was recorded as a reduction to selling, administrative and general expense in the fourth quarter of 1999.

Other Operating Expenses

Other operating expenses, which reflect manufacturing start-up costs, decreased 52% in 1999 to $17.4 million from $36.5 million in 1998. Expenses in both years included start-up costs for the Company's FMC. Expenses in 1999 included a $1.4 million charge for the write-off of certain equipment purchased for use in the Frederick facility, as it was determined that the equipment ultimately will not be used in the facility. One-time charges in 1998 included a charge of $10.5 million for the buydown of certain Synagis royalty obligations prior to FDA approval. Expenses in 1998 also included costs related to scale-up of production of Synagis at a third-party manufacturer and at the Company's Gaithersburg Manufacturing and Development Facility ("GMDF").

Interest Income and Expense

Interest income increased 34% to $12.6 million from $9.4 million in 1998 as a result of higher cash balances available for investment,

partially offset by decreased yields on investments in the 1999 investment portfolio. Interest expense in 1999 decreased to $3.2 million from $4.2 million in 1998. The decrease is the result of the conversion of the Company's convertible debt in July 1999 and the retirement of most of the Company's equipment financing during 1999. The Company's long-term debt decreased by $76.1 million in 1999.

Taxes

The Company recorded an income tax benefit of $7.1 million and $47.4 million in 1999 and 1998, respectively. The benefit in 1999 included the reversal of the Company's valuation allowance against deferred taxes relating to federal net operating losses of USB in the amount of $41.0 million. In the fourth quarter of 1998, the Company concluded that it was more likely than not that it would realize a portion of the benefit of the federal net operating losses and research and development credits generated by MedImmune, Inc. Accordingly, the Company reduced the valuation allowance against the asset and recorded a tax benefit of $47.4 million in December 1998. The recognition of these deferred tax assets had no impact on the Company's 1998 cash flows. The recognition of these deferred tax assets increased reported earnings per share due to the resulting benefit recorded in the statement of operations from the reduction in the Company's valuation allowance.

Excluding the reversal of the valuation allowance, the Company's income tax expense would have been $33.9 million in 1999, an effective rate of 39.3%. The variation from the statutory rate is principally due to tax credits for research and development expenditures and credits earned for orphan drug status of certain R&D expenditures, offset by the nondeductibility of certain merger related expenses.

Net Earnings

The 1999 net income of $93.4 million compared to 1998 net income of $47.2 million. Basic earnings per share in 1999 of $0.49 on 190.4 million shares compared to basic earnings of $0.28 in 1998 on 170.3 million shares. Diluted earnings per share in 1999 of $0.44 on 212.3 million shares compared to diluted earnings per share in 1998 of $0.24 on 201.1 million shares. The Company does not believe inflation had a material effect on its financial statements.

Liquidity and Capital Resources

Cash and marketable securities were $526.3 million at December 31, 2000, an increase of 95% over 1999. Working capital was $536.3 million at December 31, 2000, versus $302.9 million at December 31, 1999.

Operating Activities

Net cash provided by operating activities increased to $173.0 million in 2000 as compared to $58.9 million in 1999, primarily as the result of higher earnings and certain non-cash items, offset by an increase in working capital requirements. Working capital requirements increased due to an increase in receivables of $28.6 million, reflecting the high volume of Synagis product sales in December, and an increase in inventories of $12.0 million, required to support anticipated seasonal sales. These increases were partially offset by an increase in accrued expenses of $6.8 million, primarily for amounts expected to be due to Abbott for Synagis co-promotion, and an increase in royalties payable of $12.0 million, as a result of increased product sales.

Investing Activities

Cash used for investing activities during 2000 amounted to $199.3 million, as compared to $120.7 million in 1999, excluding capitalized interest of $0.3 million and $1.7 million, respectively. Cash used for investing activities in 2000 included net additions to the Company's investment portfolio of $191.0 million and $8.3 million for capital expenditures, primarily for updating and maintaining the Company's facilities and systems.

Financing Activities

Financing activities generated $74.8 million in cash in 2000, as compared to $54.0 million in 1999. Approximately $76.3 million was received upon the exercise of employee stock options in 2000, as compared to $43.9 million received in 1999. In 2000, cash in the amount of $1.5 million was used to pay down debt. As a result of a private placement transaction in 1999 by USB, 1.2 million common shares were issued resulting in proceeds of $20.0 million to the Company, and warrants to purchase 0.2 million shares of common stock were issued in 1999 concurrent with the private placement. The warrants were exercised in November 1999 for net proceeds to the Company of $6.0 million. Also in 1999, the Company's convertible debt of $60.0 million was eliminated by the issuance of 18.3 million shares of common stock in July 1999.

The Company is obligated in 2001 to provide $29.5 million in funding for various clinical trials, research and development and license agreements with certain institutions. The Company's existing funds, together with funds contemplated to be generated from product sales and investment income, are expected to provide sufficient liquidity to meet the anticipated needs of the business for the foreseeable future, absent the occurrence of any unforeseen events.

Consolidated Balance Sheets

(in thousands, except share data)	December 31, 2000	1999
Assets		
Cash and cash equivalents	**$ 84,974**	$ 36,570
Marketable securities	**406,455**	214,750
Trade receivables, net	**115,635**	86,894
Inventory, net	**46,633**	31,777
Deferred tax assets	**22,319**	23,132
Other current assets	**11,796**	8,715
Total Current Assets	**687,812**	401,838
Property and equipment, net	**86,383**	87,452
Deferred tax assets, net	**194,761**	128,990
Marketable securities	**34,825**	19,074
Other assets	**2,794**	11,070
Total Assets	**$1,006,575**	$ 648,424
Liabilities and Shareholders' Equity		
Accounts payable, trade	**$ 3,090**	$ 2,995
Accrued expenses	**72,159**	65,300
Product royalties payable	**40,553**	28,527
Deferred revenue	**33,966**	—
Other current liabilities	**1,697**	2,130
Total Current Liabilities	**151,465**	98,952
Long-term debt	**9,595**	10,366
Other liabilities	**1,933**	2,027
Total Liabilities	**162,993**	111,345
Commitments and Contingencies		
Shareholders' Equity		
Preferred Stock, $.01 par value; authorized 5,524,525 shares; none issued or outstanding	**—**	—
Common Stock, $.01 par value; authorized 320,000,000 shares; issued and outstanding 211,347,825 and 203,840,334 at December 31, 2000 and 1999, respectively	**2,113**	2,038
Paid-in capital	**842,815**	654,885
Accumulated deficit	**(7,085)**	(118,241)
Accumulated other comprehensive income (loss)	**5,739**	(1,603)
Total Shareholders' Equity	**843,582**	537,079
Total Liabilities and Shareholders' Equity	**$1,006,575**	$ 648,424

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

Consolidated Statements of Operations

(in thousands, except per share data)	For the year ended December 31, 2000	1999	1998
Revenues			
Product sales	**$495,803**	$356,815	$183,948
Other revenue	**44,692**	26,560	43,273
Total revenues	**540,495**	383,375	227,221
Costs and Expenses			
Cost of sales	**127,320**	90,193	75,960
Research and development	**66,296**	59,565	42,153
Selling, administrative and general	**157,330**	139,389	78,060
Other operating expenses	**9,231**	17,409	36,495
Total expenses	**360,177**	306,556	232,668
Operating income (loss)	**180,318**	76,819	(5,447)
Interest income	**29,569**	12,633	9,396
Interest expense	**(474)**	(3,176)	(4,190)
Earnings (loss) before income taxes and cumulative effect of a change in accounting principle	**209,413**	86,276	(241)
Provision (benefit) for income tax	**64,436**	(7,095)	(47,428)
Earnings before cumulative effect of a change in accounting principle	**144,977**	93,371	47,187
Cumulative effect of a change in accounting principle, net of tax benefit of $21,262	**(33,821)**	—	—
Net earnings	**$111,156**	$ 93,371	$ 47,187
Basic earnings per share:			
Earnings before cumulative effect of a change in accounting principle	**$ 0.69**	$ 0.49	$ 0.28
Cumulative effect of a change in accounting principle, net of tax	**(0.16)**	—	—
Net earnings	**$ 0.53**	$ 0.49	$ 0.28
Shares used in calculation of basic earnings per share	**209,101**	190,421	170,327
Diluted earnings per share:			
Earnings before cumulative effect of a change in accounting principle	**$ 0.66**	$ 0.44	$ 0.24
Cumulative effect of a change in accounting principle, net of tax	**(0.16)**	—	—
Net earnings	**$ 0.50**	$ 0.44	$ 0.24
Shares used in calculation of diluted earnings per share	**220,428**	212,310	201,146
Pro forma amounts assuming the new accounting principle is applied retroactively:			
Net earnings	**$144,977**	$ 94,505	$ 33,058
Basic earnings per share	**$ 0.69**	$ 0.50	$ 0.19
Diluted earnings per share	**$ 0.66**	$ 0.45	$ 0.17

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

Consolidated Statements of Cash Flows

(in thousands)	For the year ended December 31, 2000	1999	1998
Cash Flows from Operating Activities			
Net earnings	**$ 111,156**	$ 93,371	$ 47,187
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Cumulative effect of a change in accounting principle, net of tax	**33,821**	—	—
Deferred taxes	**68,024**	(7,457)	(47,428)
Deferred revenue	**(21,117)**	—	—
Depreciation and amortization	**7,322**	5,001	4,345
Change in reserve for loss on disposal of fixed assets	**1,635**	—	—
Capitalized interest	**(295)**	(1,707)	(2,901)
Compensation element of stock options/grants	**—**	575	40
Amortization of discount on marketable securities	**(2,798)**	(78)	(785)
(Decrease) increase in allowances for trade accounts receivable	**(125)**	(3,509)	17,153
(Decrease) increase in provision for inventory reserve	**(1,018)**	(1,668)	9,672
Amortization of debt issuance costs	**2**	2	358
Other	**524**	1,479	67
Increase (decrease) in cash due to changes in assets and liabilities:			
Trade receivables	**(28,616)**	(49,974)	(32,751)
Inventory	**(11,999)**	(6,839)	(3,404)
Other assets	**(2,833)**	(600)	(802)
Accounts payable and accrued expenses	**6,849**	18,596	6,259
Product royalties payable	**12,026**	13,579	8,721
Other liabilities	**410**	(1,918)	(618)
Net cash provided by operating activities	**172,968**	58,853	5,113
Cash Flows from Investing Activities			
Investments in securities available for sale	**(685,207)**	(333,849)	(213,249)
Maturities of securities available for sale	**494,220**	231,686	126,339
Capital expenditures	**(8,293)**	(12,203)	(10,966)
Investment in strategic alliance	**—**	(6,350)	—
Net cash used in investing activities	**(199,280)**	(120,716)	(97,876)
Cash Flows from Financing Activities			
Proceeds from issuance of common stock and private placement of securities	**76,286**	69,843	83,522
Proceeds from issuance of long-term debt	**—**	—	658
Deferred costs from debt issuance	**—**	(2)	(6)
Repayments on long-term debt	**(1,505)**	(15,869)	(3,121)
Net cash provided by financing activities	**74,781**	53,972	81,053
Effect of exchange rate changes on cash	**(65)**	(269)	(113)
Net increase (decrease) in cash equivalents	**48,404**	(8,160)	(11,823)
Cash and cash equivalents at beginning of year	**36,570**	44,730	56,553
Cash and cash equivalents at end of year	**$ 84,974**	$ 36,570	$ 44,730

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

Consolidated Statements of Shareholders' Equity

(in thousands, except share data)	Common Stock, $.01 par Shares	Amount	Paid-in Capital	Accumulated Deficit	Treasury Stock	Accum. Other Comprehensive Income (Loss)	Total
Balance, December 31, 1997, as presented	52,520,705	$ 525	$346,432	$(258,799)	$ —	$ (598)	$ 87,560
Effect of three-for-one stock split	105,041,410	1,051	(1,051)	—	—	—	—
Balance, December 31, 1997	157,562,115	1,576	345,381	(258,799)	—	(598)	87,560
Net earnings	—	—	—	47,187	—	—	47,187
Foreign currency translation adjustment	—	—	—	—	—	185	185
Unrealized loss on investments	—	—	—	—	—	(18)	(18)
Comprehensive income							47,354
Common stock options exercised	6,665,391	66	12,375	—	—	—	12,441
Private placement of common stock, January 1998, net of underwriting commissions and expenses of $74	10,200,000	102	66,124	—	—	—	66,226
Private placement of common stock, January 1998	500,460	5	4,995	—	—	—	5,000
Tax benefit associated with the exercise of stock options	—	—	30,090	—	—	—	30,090
Purchase of treasury stock	—	—	—	—	(145)	—	(145)
Compensation related to stock options	—	—	40	—	—	—	40
Balance, December 31, 1998	174,927,966	1,749	459,005	(211,612)	(145)	(431)	248,566
Net earnings	—	—	—	93,371	—	—	93,371
Foreign currency translation adjustment	—	—	—	—	—	(633)	(633)
Unrealized loss on investments	—	—	—	—	—	(539)	(539)
Comprehensive income							92,199
Common stock options exercised	9,152,823	92	43,780	—	—	—	43,872
Private placement of common stock, February 1999	1,209,027	12	19,957	—	—	—	19,969
Tax benefit associated with the exercise of stock options	—	—	67,149	—	—	—	67,149
Compensation related to stock options/grants	16,077	—	575	—	—	—	575
Conversion of debentures, net of unamortized expenses of $1,253	18,292,635	183	58,564	—	—	—	58,747
Exercise of warrants	241,806	2	6,000	—	—	—	6,002
Cancellation of treasury stock	—	—	(145)	—	145	—	—
Balance, December 31, 1999	203,840,334	2,038	654,885	(118,241)	—	(1,603)	537,079
Net earnings	—	—	—	111,156	—	—	111,156
Foreign currency translation adjustment	—	—	—	—	—	(8)	(8)
Unrealized gain on investments, net of tax	—	—	—	—	—	7,350	7,350
Comprehensive income							118,498
Common stock options exercised	7,507,491	75	76,210	—	—	—	76,285
Tax benefit associated with the exercise of stock options	—	—	111,720	—	—	—	111,720
Balance, December 31, 2000	**211,347,825**	**$ 2,113**	**$842,815**	**$ (7,085)**	**$ —**	**$ 5,739**	**$843,582**

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

Notes to Consolidated Financial Statements

(in thousands, except per share data)

1. Organization

MedImmune, Inc., a Delaware corporation (together with its subsidiaries, "the Company"), is a biotechnology company headquartered in Gaithersburg, Maryland. In November 1999, the Company completed a merger with U.S. Bioscience, Inc ("USB," now known as MedImmune Oncology, Inc.). The merger constituted a tax-free reorganization and has been accounted for as a pooling-of-interests under Accounting Principles Board Opinion No.16. Accordingly, all prior period consolidated financial statements have been restated to include the combined results of operations, financial position, and cash flows of USB as though it had been a part of MedImmune.

The Company currently markets five products and maintains a diverse product portfolio. The Company is focused on using advances in immunology and other biological sciences to develop important new products that address significant medical needs in areas such as infectious diseases, immune regulation and oncology.

2. Summary of Significant Accounting Policies

Significant accounting policies applied in the preparation of these financial statements are as follows:

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with a maturity of three months or less at date of purchase to be cash equivalents.

Marketable Securities

Investments consist principally of securities of the United States Treasury or government agencies, bonds, commercial paper and certificates of deposit. Investments with original maturities of three to 24 months are considered current assets, while those with maturities in excess of two years are considered non-current assets. The securities are held for an unspecified period of time and may be sold to meet liquidity needs and therefore are classified as available-for-sale as defined by Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Accordingly, the Company records these investments at fair value, with unrealized gains and losses on investments reported as a component of other comprehensive income (loss).

Concentration of Credit Risk

The Company invests its excess cash generally in marketable securities of the United States Treasury, United States government agencies, corporate debt securities, commercial paper and money market funds with strong credit ratings and deposits with a major bank. The Company has not realized any significant losses on its investments. The Company sells its products primarily to a limited number of pharmaceutical wholesalers and distributors without requiring collateral. The Company periodically assesses the financial strength of these customers and establishes allowances for anticipated losses when necessary.

Inventory

Inventory is stated at the lower of cost or market. Cost is determined using a weighted-average approach that approximates the first-in, first-out method. Where the Company has a firm contract for their purchase, by-products that result from production of the Company's principal products are accounted for as a reduction of the cost of the principal products.

Product Sales

Product sales are recognized upon receipt of the product by customers. Product sales are recorded net of allowances for estimated chargebacks, returns, discounts and Medicaid rebates. The Company maintains allowances at a level that management believes is sufficient to cover estimated requirements. Allowances for discounts, returns, bad debts, chargebacks and Medicaid rebates, which are netted against accounts receivable, totaled $17.3 million and $17.4 million at December 31, 2000 and 1999, respectively. Product royalty expense is recognized concurrently with the recognition of product revenue. Royalty expense, included in cost of sales, was $69.2 million, $46.7 million and $21.2 million for the years ended December 31, 2000, 1999 and 1998, respectively.

Contract Revenues

Contract revenues are recognized over the fixed term of the contract or, where appropriate, as the related expenses are incurred. Non-refundable fees or milestone payments in connection with research and development or commercialization agreements are recognized when they are earned in accordance with the applicable performance requirements and contractual terms. Payments received that are related to future performance are deferred and recorded as revenues as they are earned over specified future performance periods.

Co-promotion Expense

In connection with the agreement with Abbott Laboratories to co-promote Synagis in the United States, the Company is required to pay Abbott an increasing percentage of net domestic sales based on certain sales thresholds over the annual contract year. The contract year extends from July to June and coincides with the annual respiratory syncytial virus ("RSV") season, which occurs primarily in the fourth and first quarters in the Northern Hemisphere. The Company estimates its net sales and resulting co-promotion expense for the entire contract year to determine a proportionate percentage of expense to apply across all Synagis sales during that contract year.

Property and Equipment

Property and equipment are stated at cost. Interest cost incurred during the period of construction of plant and equipment and prior to FDA licensure is capitalized. Depreciation and amortization is computed using the straight-line method based upon the following estimated useful lives:

	Years
Building and improvements	30
Manufacturing, laboratory and facility equipment	5–15
Office furniture, computers and equipment	3–7

Amortization of leasehold improvements is computed on the straight-line method based on the shorter of the estimated useful life of the improvement or the term of the lease. Upon the disposition of assets, the costs and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the statements of operations. Repairs and maintenance costs are expensed as incurred and were $4.1 million, $2.9 million and $2.6 million for the years ended December 31, 2000, 1999 and 1998, respectively.

Long-Lived Assets

The Company evaluates the recoverability of the carrying value of property and equipment and intangible assets in accordance with the provisions of SFAS 121, "Accounting for the Impairment of Long-Lived Assets to be Disposed Of." The Company considers historical performance and anticipated future results in its evaluation of the potential impairment. Accordingly, when the indicators of impairment are present, the Company evaluates the carrying value of these assets in relation to the operating performance of the business and future undiscounted cash flows expected to result from the use of these assets. Impairment losses are recognized when the sum of the expected future cash flows are less than the assets' carrying value. To date, the Company has recorded no impairment losses.

Forward Exchange Contracts

The Company is obligated to make certain payments to foreign suppliers in local currency. To hedge the effect of fluctuating foreign currencies in its financial statements, the Company may enter into foreign forward exchange contracts. Gains or losses associated with the forward contracts are computed as the difference between the foreign currency contract amount at the spot rate on the balance sheet date and the forward rate on the contract date. Unrealized gains or losses are deferred until the obligation date and are then offset against the gains or losses on the foreign currency transaction.

On January 1, 2001, the Company will adopt Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes new accounting and reporting standards for derivative financial instruments and hedging activities. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and if it is, depending on the type of hedge transaction. For foreign currency cash-flow hedge transactions in which the Company is hedging the variability of cash flows related to inventory purchases, changes in the fair value of the derivative instruments will be reported in other comprehensive income. The gains and losses on these derivatives that are reported in other comprehensive income will be reclassified as earnings or losses in the periods in which the related inventory is sold. The ineffective portion, if any, of all hedges will be recognized in the current period. In accordance with the transition provisions of SFAS 133, the Company anticipates it will record a net-of-tax cumulative-effect-type gain of $0.3 million in accumulated other comprehensive income to recognize at fair value all derivatives, which are designated as foreign currency cash-flow hedging instruments.

Fair Value of Financial Instruments

The carrying amount of financial instruments, including cash, trade receivables, contracts receivable, other current assets, accounts payable and accrued expenses, approximate fair value as of December 31, 2000 and 1999 due to the short maturities of these instruments.

Income Taxes

Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce

deferred tax assets to the amount expected to be realized and are reversed at such time that realization is believed to be more likely than not. Income tax expense is the tax payable for the period and the change during the period in deferred tax assets and liabilities, exclusive of amounts related to the exercise of stock options which benefit is recognized directly as an increase in shareholders' equity.

Earnings Per Share

Basic earnings per share is computed by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding after giving effect to all dilutive potential common shares that were outstanding during the period. Potential common shares are not included in the computation of diluted earnings per share if they are antidilutive.

Comprehensive Income

Under SFAS 130 the Company is required to display comprehensive income and its components as part of the financial statements. Comprehensive income is comprised of net earnings and other comprehensive income (loss), which includes certain changes in equity that are excluded from net earnings. The Company includes foreign currency translation adjustments and unrealized holding gains and losses, net of tax, on available-for-sale securities in other comprehensive income (loss).

New Accounting Standard

SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" was issued in September 2000 and establishes accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. SFAS 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The Company anticipates that SFAS 140 will not have a material impact on the Company's financial position, results of operations or cash flows.

Stock Split

On February 17, 2000, the Company's Board of Directors declared a three-for-one stock split effected in the form of a 200% stock dividend payable to shareholders of record on June 2, 2000. All share, per share and weighted average share amounts for 1999 and 1998 have been restated to reflect this stock split.

Reclassification

Certain prior year amounts have been reclassified to conform to the current presentation.

Foreign Currency Translation

All balance sheet accounts of the Company's foreign subsidiaries have been translated from their respective functional currencies to U.S. dollars using the exchange rate in effect at the balance sheet date. Income statement amounts have been translated using monthly average exchange rates for the year. The gains and losses resulting from the changes in exchange rates from year to year have been reported separately as a component of other comprehensive income (loss).

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 reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the financial statement date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Accounting Change

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"). SAB 101 summarizes certain of the SEC's views in applying generally accepted accounting principles to certain revenue transactions in financial statements. The implementation of SAB 101 includes amounts previously recognized as revenue relating to up-front payments or milestone payments received by the Company in prior years under arrangements for which performance obligations related to the up-front or milestone payments had been met, but for which the Company is contractually obligated to perform additional research and development activities or other activities in future periods. Generally accepted accounting principles previously required the Company to record the revenue from the up-front and milestone payments as received, when the performance obligations associated with those payments had been fully met. However, following the adoption of the SAB, generally accepted accounting principles now require that the revenue received in conjunction with up-front or milestone payments be recognized over the remaining performance period under the contract as those obligations are fulfilled.

The Company implemented SAB 101 effective January 1, 2000. As a result, as of December 31, 2000, the Company has recorded current deferred revenue of $34.0 million. The deferred revenue will be recognized over the period of fulfillment of the contractual obligations, which will include 2001 and future years. The effect of adopting SAB 101 on 2000 earnings before the cumulative effect of the change in accounting principle was additional

income, net of tax, of $13.0 million, or $.06 per diluted share. The effect on 2000 net earnings (including a non-cash, after tax charge of $33.8 million or $0.16 per diluted share) was a charge of $20.8 million, or $0.10 per share. If the Company had been required to account for transactions in accordance with SAB 101 in earlier periods, the Company would have reported additional other revenue and earnings before the cumulative effect of a change in accounting principle of $4.3 million and $2.6 million, respectively, in the fourth quarter of 1999. Both basic and diluted earnings per share would have increased by $0.01 for the fourth quarter of 1999.

4. Acquisition of U.S. Bioscience

In November 1999, the Company completed a merger with U.S. Bioscience, Inc., a specialty pharmaceutical company that develops and markets products for patients with cancer and AIDS, by exchanging 12,672,555 shares of MedImmune common stock for all of the common stock of U.S. Bioscience. Each share of U.S. Bioscience common stock was exchanged for .15 shares of MedImmune common stock. The transaction was accounted for as a pooling-of-interests, and the consolidated financial statements and related notes presented have been restated for all periods to include the accounts and operations of U.S. Bioscience, Inc.

Revenues and net earnings of MedImmune, Inc. and U.S. Bioscience, Inc. for the nine months ended September 30, 1999, and for the twelve months ended December 31, 1998 were as follows:

	Nine months ended September 30, 1999	Twelve months ended December 31, 1998
MedImmune, Inc.		
Revenues	$187,871	$200,708
Net earnings	$ 23,613	$ 56,240
U.S. Bioscience, Inc.		
Revenues	$ 21,810	$ 26,513
Net earnings (loss)	$ (5,404)	$ (9,053)

All intercompany transactions were eliminated in consolidation. There were no material differences between the accounting policies of MedImmune, Inc. and U.S. Bioscience, Inc.

5. Segment Information

Statement of Financial Accounting Standards No. 131 ("SFAS 131") establishes annual and interim reporting standards for an enterprise's operating segments and related disclosures about its products, services, geographic areas and major customers. Under SFAS 131, the Company's operations are considered one operating segment as the Company's chief operating decision makers review the profit and loss of the Company on an aggregate basis and manage the operations of the Company as a single operating segment.

The Company sells its products primarily to a limited number of pharmaceutical wholesalers and distributors. Customers individually accounting for at least ten percent of the Company's product sales during past three years are as follows:

	2000	1999	1998
Company A	**17%**	20%	19%
Company B	**15%**	16%	21%
Company C	**15%**	15%	17%
Company D	**12%**	10%	11%
Company E	**11%**	11%	7%
Total % of product sales	**70%**	72%	75%

The Company relies on a limited number of distributor agents/affiliates to sell CytoGam and NeuTrexin internationally. The Company has also entered into contractual agreements with Abbott International for distribution of Synagis outside of the United States and with affiliates of Schering-Plough Corporation for international distribution of Ethyol. The breakdown of product sales by geographic region is as follows:

	2000	1999	1998
United States	**$456,311**	$335,161	$169,468
All other	**39,492**	21,654	14,480
Total product sales	**$495,803**	$356,815	$183,948

Other revenue of $44.7 million, $26.6 million and $43.3 million in 2000, 1999 and 1998, respectively, consists mainly of United States distribution, licensing, milestone revenues, corporate funding and contract manufacturing revenues.

6. Investments

Investments are comprised of the following:

	Principal Amount	Cost/ Amortized Cost	Fair Value at Balance Sheet Date
December 31, 2000:			
Equity Securities	$ —	$ 6,350	$ 15,478
U.S. Government and Agencies	35,900	36,120	36,174
Corporate Debt Securities	357,002	361,534	362,832
Foreign Bank CD's	25,750	26,797	26,796
Total	$418,652	$430,801	$441,280
December 31, 1999:			
U.S. Government and Agencies	$ 1,000	$ 1,011	$ 1,004
Corporate Debt Securities	203,030	206,067	205,560
Foreign Bank CD's	26,500	27,285	27,260
Total	$230,530	$234,363	$233,824

The amortized cost and fair market value of investments at December 31, 2000 and 1999, by contractual maturities are:

	2000		1999	
	Cost/ Amortized Cost	**Fair Value**	Cost/ Amortized Cost	Fair Value
Equity Securities	**$ 6,350**	**$ 15,478**	$ —	$ —
Due in one year or less	**105,594**	**105,670**	170,301	169,868
Due after one year through two years	**284,021**	**285,308**	44,997	44,882
Due after two years through four years	**34,836**	**34,824**	19,065	19,074
Total	**$430,801**	**$441,280**	$234,363	$233,824

As of December 31, 2000, the Company had gross unrealized holding gains of $10.8 million and gross unrealized holding losses of $0.4 million. As of December 31, 1999, the Company had gross unrealized holding gains of $0.2 million and gross unrealized holding losses of $0.7 million. Proceeds from sales of securities were $63.4 million and $30.6 million in 2000 and 1999, respectively. There were no proceeds from sales of securities in 1998. The net gain recognized on sales of securities in 2000 was $1.6 million as determined by specific identification. As the securities sold in 1999 were approaching their maturity, the gains and losses recognized on the sales were immaterial. A net unrealized holding gain of $7.4 million was recorded in other comprehensive income (loss) in 2000. A net unrealized loss of $0.5 million was recorded in other comprehensive income (loss) in 1999. Unrealized holding gains and losses in 1998 were immaterial.

7. Inventory

Inventory at December 31, is comprised of the following:

	2000	1999
Raw materials	**$14,715**	$11,502
Work in process	**21,091**	15,129
Finished goods	**13,159**	9,365
	48,965	35,996
Less noncurrent	**(2,332)**	(4,219)
	$46,633	$31,777

In December 2000, the Company received approval from the FDA to perform a portion of the CytoGam production process at the Company's Frederick manufacturing facility. As a result, all work in process inventory of CytoGam is classified as a current asset as of December 31, 2000. Noncurrent inventory at December 31, 2000 is comprised of some of the Company's raw plasma.

As a result of the June 1998 FDA approval of Synagis and the market acceptance of Synagis, the Company reserved approximately $9.2 million against its RespiGam inventory, as minimal product sales were expected to result from this inventory for the foreseeable future. The amount remaining in the reserve was $4.7 million and $5.8 million at December 31, 2000 and 1999, respectively.

8. Property and Equipment

Property and equipment, stated at cost at December 31, is comprised of the following:

	2000	1999
Land and land improvements	**$ 2,186**	$ 2,166
Buildings and building improvements	**50,936**	32,234
Leasehold improvements	**15,750**	14,560
Laboratory, manufacturing and facilities equipment	**32,152**	24,540
Office furniture, computers and equipment	**12,267**	10,813
Construction in progress	**—**	24,738
	113,291	109,051
Less accumulated depreciation and amortization	**(26,908)**	(21,599)
	$ 86,383	$ 87,452

As of December 31, 2000, buildings includes costs associated with four facilities. They are: 1) the portion of the Company's Frederick manufacturing facility that was granted approval by the FDA for the production of Synagis in December 1999, and was placed in service on December 31, 1999; 2) the portion of the Company's Frederick manufacturing facility that was granted approval by the FDA for the production of CytoGam intermediate paste in December 2000, and was placed in service on December 31, 2000; 3) warehouse, laboratory and administrative space adjacent to the manufacturing facility in Frederick, Maryland; and 4) the Company's manufacturing facility in Nijmegen, the Netherlands.

Construction in progress includes costs incurred in connection with the design and construction of the Company's Frederick manufacturing facility and included capitalized interest costs of $4.0 million at December 31, 1999. Construction in progress is also net of a reserve of $2.1 million and $0.6 million at December 31, 2000 and 1999, respectively. The reserve primarily consists of the remainder of the equipment to be disposed of from the Frederick manufacturing facility, as is was determined that the equipment would not be used at the facility.

9. Accrued Expenses

Accrued expenses at December 31, is comprised of the following:

	2000	1999
Accrued contracts	**$10,139**	$11,953
Accrued manufacturing	**4,200**	6,526
Accrued sales and marketing	**46,608**	37,051
Accrued other	**11,212**	9,770
	$72,159	$65,300

10. Facilities Leases

The Company leases warehouse, laboratory and administrative space under numerous operating leases. Under the leases, the Company is obligated to pay a basic monthly rent which will increase each lease year. The leases also require the Company to pay for utilities and its proportionate share of taxes, assessments, insurance and maintenance costs. Rent expense for the years ended December 31, 2000, 1999 and 1998 was $3.4 million, $2.6 million and $2.4 million, respectively.

The Company's future minimum lease payments under operating leases are as follows:

Year ending December 31,	
2001	$ 1,648
2002	1,697
2003	1,746
2004	1,751
2005	1,806
Thereafter	1,702
	$10,350

11. Long-Term Debt

Long-term debt at December 31, is comprised of the following:

	2000	1999
4% notes due to Maryland Department of Business and Economic Development, due 2016	$ 6,015	$ 6,286
7.53% note due to Maryland Industrial Development Finance Authority, due 2007	3,987	4,379
Line of credit	—	728
Note due to Cooperative Rabobank, B.A., due 2009, variable interest rate	300	354
Capital lease obligations	—	77
2% note payable to Commonwealth of PA, due 2000	—	32
	10,302	11,856
Less current portion included in other current liabilities	(707)	(1,490)
	$ 9,595	$10,366

Principal and interest payments on the Maryland notes began in 1998. Pursuant to the terms of the related agreements, the Company is required to meet certain financial and non-financial covenants including maintaining minimum cash balances and net worth ratios. The Company maintains a $0.4 million compensating balance related to the notes, which is included in other assets. The notes are collateralized by the land, buildings and building fixtures of the Frederick manufacturing facility. The agreements include a provision for early retirement of the notes by the Company.

In June 1995, the Company established a $1 million credit line with an international financial institution. The line of credit was denominated in Dutch guilders, currently bears an annual interest rate of 5.3125% and was utilized by the Company's subsidiary, USB Pharma B.V., to fund working capital requirements. The line of credit expired in March 2000.

In May 1994, USB Pharma B.V. entered into a mortgage loan with Cooperative Rabobank B.A. in the amount of 1.2 million Dutch guilders collateralized by the land and buildings of its manufacturing facility in Nijmegen, the Netherlands and guaranteed by the Company. Proceeds from the loan were used to partially fund the purchase of additional equipment for the facility. The mortgage loan, for which principal payments began in March 1995, has a 15-year term and bears interest at a quarterly variable rate. The current interest rate is 6.45%.

Maturities of long-term debt for the next five years are as follows: 2001, $742; 2002, $788; 2003, $836; 2004, $887 and 2005, $944. Interest paid was $0.5 million, $5.2 million and $6.5 million, for the years ended December 31, 2000, 1999 and 1998, respectively.

The estimated fair value of the Company's long-term debt at December 31, 2000, based on quoted market prices or discounted cash flows based on currently available borrowing rates, was $10.9 million compared to its carrying value of $10.3 million.

12. Shareholders' Equity

In July 1997, the Company's Board of Directors adopted a Stockholder Rights Plan. Pursuant to the terms of the Plan, common stock purchase Rights were distributed as a dividend at the rate of one Right for each share of common stock of the Company held by stockholders of record as of the close of business on July 21, 1997. The Rights will be exercisable only if a person or group acquires beneficial ownership of 20 percent or more of the Company's common stock or commences a tender or exchange offer upon consummation of which such a person or group would beneficially own 20 percent or more of the Company's stock. The Rights will expire on July 9, 2007.

In January 1998, the Company completed a private placement of 10.2 million new shares of common stock to institutional investors for net proceeds of $66.2 million, and sold 0.5 million shares of common stock to GlaxoSmithKline for net proceeds of $5.0 million.

In February 1999, USB closed two private placements resulting in the issuance of 1.2 million new shares of common stock to institutional investors for net proceeds of $20.0 million. In connection with the private placements, warrants to purchase 0.2 million shares of common stock at $24.82 per share were issued. These warrants were exercised in November 1999 for net proceeds of $6.0 million.

In July 1999, $60 million of the Company's 7% convertible subordinated notes were converted into common stock. The transaction resulted in the issuance of 18.3 million shares of common stock and increased shareholders' equity by $58.7 million, the carrying amount of the converted debt on the date of the conversion.

13. Earnings Per Share

The following is a reconciliation of the numerators and denominators of the diluted EPS computation for the years ended December 31, 2000, 1999 and 1998.

	2000	1999	1998
Numerator:			
Net earnings	**$111,156**	$93,371	$47,187
Interest on 7% convertible notes, net of amounts capitalized and related taxes	**—**	720	1,468
Numerator for diluted EPS	**$111,156**	$94,091	$48,655
Denominator:			
Weighted average shares outstanding	**209,101**	190,421	170,327
Effect of dilutive securities:			
Stock options	**11,327**	12,714	12,526
7% convertible notes	**—**	9,175	18,293
Denominator for diluted EPS	**220,428**	212,310	201,146

The following table shows the number of shares and related price ranges of those shares that were excluded from the EPS computations. These options to purchase shares of common stock were outstanding in the periods reported, but were not included in the computation of diluted earnings per share as the exercise prices for these options were greater than the average market price of the common stock during the period reported, and therefore would be antidilutive.

	Year ended Dec. 31, 2000	Year ended Dec. 31, 1999	Year ended Dec. 31, 1998
Price range of stock options:			
$61.50–$83.25	**886,425**		
$28.33–$67.11		1,074,054	
$ 9.92–$67.11			4,921,767

14. Common Stock Options

The Company currently grants stock options under numerous stock option plans:

Plan	Description	Shares Authorized for Option Grants
Old Plan	Provides option incentives to employees, consultants and advisors of the Company	1,500,000
1991 Plan	Provides option incentives to employees, consultants and advisors of the Company	33,000,000
Non-Employee Directors Plan	Provides option incentives to non-employee directors	1,500,000
1999 Plan	Provides option incentives to employees, consultants and advisors of the Company	14,250,000
Non-Executive Stock Option Plan	Provided option incentives to employees who are not officers or directors of USB, consultants and advisors of the Company	1,012,500
1992 Stock Option Plan	Provided option incentives to officers and directors of USB	1,282,500
1996 Non-Employee Directors Stock Option Plan	Provided option incentives to elected non-employee directors of USB	22,500
1999 Stock Option Plan	Provided option incentives to employees, consultants and advisors of USB	1,350,000
1991 Special Non-Statutory Plan	Provided option incentives to employees, consultants and advisors of USB	450,000
1987 Special Non-Statutory Plan	Provided option incentives to employees and non-employees of USB	225,000
1987 Non-Statutory Plan	Provided option incentives to employees and non-employee members of The Board of Directors of USB	450,000
1987 Incentive Stock Option Plan	Provided option incentives to employees, consultants and advisors of USB	450,000

Options under all plans normally vest over a three to five year period and have a maximum term of 10 years. The Company has reserved a total of 29,177,873 shares of common stock for issuance under these plans as of December 31, 2000. Related stock option activity, is as follows:

	Options Granted Prior to Establishment of the 1991 Plan		1991 and 1999 Plans		Non-Employee Directors Plan		USB Plans	
	Shares	Weighted Average Exercise Price Per Share	Shares	Weighted Average Exercise Price Per Share	Shares	Weighted Average Exercise Price Per Share	Shares	Weighted Average Exercise Price Per Share
Balance, Dec. 31, 1997	2,316,012	$0.72	19,172,616	$ 2.40	555,000	$ 2.16	1,734,147	$22.29
Granted	—	—	7,236,600	9.10	120,000	10.40	885,210	19.43
Exercised	(1,400,400)	0.69	(5,195,196)	2.07	—	—	(69,717)	10.89
Canceled	—	—	(357,372)	3.68	—	—	(145,197)	27.90
Balance, Dec. 31, 1998	915,612	0.76	20,856,648	4.79	675,000	3.62	2,404,443	21.23
Granted	—	—	6,473,100	22.35	120,000	24.04	235,341	22.33
Exercised	(882,012)	0.79	(7,117,674)	3.24	(165,000)	2.82	(1,019,685)	20.07
Canceled	—	—	(349,938)	12.04	—	—	(142,476)	22.08
Balance, Dec. 31, 1999	33,600	0.13	19,862,136	10.94	630,000	7.72	1,477,623	22.12
Granted	—	—	7,209,500	59.75	150,000	72.75	—	—
Exercised	(30,600)	0.13	(5,984,307)	7.76	(165,000)	5.33	(1,341,829)	21.77
Canceled	—	—	(745,292)	38.75	—	—	(1,125)	35.28
Balance, Dec. 31, 2000	**3,000**	**$0.13**	**20,342,037**	**$28.15**	**615,000**	**$24.23**	**134,669**	**$25.52**

Additional information related to the plans as of December 31, 2000 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life (Yrs)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$ 0.01–$ 20.00	12,085,549	6.8	$ 9.43	3,783,383	$ 4.84
$20.01–$ 40.00	2,011,682	8.5	$28.23	342,302	$26.68
$40.01–$ 60.00	1,836,150	9.2	$54.08	12,650	$47.58
$60.01–$ 80.00	5,133,225	9.2	$62.07	10,125	$67.11
$80.01–$100.00	28,100	9.6	$80.77	—	—
	21,094,706	7.8	$28.02	4,148,460	$ 6.92

In May 2000, the Company's shareholders voted to increase the maximum number of shares of common stock reserved for issuance under the 1999 Plan from 8,250,000 to 14,250,000 shares.

There were 5,126,398, 469,982 and 480,000 shares available for future option grants at December 31, 2000 under the 1999 Plan, the 1991 Plan and the Non-Employee Directors Plan, respectively.

The Company has adopted the disclosure only provisions of SFAS 123 as they pertain to financial statement recognition of compensation expense attributable to option grants. As such, no compensation cost has been recognized for the Company's option plans. If the Company had elected to recognize compensation cost for all of its stock option plans consistent with SFAS 123, the Company's net earnings and earnings per share on a pro forma basis would be:

	2000	1999	1998
Net earnings—as reported	**$111,156**	$93,371	$47,187
Net earnings—pro forma	**$ 90,144**	$70,492	$39,740
Basic earnings per share—as reported	**$ 0.53**	$ 0.49	$ 0.28
Basic earnings per share—pro forma	**$ 0.43**	$ 0.37	$ 0.23
Diluted earnings per share—as reported	**$ 0.50**	$ 0.44	$ 0.24
Diluted earnings per share—pro forma	**$ 0.41**	$ 0.33	$ 0.20

The pro forma expense related to the stock options is recognized over the vesting period, generally five years. The fair value of each option grant was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions for each year:

	2000	1999	1998
Risk-free interest rate	**6.20%**	5.78%	5.28%
Expected life of options—years	**7**	7	7
Expected stock price volatility	**69%**	65%	75%
Expected dividend yield	**N/A**	N/A	N/A

The weighted average fair value of options granted during 2000, 1999 and 1998 was $38.20, $18.19 and $6.45, respectively.

15. Income Taxes

The components of the provision (benefit) for income taxes are as follows:

Year ended December 31,	2000	1999	1998
Current:			
Federal	**$ —**	$ —	$ —
State	**—**	—	—
Foreign	**80**	—	—
Total current expense (benefit)	**80**	—	—
Deferred:			
Federal	**60,505**	(10,502)	(47,428)
State	**3,851**	3,407	—
Foreign	**—**	—	—
Total deferred expense (benefit)	**64,356**	(7,095)	(47,428)
Total tax expense (benefit)	**$64,436**	$ (7,095)	$(47,428)

Deferred income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at December 31, are as follows:

	2000	1999
Deferred tax assets:		
Net operating loss carryforwards	**$172,276**	$132,765
U.S. General business credit carryforwards	**26,818**	14,399
Accrued expenses not currently deductible	**16,655**	12,941
Accounts receivable allowances and reserves	**6,410**	6,835
Deferred revenue	**13,143**	—
Other	**1,747**	4,974
Total deferred tax assets	**237,049**	171,914
Valuation allowance	**(19,969)**	(19,792)
Net deferred tax assets	**$217,080**	$152,122

The provision (benefit) for income taxes varies from the income taxes provided based on the federal statutory rate (35%) as follows:

Year ended December 31,	2000	1999	1998
Tax at U.S. federal statutory rate	**$ 73,295**	$ 30,197	$ (84)
State taxes, net of federal benefit	**2,503**	2,702	507
Change in valuation allowance	**177**	(48,525)	(55,994)
U.S. General business credits	**(12,420)**	(2,921)	(2,309)
Foreign taxes, net	**—**	—	(174)
Other	**881**	11,452	10,626
Total	**$ 64,436**	$ (7,095)	$(47,428)

At December 31, 2000 the Company had consolidated net operating loss carryforwards for federal tax reporting purposes of approximately $439 million expiring between 2002 to 2020. The deferred tax asset attributable to the net operating loss carryforwards includes tax benefits of $192.8 million related to the exercise of employee stock options, which benefits were recorded directly to paid-in capital. The Company also has general business credit carryforwards comprised of federal research and experimentation and orphan drug credit carryforwards of approximately $26.8 million at December 31, 2000 expiring through 2020. The timing and manner in which the Company will utilize the net operating loss and general business credit carryforwards in any year, or in total, will be limited by provisions of the Internal Revenue Code Section 382, regarding changes in ownership of the Company.

Deferred taxes are not provided for the earnings of the Company's foreign subsidiaries, as those earnings are considered permanently reinvested in the operations of the foreign subsidiaries.

For the year ended December 31, 2000, the increase of the valuation allowance of approximately $0.2 million relates to the increase in the net operating loss carryforward for one of the Company's foreign subsidiaries, which the Company believes may not be realized. Because management is uncertain of the realization of the tax benefit associated with a portion of the deferred tax assets attributable to the state net operating losses, foreign net operating losses, and the general business credits which were generated by USB prior to its acquisition by the Company, a full valuation allowance remains for these deferred tax assets at December 31, 2000.

During 1999, based on all positive evidence, including its 1999 pre-tax income and its estimates of future taxable income, the Company believed that it was more likely than not that certain of its deferred tax assets acquired from USB (comprised mostly of federal net operating loss and general business credit carryforwards) would be realized, and therefore recorded the tax benefit associated with those deferred tax assets for the year ended December 31, 1999.

Because management was uncertain of the realization of the tax benefit associated with the deferred tax assets attributable to the state net operating losses and certain general business credits which were generated by USB prior to its acquisition by the Company, a full valuation allowance remained for these deferred tax assets at December 31, 1999.

16. Collaborative Arrangements

Abbott Laboratories

In December 1997, the Company signed two agreements with Abbott Laboratories ("Abbott"). The first agreement calls for Abbott to co-promote Synagis in the United States. The second agreement allows Abbott to exclusively distribute Synagis outside the United States. Under the terms of the United States co-promotion agreement, Abbott receives a percentage of net United States sales based on defined annual sales thresholds. Expenses associated with the co-promotion agreement are included in selling, general and administrative expenses on the accompanying statements of operations. Each company is responsible for its own selling expenses. Under the terms of the distribution agreement, the Company manufactures and sells Synagis to Abbott at a price based on end user sales. Pursuant to the distribution agreement, the Company received a $15 million payment in each of the years 1999, 1998 and 1997. In accordance with SAB 101, a portion of these payments has been deferred and will be recorded as other revenue in future periods, as the Company fulfills certain future obligations under the agreement. The Company could receive up to an additional $15 million based on the achievement of certain milestones.

ALZA Corporation

In December 1995, U.S. Bioscience, Inc. entered into an exclusive marketing and distribution agreement with ALZA Corporation ("ALZA") for Ethyol in the United States. Under the terms of the agreement, ALZA had exclusive rights to market Ethyol in the United States until April 2001, subject to a one-year extension, and is responsible for sales and marketing of the product. The Company's oncology/immunology sales force co-promotes the product with ALZA in the United States. The Company sells Ethyol to ALZA at a price based on a percentage of the net sales price of Ethyol in the United States, and ALZA then sells Ethyol to the distributors and wholesalers that supply Ethyol for prescription sales. During 2000, ALZA chose to exercise a one-time option to extend the agreement to April 1, 2002. Following the expiration of the agreement in April 2002, marketing rights to Ethyol will revert to the Company, and thereafter ALZA will receive a royalty from the Company for nine years, based on sales of Ethyol in the United States. To date, the Company has received $35 million in up-front and milestone payments. In accordance with SAB 101, a portion of these payments has been deferred and will be recorded as other revenue in future periods, as the Company fulfills certain future obligations under the agreement.

ALZA was co-promoting NeuTrexin and Hexalen in the United States until mid-1999. At that time, the Company regained sole responsibility for the distribution, marketing and promotion of these products in the United States.

Schering-Plough Corporation

In May 1993, U.S. Bioscience, Inc. entered into an exclusive marketing and distribution agreement with Scherico, Ltd. ("Scherico"), an affiliate of Schering-Plough Corporation, for Ethyol in the countries comprising the EU and European Free Trade Association. Under this agreement, Scherico purchases Ethyol from the Company at a price based on a percentage of the net sales of Ethyol in Germany, United Kingdom, Spain, Italy and France. Scherico's exclusive rights to market the product will continue through December 31, 2003. At the end of the exclusive period, the Company may co-promote Ethyol with Scherico for two years, through December 31, 2005. Thereafter, the Company will reacquire sole marketing rights, subject to an obligation to pay Scherico a royalty based on a percentage of net sales, if any, from the European territories for a period of three years. Scherico may terminate the agreement at any time by providing 180 days written notice.

The Company also entered into licensing agreements for Ethyol and NeuTrexin with affiliates of Schering for several territories outside the United States. The licensees are required to pay the Company compensation based on their net sales of the products, and the Company sells the products to the licensees at an agreed upon price.

GlaxoSmithKline

In December 1997, the Company and GlaxoSmithKline ("GSK") entered into a strategic alliance to develop and commercialize human papillomavirus (HPV) vaccines for the prevention of cervical cancer and genital warts. In exchange for exclusive worldwide rights to the Company's HPV technology, GSK agreed to provide the Company with an up-front payment, future funding and potential developmental and sales milestones which together could total over $85 million, as well as royalties on any product sales. Under the

terms of the agreement, the companies will collaborate on research and development activities. The Company conducts Phase 1 and Phase 2 clinical trials and manufactures clinical material for those studies. GSK is responsible for the final development of the product, as well as regulatory, manufacturing and marketing activities. In January 1998, the Company received a $15 million payment from GSK upon commencement of the agreement. In accordance with SAB 101, a portion of this payment has been deferred and will be recorded as other revenue in future periods, as the Company fulfills certain future obligations under the agreement. Also in January 1998, the Company completed the sale of 0.5 million shares of common stock to GSK resulting in net proceeds to the Company of $5.0 million. Additionally $7.8 million, $6.2 million and $5.7 million of research funding associated with the agreement has been included in other revenues for the years ended December 31, 2000, 1999 and 1998, respectively.

In July 2000, the Company granted GlaxoSmithKline a worldwide, exclusive license to it *Streptococcus pneumoniae* vaccine technology in exchange for an up-front payment of $10 million and future milestones totaling more than $20 million, plus royalties on any product sales. Under the terms of the agreement, GSK is responsible for all clinical development, manufacturing and sales and marketing activities for the *S. pneumoniae* vaccine. The Company completed the technology transfer to GSK by the end of 2000. The up-front payment is included in other revenue in 2000.

American Home Products

On November 8, 1993, the Company signed a definitive agreement with American Cyanamid Company, now American Home Products, to co-promote and share profits or losses on the Company's RSV product, RespiGam, which was licensed for marketing by the FDA on January 18, 1996. Pursuant to an amendment to the agreement signed in December 1999, AHP's obligation to co-promote RespiGam in the U.S. was terminated. In addition, AHP no longer shares in any profits or losses of RespiGam in the U.S. The Company recorded a credit to selling, general and administrative expense in 1999 related to the signing of the amendment.

Other Agreements

The Company has entered into research, development and license agreements with various federal and academic laboratories and other institutions to further develop its products and technology and to perform clinical trials. Under these agreements, the Company is obligated to provide funding of approximately $29.5 million and $12.5 million in 2001 and 2002, respectively. The Company has also agreed to make milestone payments in the aggregate amount of $51 million on the occurrence of certain events such as the granting by the FDA of a license for product marketing in the U.S. for some of the product candidates covered by these agreements. In exchange for the licensing rights for commercial development of proprietary technology, the Company has agreed to pay royalties on sales using such licensed technologies.

17. Forward Exchange Contracts

Beginning in 1997, the Company entered into foreign forward exchange contracts to hedge against foreign exchange rate fluctuations that may occur on certain of the Company's foreign currency denominated obligations. As of December 31, 2000 the Company had outstanding forward Euro contracts in the amount of $11.1 million, all expiring within one year. Fair value of the outstanding contracts at December 31, 2000 was $0.5 million. Unrealized gains and losses on foreign forward exchange contracts that are designated and effective as hedges are deferred and recognized in the same period that the hedged obligation is recognized. The notional principal amounts for off-balance sheet instruments provide one measure of the transaction volume outstanding as of year end, and does not represent the amount of the Company's exposure to credit or market loss. The Company's exposure to market risk will vary over time as a function of currency rates. As of January 1, 2001 the Company will adopt SFAS 133 "Accounting for Derivatives and Similar Financial Instruments." See Note 2.

18. Commitments and Contingencies

Manufacturing, Supply and Purchase Agreements

The Company has entered into manufacturing, supply and purchase agreements in order to provide production capability for CytoGam and RespiGam, and to provide a supply of human plasma for production of both products. No assurance can be given that an adequate supply of plasma will be available from the Company's suppliers. Human plasma for CytoGam is converted to an intermediate raw material (Fraction II+III paste) at the Company's Frederick manufacturing facility. The intermediate material is then supplied to the manufacturer of the bulk product, Massachusetts Public Health Biologics Laboratories ("the State Lab"). Pursuant to the agreements with the State Lab, the Company paid $8.7 million in 2000, $8.3 million in 1999 and $12.9 million in 1998 for production and process development. The Company has an informal arrangement with the State Lab for planned production of CytoGam and RespiGam through June 2003 for $16.4 million and $2.5 million,

respectively, subject to production level adjustments. If the State Lab, which holds the sole product and establishment licenses from the FDA for the manufacture of CytoGam and RespiGam, is unable to satisfy the Company's requirements for CytoGam on a timely basis or is prevented for any reason from manufacturing CytoGam, the Company may be unable to secure an alternative manufacturer without undue and materially adverse operational disruption and increased cost. The Company also has an agreement with Aventis Pasteur to fill and package CytoGam through 2002.

In December 1997, the Company entered into an agreement with Boehringer Ingelheim Pharma KG ("BI"), to provide supplemental manufacturing of the Company's second generation RSV product, Synagis. The Company paid $26.4 million in 2000, $21.1 million in 1999 and $16.0 million in 1998 related to production and scale-up of production as part of this agreement. The Company has firm commitments with BI for planned production through 2002 for approximately 25.1 million Euros. Should the manufacturer be unable to supply Synagis to the Company for any reason, there can be no assurance that the Company will be able to secure an alternate manufacturer in a timely basis or without increased cost.

19. Other Operating Expenses

Other operating expenses for all years presented include manufacturing startup costs for the Company's Frederick Manufacturing Center ("FMC"). Expenses in both 2000 and 1999 also include charges of $1.8 million and $1.4 million, respectively, for the write-off of certain equipment associated with the Company's plasma production activities. Expenses in 1998 include scale-up of production of Synagis at the Gaithersburg pilot plant and at a third-party manufacturer, BI, and $10.5 million for the buy down of certain Synagis royalty obligations prior to the licensure of Synagis by the FDA.

20. Pension Plan

The Company has defined contribution 401(k) pension plans and other defined contribution plans available to all full-time employees. Employee contributions are voluntary and are determined on an individual basis subject to the maximum allowable under federal tax regulations. Participants are always fully vested in their contributions. The Company also makes employer contributions. During 2000, 1999 and 1998, the Company contributed $0.9 million, $1.1 million and $1.1 million, respectively, in cash to the plans. Prior to the merger with U.S. Bioscience, a deferred compensation program was provided for certain executives of U.S. Bioscience. The program was terminated in December 1999 and all vested balances were paid in full. Expense related to the deferred compensation plan was $0, $97 and $348 in 2000, 1999 and 1998, respectively.

21. Legal Proceedings

In 1996, the Company entered into a Material Transfer Agreement and a Confidentiality Agreement with MediGene AG ("MediGene") relating to human papillomavirus vaccine ("HPV") technology in which the Company had a potential interest. In 1997, the Company learned information that caused it to believe that such technology had been developed by employees of Loyola University of Chicago ("Loyola"). As a result, the Company acquired from Loyola a license to patent applications directed to such technology. The Company granted to GlaxoSmithKline a sublicense under the Loyola license.

In 1998, MediGene AG initiated a legal action against Loyola University of Chicago and the Company in the U.S. District Court for the Northern District of Illinois alleging, among other things, breach of contract and tortious interference by the Company with MediGene's alleged contractual and prospective business relationships with Loyola and GlaxoSmithKline. The claims relate to human papillomavirus vaccine technology allegedly covered by contracts between MediGene and the Company and by a license agreement from Loyola to the Company, under which the Company granted a sublicense to GlaxoSmithKline. MediGene claims monetary damages from the Company and ownership of the patents in question, as well as rescission of the Company's license agreement from Loyola or rights as a third-party beneficiary thereof.

In November 2000, MedImmune and Loyola moved for summary judgment seeking dismissal of all claims. In December 2000, the District Court granted partial summary judgment in favor of the defendants and reserved ruling on the remaining claims pending additional briefing and a hearing scheduled for March 12, 2001. Following that hearing, on March 15, 2001, the District Court granted summary judgment in favor of MedImmune and Loyola on all remaining claims.

In October 2000, Celltech Chiroscience Limited ("Celltech") commenced a legal proceeding against the Company in the U.K. High Court of Justice, Chancery Division, Patents Court. Celltech alleges that the Company failed to pay royalties with respect to its sales of Synagis as required by a license agreement dated January 19, 1998. Under the agreement, the Company obtained from Celltech a

worldwide license to make, use and/or sell product under a patent (and related applications) pertaining to humanized antibodies. In the proceeding, Celltech seeks payment of royalties, with interest, and certain costs, including attorney's expenses. The Company has filed answering papers denying that any royalties are due on the basis that Celltech's patent does not cover Synagis and has notified the court that the Company intends to seek dismissal of the case on the grounds that the legal doctrine of prosecution history estoppel prevents Celltech from claiming that its patent covers Synagis.

On February 28, 1996, Ichthyol Gesellschaft Cordes, Hermanni & Co. ("Ichthyol Gesellschaft") filed a complaint for refrain, information and damages with the Regional Court of Hamburg against U.S. Bioscience, Inc. on the grounds of trademark infringement in respect of the use of the trademark "Ethyol" in Germany. The suit was dismissed on January 29, 1997 by the Regional Court of Hamburg at which time Ichthyol Gesellschaft was given leave to appeal against the judgment rendered in favor of U.S. Bioscience. Ichthyol Gesellschaft filed an appeal, and a judgment was rendered in favor of U.S. Bioscience in the appellate proceedings. In January 1999, Ichthyol Gesellschaft filed an appeal on points of law with the Federal Court of Justice, and in June 1999, Ichthyol Gesellschaft filed the grounds for the appeal on points of law. In October 1999, the Federal Court of Justice accepted Ichthyol Gesellschaft's appeal. U.S. Bioscience was advised that it usually takes a year and one-half from the acceptance of such an appeal until a hearing is held, and it is not possible to predict the decision of the Federal Court of Justice with respect to the matter.

After consultation with its counsel, the Company believes that it has meritorious defenses to the claims referred to above and it is determined to defend its position vigorously. While it is impossible to predict with certainty the eventual outcome of these proceedings, the Company believes they are unlikely to have a material adverse effect on its financial position but might have a material adverse effect on its results of operations for a particular period.

Report of Independent Accountants

To the Board of Directors and Shareholders of MedImmune, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, shareholders' equity and cash flows present fairly, in all material respects, the financial position of MedImmune, Inc. and its subsidiaries at December 31, 2000 and December 31, 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of U.S. Bioscience, Inc, a wholly-owned subsidiary, for the year ended December 31, 1998, which statements reflect total revenues of 11.7% of the related consolidated total for the year then ended. These statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for U.S. Bioscience, Inc. for the year ended December 31, 1998 is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As disclosed in Note 3 to the consolidated financial statements, as of January 1, 2000 the Company changed its method of recognizing revenue for certain up-front fees and milestone payments.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
McLean, Virginia
January 25, 2001

Corporate Information

Board of Directors

Wayne T. Hockmeyer, Ph.D. [1]
Chairman and Former Chief Executive Officer, MedImmune, Inc.

David M. Mott [1]
Chief Executive Officer and Vice Chairman, MedImmune, Inc.

M. James Barrett, Ph.D. [1][2][3]
Chairman and Chief Executive Officer, Sensors for Medicine and Science, Inc.
Former Chief Executive Officer, Genetic Therapy, Inc.

Melvin D. Booth
President and Chief Operating Officer, MedImmune, Inc.

James H. Cavanaugh, Ph.D. [1][3]
President, HealthCare Ventures L.L.C.
Past President, Smith, Kline & French Laboratories U.S., Inc.

Barbara Hackman Franklin [2][3]
President and Chief Executive Officer, Barbara Franklin Enterprises
Former U.S. Secretary of Commerce

Lawrence C. Hoff [2][3]
Retired President and Chief Operating Officer, The Upjohn Company

Gordon S. Macklin [1][2][3]
Former Chairman, White River Corporation

Franklin H. Top, Jr., M.D.
Executive Vice President and Medical Director, MedImmune, Inc.

(1) Member of the Executive Committee
(2) Member of the Audit Committee
(3) Member of the Compensation and Stock Committee

Management

David M. Mott
Chief Executive Officer and Vice Chairman

Melvin D. Booth
President and Chief Operating Officer

James F. Young, Ph.D.
President, Research and Development

Franklin H. Top, Jr., M.D.
Executive Vice President and Medical Director

Armando Anido, R.Ph.
Senior Vice President, Sales and Marketing

Edward M. Connor, M.D.
Senior Vice President, Clinical Development

Bogdan Dziurzynski
Senior Vice President, Regulatory Affairs and Quality Assurance

Scott Koenig, M.D., Ph.D.
Senior Vice President, Research

Wolfgang Oster, M.D.
Senior Vice President, Oncology Clinical Development

Gregory S. Patrick
Senior Vice President and Chief Financial Officer

Michael S. Richman
Senior Vice President, Corporate Development and Administration

W. Ripley Ballou, M.D.
Vice President and Group Leader, Infectious Diseases and Immunology

James Bruno
Vice President, International Marketing

David A. Carlin, Ph.D.
Vice President, Biostatistics and Data Management

Gail Folena-Wasserman, Ph.D.
Vice President, Development

Edward A. Goley
Vice President and General Manager, Frederick Manufacturing Center

Robert L. Hirsch, Ph.D.
Vice President, Medical Affairs

Kathy M. Kantor
Vice President and Controller

Bernardus N.M. Machielse, Drs.
Vice President, Quality

Timothy R. Pearson
Vice President, Treasurer and Secretary

R. Michael Smullen
Vice President, Sales

Eric I. Tsao, Ph.D.
Vice President, Cell Culture Operations

Randall M. Turner
Vice President, Engineering & Facilities

Corporate Headquarters

35 West Watkins Mill Road
Gaithersburg, MD 20878
Tel.: (301) 417-0770
Fax: (301) 527-4200
Web site: www.medimmune.com

General Counsel

Dewey Ballantine LLP
New York, NY

Independent Auditors

PricewaterhouseCoopers LLP
McLean, VA

Annual Shareholders' Meeting

The next annual meeting of the shareholders will be held on May 3, 2001 at 10:00 a.m. at the Gaithersburg Marriott, 9751 Washingtonian Boulevard, Gaithersburg, MD 20878 (301) 590-0044.

SEC Form 10-K and Requests for Information

A copy of the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission, is available without charge at the SEC's website (www.sec.gov) or upon written request to:

Investor Relations
MedImmune, Inc.
35 West Watkins Mill Road
Gaithersburg, MD 20878
or IR@MedImmune.com

Transfer Agent and Registrar

American Stock Transfer & Trust Company
40 Wall Street, 46th Floor
New York, NY 10005
(718) 921-8200

Common Stock Prices

MedImmune's common stock trades on The Nasdaq Stock Market® under the symbol MEDI. At December 31, 2000, there were 211,347,825 shares of common stock outstanding held by over 138,000 stockholders. The following table shows the range of high and low closing prices and year-end closing prices for the common stock for the two most recent fiscal years.

	2000		1999	
	High	**Low**	High	Low
First Quarter	**$76.25**	**$43.00**	$22.00	$14.33
Second Quarter	**80.69**	**42.00**	24.67	15.00
Third Quarter	**86.13**	**57.75**	40.21	22.96
Fourth Quarter	**72.63**	**44.63**	58.60	29.67
Year End Close	**$47.69**		$55.29	

The statements in this annual report that are not descriptions of historical facts may be forward-looking statements. Those statements involve substantial risks and uncertainties. You can identify those statements by the fact that they contain words such as "anticipate," "believe," "estimate," "expect," "intend," "project" or other terms of similar meaning. Those statements reflect management's current beliefs, but are based on numerous assumptions which MedImmune cannot control and which may not develop as MedImmune expects. Consequently, actual results may differ materially from those projected in the forward-looking statements. Among the factors that could cause actual results to differ materially are: Seasonal demand for and continued supply of our principal product; availability of competitive products in the market; availability of third-party reimbursement for the cost of our products; effectiveness and safety of our products; exposure to product liability, intellectual property or other types of litigation; foreign currency exchange rate fluctuations; changes in generally accepted accounting principles; growth in costs and expenses; the impact of acquisitions, divestitures and other unusual items; and the risks, uncertainties and other matters discussed elsewhere in this annual report and in our periodic reports filed with the U.S. Securities and Exchange Commission. MedImmune cautions that RSV disease occurs primarily during the winter months; MedImmune believes its operating results will reflect that seasonality for the foreseeable future. MedImmune is also developing several products for potential future marketing. There can be no assurance that such development efforts will succeed, that such products will receive required regulatory clearance or that, even if such regulatory clearance were received, such products would ultimately achieve commercial success. Unless otherwise indicated, the information in this annual report is as of December 31, 2000. This annual report will not be updated as a result of new information or future events.

Designed by Curran & Connors, Inc. / www.curran-connors.com

MedImmune, Inc.

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