Investing for the Future

MedImmune uses the latest advances in science, technology and medicine to discover, develop, manufacture and market innovative new products that have the potential to treat or prevent human disease or illness, particularly in areas where there is an important unmet medical need. As an industry leader in the development of vaccines and antibodies, MedImmune is focusing its efforts in the areas of infectious disease, immunology and oncology. The company actively markets three products and has a broad and diverse pipeline of products in development.

COVER PHOTO: SU-YAU MAO, PH.D., ASSOCIATE SCIENTIST III, MOLECULAR BIOLOGY AND BIOCHEMISTRY, AT WORK AT MEDIMMUNE LABS.

2002 Financial Highlights

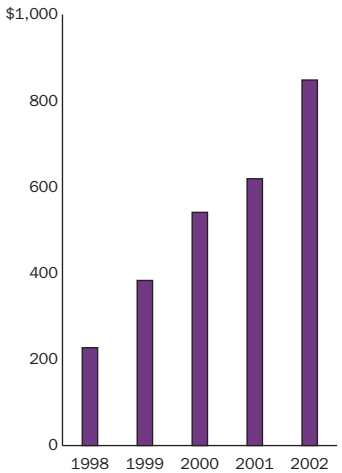
(in millions except per share data)	2002	2001	2000	1999	1998
Consolidated Statements of Operations Data					
Total Revenues	$ 848	$ 619	$ 540	$ 383	$ 227
Gross Profit	585	441	368	267	108
Net Earnings/(Loss) – GAAP	(1,098)[1]	149	111	93	47
Net Earnings – Adjusted	107[2]				
Per Share Data					
Diluted Earnings/(Loss) – GAAP	(4.40)[1]	0.68	0.50	0.44	0.24
Diluted Earnings – Adjusted	0.42[2]				
Consolidated Balance Sheet Data					
Cash and Investments	1,423	778	526	270	177
Total Assets	2,188	1,237	1,017	657	409
Total Stockholders' Equity	1,677	1,044	844	537	249

*(1) MedImmune acquired Aviron, Inc. on January 10, 2002. MedImmune's results as reported according to generally accepted accounting principles (GAAP) for 2002 include a $1.2 billion charge ($4.72 per share) for acquired in-process research and development in connection with the acquisition, as well as the results of Aviron's ongoing operations from the date of acquisition.**

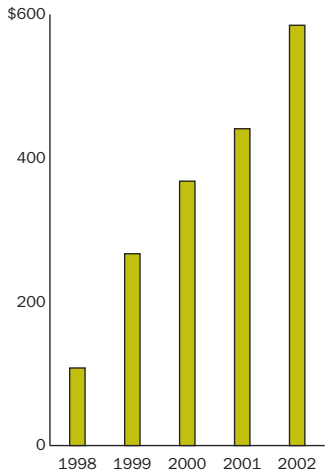
*(2) MedImmune's adjusted results for 2002 exclude the $1.2 billion charge for acquired in-process research and development and certain other amounts related to the acquisition of Aviron, Inc. This is the basis upon which management views the performance of the business and measures the resulting underlying trends.**

** See Management's Discussion and Analysis for the reconciliation of MedImmune's results reported in accordance with GAAP to adjusted results.*

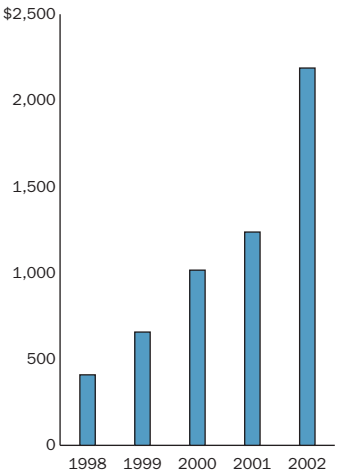
TOTAL REVENUES
(in millions)



GROSS PROFITS
(in millions)



TOTAL ASSETS
(in millions)



MedImmune at a Glance

Founded in 1988, MedImmune became a public company in 1991 listed on the Nasdaq market under the symbol MEDI. In 1998, MedImmune became profitable; since then, the company's revenues have grown at a compounded annual growth rate of 39 percent. As of December 31, 2002, the company had $1.4 billion in cash and investments and $2.2 billion in total assets, and had the privilege of being included in a number of prestigious financial indices, including the S&P 500, S&P 100 and the Nasdaq 100. MedImmune employs approximately 1,600 people, is headquartered in Gaithersburg, Maryland, and has additional operations in Frederick, Maryland, as well as Pennsylvania, California, the United Kingdom and the Netherlands.

The Year in Review – 2002

- Grew revenues 37 percent to $848 million
- Increased Synagis sales 29 percent to $668 million
- Relaunched Ethyol and grew sales to $80 million
- Completed $1.6 billion acquisition and integration of Aviron, Inc.
- Received positive FluMist recommendations from FDA's Vaccines and Related Biological Products Advisory Committee
- In-licensed three new preclinical programs
- Initiated $200 million in construction projects
- Established $100 million venture capital fund, MedImmune Ventures, Inc.
- Strengthened financial position, driving cash and securities up 83 percent to $1.4 billion
- Grew employee base 78 percent to 1,607

The People at MedImmune

RESEARCH AND CLINICAL

EDWARD M. CONNOR, M.D.
Senior Vice President, Clinical Development

MedImmune's research and development efforts focus on the therapeutic areas of infectious diseases, immunology and oncology. To support these efforts, we have assembled an industry-leading team of scientific and medical experts whose passion and professionalism will fuel our ability to meaningfully impact these life-altering disease areas.

SALES AND MARKETING

ARMANDO ANIDO, R.PH.
Senior Vice President, Sales and Marketing

One of MedImmune's most distinguishing characteristics as an industry-leader is its 320-person sales, marketing and medical affairs organization. The primary goal of these experienced and dedicated individuals is to educate patients, physicians, nurses, managed care specialists and other healthcare providers about the benefits and appropriate use of our products.

MANUFACTURING AND DEVELOPMENT

GAIL FOLENA-WASSERMAN, PH.D.
Senior Vice President, Development

MedImmune has assembled a world-class team of over 650 process development, quality, and manufacturing experts at its six manufacturing facilities. As a result, MedImmune has jumped to the forefront of the biotechnology industry in controlling the manufacturing of its marketed products, as well as the production of clinical supplies for development-stage product candidates.

Key Products

SYNAGIS

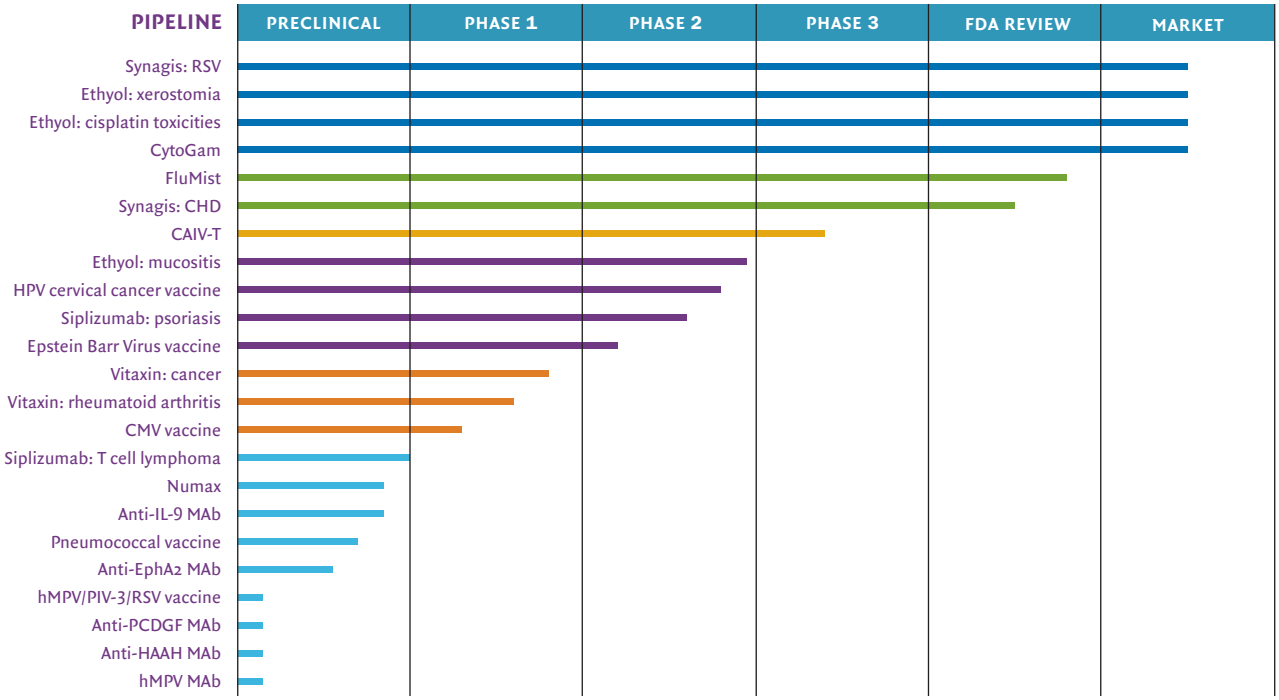
Synagis is a humanized monoclonal antibody marketed for the prevention of serious lower respiratory tract disease caused by respiratory syncytial virus (RSV) in pediatric patients at high risk of RSV disease. RSV is the most common cause of lower respiratory tract infections in infants and children worldwide. Synagis is the first monoclonal antibody to be licensed for any infectious disease. It is given through an intramuscular injection once a month during the RSV season.

ETHYOL

Ethyol is marketed for the reduction of cumulative renal toxicity associated with repeated administration of cisplatin in patients with advanced ovarian cancer or non-small cell lung cancer, as well as for moderate-to-severe xerostomia (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 gland.

CYTOGAM

CytoGam is marketed for prophylaxis against cytomegalovirus disease (CMV) associated with the transplantation of kidneys, lungs, livers, pancreases, and hearts. It is a blood plasma derived product that provides the immune system with an increased ability to prevent infection with CMV, a herpes virus that contributes significantly to morbidity and mortality in organ transplant patients.



Dear Shareholders:

From our earliest days as an organization, MedImmune's long-term objective has been to identify, develop and market innovative biotechnology drugs that improve human health. But as any veteran biotech investor will tell you, success in this business is arduous, uncertain and elusive. As a result, passion, resolve and discipline are required attributes of those lucky enough to successfully and consistently deliver products to the market. The rewards are exhilarating and self-evident whether they are realized by protecting infants from infectious diseases, reducing the debilitating side effects of cancer therapy, or preventing organ rejection following transplantation. The disappointments, too, are emotionally charged when the early promise of a scientific endeavor doesn't result in a positive outcome, as we experienced this year with our urinary tract infection vaccine. Fortunately, experience gained through this process is highly educational and directly applicable to the development of future products. Repeated success is built upon the reinvestment of knowledge, learning, capital and human resources into promising science and technology. As you will read in this annual report, we invested meaningfully in every area of our business in 2002 to improve the potential of delivering new and wonderful success stories to you, our investors, on how we are fulfilling our passion and long-term goal of improving human health.

Wayne T. Hockmeyer, Ph.D.
CHAIRMAN

David M. Mott
CHIEF EXECUTIVE OFFICER

MEDIMMUNE VACCINES — A $1.6 BILLION INVESTMENT IN OUR FUTURE

The largest investment we made in 2002 was the acquisition in January of Aviron, Inc., a California-based biotechnology company focused on the development of innovative vaccines. Through this acquisition, we established MedImmune Vaccines, a wholly owned vaccines subsidiary, with a portfolio of products and a world-class research team that establishes us as a biotech-leader in viral vaccine development. MedImmune Vaccines' lead product candidate is FluMist, an influenza vaccine delivered as a nasal mist, which we expect to launch in the U.S. in 2003 assuming we receive U.S. Food and Drug Administration (FDA) approval to market. We believe FluMist has the potential to be a blockbuster product, eventually generating over $1 billion in peak worldwide annual sales.

FINANCIAL RESULTS

Financially, our business continued to achieve substantial success in 2002. Total revenues grew 37 percent to $848 million and product sales increased 36 percent to $786 million, driven primarily by the continued growth of Synagis and the greater-than-expected resurgence of Ethyol sales. Worldwide sales of Synagis in 2002 were $668 million, a 29-percent increase over 2001. International sales of Synagis in the second half of 2002 were boosted by approvals for the product in Canada and Japan earlier in the year. Sales of Ethyol, our first oncology product, exceeded $80 million in 2002. In 2003, we expect to achieve a major financial milestone for the company with revenues exceeding $1 billion for the first time.

MedImmune's financial results for 2002 reflect both the transaction-related costs of acquiring MedImmune Vaccines and the costs of the new subsidiary's ongoing business activities. Including the acquisition-related costs, MedImmune reported a net loss of $1.1 billion or $4.40 per share for 2002.* Excluding the acquisition-related costs, which allows you to look at the results of our ongoing operations, our adjusted net earnings for 2002 were $107 million, or $0.42 per diluted share.* In 2003, we expect our adjusted earnings to more than double the 2002 adjusted results.

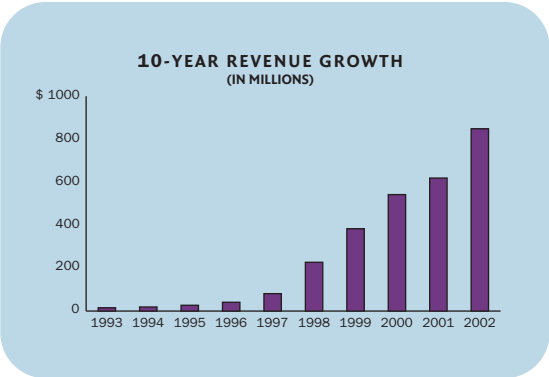
By the end of 2002, we had substantially strengthened our overall financial position, with cash and marketable securities up 83 percent to $1.4 billion, assets up 77 percent to $2.2 billion, and shareholders' equity up 61 percent to $1.7 billion. We intend to use these assets wisely to grow the business for the long term.

**See Management's Discussion and Analysis for the reconciliation of MedImmune's results reported in accordance with GAAP to adjusted results.*

PIPELINE UPDATE

In addition to our strong financial results for 2002, we made significant progress advancing and expanding our product pipeline during the year. For Synagis, we completed a successful Phase 3 trial in children with congenital heart disease. We believe this data will be particularly powerful in helping to drive the acceptance of the product by pediatricians in various international settings.

We finished enrollment in a two-year concurrent immunization trial with FluMist in 2002, and three Phase 2 trials with siplizumab in psoriasis patients. In 2003 we plan to initiate additional trials with FluMist in an effort to expand the labeled indication should the product be approved, as well as retreatment Phase 2 trials with siplizumab. With Vitaxin, we nearly completed our Phase 1 work in 2002 in both the oncology and rheumatology settings. Our goal is to have a number of Phase 2 trials underway with this increasingly exciting monoclonal antibody by the end of 2003. We initiated Phase 2 work with our Epstein Barr virus vaccine in 2002, and concluded a Phase 1 study with our cytomegalovirus vaccine. Additionally, solid progress was made during the year on the *Streptococcus pneumoniae* and human papillomavirus (HPV) vaccines by our partner for both projects, GlaxoSmithKline (GSK). We anticipate that GSK will be in a position to move the *Streptococcus pneumoniae* project into Phase 1 studies in the coming year and to start the pivotal Phase 3 program for the HPV vaccine by year end.



On the preclinical front in 2002, we selected the Numax molecule that we will take forward into the clinic in 2003 as the potential successor to Synagis. We also advanced our anti-IL-9 program to the point where we anticipate beginning clinical studies for this molecule as a potential therapeutic for asthma patients by the end of the year. To fuel our preclinical efforts, we added three new programs in 2002: two oncology targets and one new respiratory infectious disease program.

INFRASTRUCTURE ADVANCEMENT

Anyone who has followed MedImmune during its 15-year history undoubtedly will take notice of the progress the company has made in recent years to become one of the largest biotechnology companies in the world. Managing this growth can be a challenging task and requires us to stay ahead of the curve in ensuring that we adequately support the needs of our world-class sales and marketing, research, clinical, development and manufacturing teams. In 2002, this support included planning for our long-term infrastructure needs, which resulted in breaking ground on a number of construction projects, such as our new $85 million headquarters and research and development facility, as well as expansion projects for FluMist manufacturing. We also invested heavily in new information technology systems geared toward maintaining our strong historical productivity levels. In addition, we created a venture capital subsidiary, MedImmune Ventures, Inc., focused on identifying new and exciting technologies and products.

2002 was an amazing year of record-breaking progress and unparalleled investment in the future of MedImmune. Our 1,600 employees have once again proven that they are among the most dedicated and productive in the industry. As a team, we are committed to maintaining our momentum in 2003, remaining entrepreneurial in our approach, and passionate in our quest to improve human health. As always, we appreciate your support.

David M. Mott
Chief Executive Officer and Vice Chairman

Wayne T. Hockmeyer, Ph.D.
Chairman

Investing in Research

Research is the heart and soul of MedImmune. It is our passion.

It is where the genius of our past success lies and where our future breakthroughs will be discovered. Our foundation was built on the idea that by investigating how the body works and responds to its environments biologically, we can develop drugs and therapies that will help people live better, longer and more productive lives.

Research is a costly, time-consuming, labor-intensive, and technologically focused process. It is also an area that demands persistence, collaboration, eternal optimism, a healthy skepticism and an unquenchable thirst for knowledge. MedImmune's track record of success demonstrates that our research programs embody these attributes. A prime example is Synagis, in which we can claim the development of the first monoclonal antibody approved for an infectious disease. FluMist, if approved, is another example of how the entrepreneurial spirit of true research scientists can lead to the development of amazing advances in medicine that help reduce the societal burden of disease.

MedImmune is committed to maintaining its passion for research. We are dedicated to filling our pipeline with exciting new product candidates from our own internal research initiatives and from in-licensing opportunities with universities, research laboratories and other biotechnology companies. On the in-licensing front, we were particularly successful in 2002. In the third quarter, we in-licensed the rights to technology targeting the human metapneumovirus (hMPV), a respiratory virus that was only recently described by researchers associated with Erasmus University in Rotterdam, the Netherlands. Obtaining the exclusive, worldwide rights to antibody and vaccine technology targeting hMPV is a major coup for MedImmune. It exemplifies

SCIENTIST II ROB WOODS IS ONE OF MANY MEDIMMUNE RESEARCHERS WORKING TO HELP IDENTIFY PROMISING NEW PRECLINICAL CANDIDATES. EFFORTS OF PRECLINICAL RESEARCHERS THIS YEAR LED TO THE SELECTION OF THE NUMAX MOLECULE THAT IS SLATED TO ENTER PHASE 1 TRIALS IN THE SECOND HALF OF 2003.

the importance of having our research staff work closely with our clinical, marketing and business development teams to identify breakthrough opportunities that may allow us to capitalize on our expertise in developing vaccines and antibodies targeting respiratory disease. Earlier in the year, we in-licensed exclusive worldwide rights to technology targeting PC-cell-derived growth factor (PCDGF), which is expressed by breast cancer cells that respond to estrogen therapies, and to an even greater extent, by breast cancer cells that have become resistant to estrogen therapies. Preclinical studies to date demonstrate that inhibition of PCDGF impedes the growth of breast cancer cells and reduces the ability of certain breast cancer cells to become resistant to hormone therapy. We also acquired the rights to technology targeting the enzyme Human Aspartyl (Asparaginyl) Beta-Hydroxylase (HAAH), which has been found to be over-expressed in a wide variety of primary tumor tissues, including cancers of the pancreas, breast, ovary, liver, colon, prostate, lung, brain and bile duct. Initial preclinical studies have indicated that the over-expression of HAAH induces tumor formation, and that inhibition of HAAH function in the cancer cell limits the growth of the tumor.

Our long-term research goals also include moving at least one new promising preclinical candidate into human clinical trials every year. In 2002, our researchers moved aggressively on a number of projects, resulting in the selection of the Numax molecule that will be tested in Phase 1 trials starting in the second half of 2003. If successful, Numax would be our third-generation anti-RSV product. In 2003, we also plan to begin clinical testing with our anti-IL-9 antibody that has the potential to help prevent or reduce the severity of asthmatic episodes.

SCIENTIST III WILLIAM DALL'ACQUA, PH.D., AT LEFT, AND SENIOR RESEARCH DIRECTOR RICHARD SPAETE, PH.D., INSET ABOVE, CONDUCT RESEARCH PROPELLED BY A PASSION FOR FILLING OUR PIPELINE WITH EXCITING NEW PRODUCTS.

Investing in our Products

From its earliest days, MedImmune has focused its scientists on developing good products, not just good science.

We believe that by focusing on unmet medical needs and large commercial opportunities, we have the greatest chance of helping people – and generating revenues. A portion of these revenues can then be reinvested in research and development to create the next round of innovative products. We initially focused our drug development efforts in the areas of infectious disease and immunology. More recently, we added oncology as an area of scientific, medical, and commercial expertise.

Our business strategy includes licensing the right to use certain technologies, engineering processes and scientific tools from other companies. Over the years, this strategy has allowed us to utilize the best advances in science and technology as they are discovered, applying them as appropriate to our products. As a result, we can boast of a cadre of approved and development-stage products that have benefited not only from our own expertise in vaccines and antibodies, but also from many of the latest scientific advances of our time. We are proud to describe our currently marketed products – Synagis, Ethyol and CytoGam – as first-in-class, state-of-the-art, one-of-a-kind, or standard-of-care.

Because new advances are happening all the time, we are constantly looking for ways to improve the products with which we already achieved a certain level of success. For instance, data from an extensive Phase 3 study with Synagis in congenital heart disease patients were submitted to the FDA in December of 2002 and to European regulatory authorities in March of 2003. The data showed this population of fragile young children can safely take advantage of the protective benefits of Synagis. For Ethyol, we are working on a plan to support a number of trials that would evaluate the product's ability to reduce the severity of mucositis (ulceration of the mucosal lining of the mouth and throat) caused by radiotherapy and chemotherapy in patients with non-small cell lung cancer.

SENIOR SUPERVISOR JUAN CARMONA PARTICIPATES IN THE STATE-OF-THE-ART SYNAGIS PRODUCTION PROCESS, WHICH WAS RECENTLY ADAPTED TO DRAMATICALLY INCREASE PRODUCT YIELD. SYNAGIS IS THE FIRST MONOCLONAL ANTIBODY SUCCESSFULLY DEVELOPED TO COMBAT AN INFECTIOUS DISEASE.

QUALITY ASSURANCE DIRECTOR SRIDHAR PENNATHUR, PH.D., ABOVE, WORKS TO ASSURE QUALITY IN THE FLUMIST PRODUCTION EFFORTS UNDERWAY AT MEDIMMUNE VACCINES' CALIFORNIA FACILITIES.

Our future pipeline boasts product candidates that are just as unique as the products we currently market. MedImmune Vaccines is involved in developing products to prevent influenza, mononucleosis, cytomegalovirus, pneumonia, middle-ear infections, meningitis, human metapneumovirus, parainfluenza virus type-3, and respiratory syncytial virus. Most likely, the next product to be marketed will be FluMist, a nasally delivered flu vaccine that we expect to be approved by the FDA in 2003. We anticipate that FluMist will initially be indicated for use in healthy children and adults aged 60 months to 49 years of age. We plan to conduct additional clinical trials to expand the initial indication to include healthy adults between the ages of 50 and 64 years, and children between the ages of 12 and 60 months. If approved, FluMist would offer a needle-free alternative to influenza vaccination. It would also provide a significant expansion in the available supply of flu vaccines, affording earlier protection to healthy people who previously would not have had access to an influenza vaccine until November or December each year.

Our oncology subsidiary, MedImmune Oncology, is rapidly expanding its pipeline of product candidates. Currently, we are conducting or preparing to conduct clinical studies with products that may be used to treat or to prevent cervical cancer, melanoma, prostate cancer and T cell lymphoma. Our immunology group is also working on exciting programs. Current activities are focused on initiating a broad Phase 2 program with Vitaxin in rheumatoid arthritis patients, and conducting retreatment trials with siplizumab in psoriasis patients who previously received the drug in our initial series of Phase 2 studies completed in 2002.

VICE PRESIDENT OF SALES MIKE SMULLEN STEERS A TEAM OF APPROXIMATELY 200 SALES REPRESENTATIVES WHO STRIVE TO EDUCATE HEALTHCARE PROVIDERS ABOUT THE BENEFITS AND APPROPRIATE USE OF OUR PRODUCTS.

Investing in our Customers

At MedImmune, we never forget that the products we introduce to the marketplace will be used by people.

We are mindful of the fact that the patients we serve could just as readily be our families, children, friends or our neighbors. As such, we are watchful of safety reports and side effect trends. We conduct post-marketing trials to collect additional safety and efficacy data in subgroups of patients with special needs or new patient populations that may benefit from the product's capabilities. We evaluate new delivery routes or explore new product formulations that may be more efficient or convenient. We develop educational materials tailored for specific audiences to ensure the proper use and understanding of our products.

Recent examples of our ongoing efforts to enhance customer and patient benefits related to the use of our products include the development of a liquid formulation of Synagis, work on subcutaneous delivery of Ethyol, and a review of our Synagis safety report database. Currently, Synagis is distributed in a freeze-dried form that requires a 20-minute reconstitution period prior to dosing, a process that can be challenging in the busy pediatrician's office or clinic. A liquid formulation of Synagis would, therefore, be more convenient to administer. Similarly for Ethyol, a subcutaneous delivery option may improve the product's use in the radiation oncologist's office, where administration of intravenous drugs, such as Ethyol, poses a significant hurdle. On the safety side, we recently reviewed our exhaustive database of safety reports from the over 400,000 children who received approximately 1 million doses of Synagis during the first four seasons the product was on the market. A detailed analysis of the data confirmed that Synagis is safe to use in the high-risk patient population of premature infants.

One of MedImmune's most distinguishing characteristics as an industry leader is its sales, marketing and medical affairs organization, which as of the end of 2002 was 320 professionals strong. The primary goal of these experienced and dedicated individuals is to educate patients, physicians, nurses, managed care specialists and other healthcare providers about the benefits of our approved products, and just as importantly, when it is and is not appropriate to use them. Approximately 60 sales and managed care representatives cover about

"I CONSTANTLY TELL PARENTS OF PREEMIES TO CHECK WITH THEIR DOCTORS ABOUT SYNAGIS SHOTS AND THE IMPORTANCE OF KEEPING THEIR BABIES SAFE FROM RSV."
— AMY YARNS, MOTHER OF THE YARNS QUADRUPLETS (CLOCKWISE FROM LEFT, RHYS, TIANA, CHASE & TREY), AT AGE 5, FORMER SYNAGIS PATIENTS

500 hospitals, managed care organizations, and clinics in the United States that specialize in pediatric/neonatal care or transplantation for the promotion of Synagis and CytoGam, respectively. Approximately 100 pediatric sales specialists cover the top 10,000 pediatric practices in the United States for the promotion and detailing of Synagis. Approximately 70 oncology/immunology specialists are devoted to sales and marketing of Ethyol to oncologists practicing in cancer treatment centers, large hospitals and private medical practices.

We extend our reach through our partnerships with other drug marketing companies. We co-promote Synagis in the U.S. with the Ross Products division of Abbott Laboratories. Their 500 sales representatives educate 27,000 office-based pediatricians and 6,000 birth hospitals on the benefits of the drug. For FluMist, if it is approved, we will co-promote in the U.S. with Wyeth, who will use approximately 400 sales representatives, sales managers, and managed care specialists to reach office-based pediatricians and primary care physicians. MedImmune's sales representatives will educate the leading infectious disease/respiratory care physicians, thought-leaders, pharmacists and employers.

MEL BOOTH, PRESIDENT & CHIEF OPERATING OFFICER, AT RIGHT, FIRMLY BELIEVES THAT SUCCESSFUL PEOPLE AND SUCCESSFUL ORGANIZATIONS MUST CONSTANTLY CHANGE. AT MEDIMMUNE, WE CONTINUE TO INVEST IN THE SEARCH FOR BETTER WAYS TO SERVE OUR CUSTOMERS.

Investing in our People

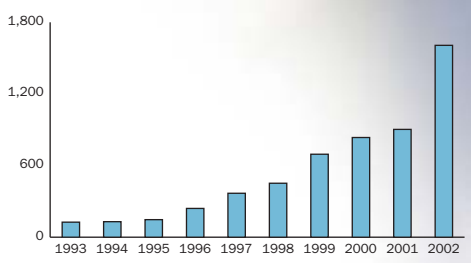
MedImmune has grown from a small company with a handful of hopeful scientists into one of the world's largest, most profitable biotechs with over 1,600 employees.

HUMAN RESOURCES DIRECTOR MAX DONLEY AND HUMAN RESOURCES VICE PRESIDENT PAM LUPIEN OVERSEE PROGRAMS TO SUPPORT THE PROFESSIONAL GROWTH OF OUR EMPLOYEES.

Through our expansion, we've learned that the secret to successfully growing a dynamic and entrepreneurial organization is to both attract and retain the best and brightest from across a broad spectrum of disciplines. This is particularly true – and difficult to achieve – in the biotechnology industry where approximately 1,500 companies vie for a limited pool of medical, scientific and technical expertise. At MedImmune, we believe strongly in the adage that "people are our most valuable asset." They harness the passion and commitment to use science and medicine to discover new products that can prevent and treat chronic and devastating illnesses. They are the creative geniuses that find new ways to make and market our products. They are the business and legal ethicists who ensure that we create a company we can proudly share with our parents, children, spouses, neighbors, friends, colleagues and investors. These are the people of MedImmune; those that have been here for our entire 15-year existence and those that have only just joined us in the early days of 2003.

As we grow as a business, we strive to support the professional growth of our people. Development goals are encouraged to be incorporated into annual work objectives across the company. In so doing, we believe we are creating an atmosphere where anyone with the drive, imagination and work ethic to be the best can rise to the top and be recognized as an industry leader through his or her contribution at MedImmune. We have encouraged the benefits of life-long learning by creating programs where the costs of higher education are reimbursed by the company. We are also committed to developing internal educational systems that provide specialized programs in management and technical knowledge to a diverse audience of employees.

10-YEAR EMPLOYEE GROWTH



We seek to develop the leaders of tomorrow by encouraging the delegation of responsibilities and the communication of ideas and information throughout the organization. Quarterly, we hold company meetings, which we broadcast via an employee intranet. We update employees on clinical trials, marketing programs, research projects and new business opportunities. We have created programs that provide for the transition of top performers into pivotal positions in key departments so they begin to understand the complexities of running a biotechnology company. We promote and reward top performers so as to encourage them to achieve new goals, and to motivate others to do the same.

At MedImmune, investing in our people means much more than making sure that we are competitive in compensation and benefits. It means creating an atmosphere that breeds individual and organizational success and fuels the passion to make a difference.

AMONG THE BEST AND THE BRIGHTEST FROM ACROSS DISCIPLINES — SENIOR MANAGER OF BUSINESS DEVELOPMENT SUN PARK, ABOVE, AND SENIOR DIRECTOR OF SCIENTIFIC & REGULATORY AFFAIRS KATHY COELINGH, PH.D., INSET ABOVE.

Investing in our Infrastructure

MedImmune's presence in the biotechnology industry has expanded rapidly in recent years to its current status, operating eight facilities in three states and in three countries, including six manufacturing sites.

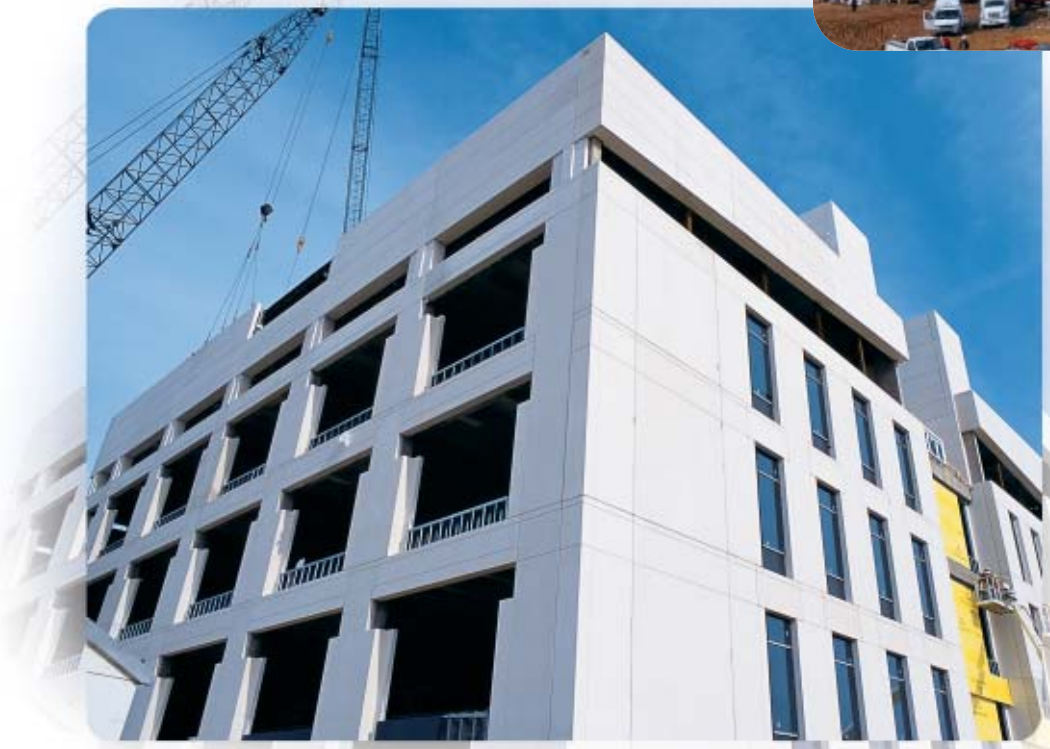
FROM LEFT, HUMAN RESOURCES' STEVE HARIG, ACCOUNTING'S AMY JONES, PAYROLL'S CAT GOULDMAN, AND INFORMATION TECHNOLOGY'S AL BOGGS ARE PART OF A CROSS-FUNCTIONAL TEAM WORKING TO FURTHER AUTOMATE OUR ACTIVITIES AND TO INTEGRATE OUR BUSINESS UNITS.

Our current status is a drastic change from the time of our humble beginnings in the late 1980's, when we shared leased space with a couple of other biotech start-up companies. Over the years, we have added laboratory, manufacturing and administrative space, including the construction of a biologics manufacturing center in Frederick, Maryland (FMC). In 1998, the construction on this facility was complete, and in 1999 the FDA approved it as a manufacturing site for Synagis. In 2002, another milestone was achieved at FMC, when we completed the $10 million expansion of the antibody purification suite.

The expanded purification area allows us to effectively implement our Enhanced Yield Process, a proprietary technique used to manufacture approximately four-fold more Synagis per production run than we could previously make. With this process in place in 2002, we gained greater control over the production of our lead product, making more than 75 percent of the worldwide supply of Synagis at FMC.

Another major step taken in 2002 for our long-term growth was the initiation of the construction of our new headquarters and research and development facility in Gaithersburg, Maryland. The new campus-style facility will be built in three phases, providing us room to grow for the next decade. The first phase of the project, expected to cost about $85 million, will provide us with approximately 220,000 square feet of space for a new state-of-the-art research and development facility and a new home for our clinical, regulatory, commercial and administrative departments. The first phase is projected to be complete in the second half of 2003. Ultimately, the new headquarters site will accommodate a 750,000 square foot facility once all three phases of the project are constructed.

AT RIGHT AND BELOW, CONSTRUCTION IS UNDERWAY AT MEDIMMUNE'S NEW CORPORATE HEADQUARTERS IN GAITHERSBURG, MARYLAND, REPRESENTING AN INVESTMENT OF AROUND $85 MILLION.



In 2002, as we were preparing for the approval of FluMist, we also began implementing steps that would allow us to expand our manufacturing capacity for the product. Such steps included investing in the expansion of our FluMist bulk manufacturing plant in the United Kingdom, where each of the individual flu vaccine strains are produced in large quantities. We also began expanding our warehouse facilities in Pennsylvania and initiated the construction of additional capacity to blend, fill, finish and package the trivalent vaccine. When completed, and if approved by the FDA, these expansion projects may allow us to increase our current manufacturing capacity for FluMist nearly ten-fold.

Equally important to our long-term success is the investment we made in our information technology systems in 2002, where our goal was to further automate our activities and integrate our business units. Key improvements included the completion of the first phase of a two-year, approximately $20 million enterprise resource planning system. The first phase of this project focused on integrating our inventory, purchasing, supply chain and materials management functions. In 2003, we plan on expanding this project to include sales, distribution, human resource and treasury functions. We have also initiated programs that will further enhance and automate our laboratory functions, regulatory and quality systems, plant maintenance programs, and our clinical trials and adverse events management systems.

PROCESS DEVELOPMENT SCIENTIST WEIDONG CUI, PH.D., AT RIGHT, HAS PROVIDED KEY SCIENTIFIC PERSPECTIVE FOR FLUMIST PROCESS IMPROVEMENTS AND MANUFACTURING SUPPORT.

Investing in Partnerships

MedImmune's core culture embraces collaboration as a major factor in creating long-term success.

ED MATHERS, VICE PRESIDENT OF CORPORATE DEVELOPMENT, DRIVES OUR SEARCH FOR MUTUALLY REWARDING BUSINESS PARTNERSHIPS. STRONG, COLLABORATIVE WORKING RELATIONSHIPS OUTSIDE OF MEDIMMUNE ARE CRITICAL TO OUR EFFORTS TO REMAIN AN INDUSTRY LEADER.

Collaboration is not only considered a key driver for our internal achievements, but is also a part of our philosophy toward partnerships with other biotechnology and pharmaceutical companies, clinical investigators, scientific and medical experts, as well as community leaders. While we are ever cognizant of the need to protect our proprietary assets, we also are keenly aware of the benefits of creating and maintaining strong, collaborative working relationships outside of MedImmune. From these relationships in the past, we have extracted immeasurable insight to new technologies, benefited from increased sales of our products, and expanded and advanced the development of our pipeline.

Throughout our 15-year history, we have prided ourselves on investing the time and attention needed to create and retain important partnerships. In 2002, we maintained our strong track record in this area in a number of ways, not the least of which was the creation of MedImmune Ventures, Inc. This wholly owned subsidiary was established to discover and invest in companies and organizations developing therapeutic products or technologies with significant potential to improve the treatment or prevention of human disease. The subsidiary will also be used as a vehicle to inform MedImmune's business, medical and scientific leaders as to cutting-edge breakthroughs in science and medicine from existing and new entrepreneurial companies. In December, the subsidiary made its first investment in IOMAI, a private biopharmaceutical company developing transcutaneous immunization technology that may allow delivery of vaccines through a skin patch.

The advancement and expansion of our pipeline in 2002 benefited from our interactions with longstanding partners at GlaxoSmithKline and Wyeth, and the creation of new partnerships with such companies as ViroNovative, b.v. and A&G Pharmaceutical, Inc. Additionally, we established a new Scientific

MEDIMMUNE IS PARTNERED WITH A&G PHARMACEUTICAL, INC. TO DEVELOP A&G'S PCDGF TECHNOLOGY. PICTURED ABOVE, A&G PHARMACEUTICAL PRESIDENT, CHIEF OPERATING OFFICER & CO-FOUNDER DR. LE SUN.

Advisory Board (SAB), comprised of experts from a number of different disciplines that will assist our internal experts in the evaluation of current and future pipeline opportunities. The chairman of our SAB is Dr. Harry Greenberg, the Joseph P. Grant Professor of Medicine and Microbiology and Immunology and the Senior Associate Dean of Research at Stanford University Medical School. Joining Dr. Greenberg is an array of world-renowned scientific and medical experts, including Drs. Adrian Hayday, Ann Arvin, David Sidransky, Dennis Carson, George Sledge, James Crowe, Jr., Romain Pauwels, Eugene Butcher, Scott Hultgren, Albert Osterhaus, Peter Palese and John Skehel. We expect to reap enormous benefits from our collaboration with the members of the SAB as we seek to accelerate the development and expansion of our product pipeline.

On a separate front, MedImmune also understands the importance of creating good working relationships within the communities where we live and work. As such, we continue to seek out opportunities where we can give back to the communities that have provided us the support needed to grow into a major biotechnology company. We are committed to improving upon our status as a good corporate citizen, and have focused our attention on activities that support the advancement of health and education.

EVALUATING PIPELINE OPPORTUNITIES — MEDIMMUNE SCIENTIFIC ADVISORY BOARD CHAIR DR. HARRY GREENBERG OF STANFORD UNIVERSITY IS FLANKED BY DR. PETER KIENER, MEDIMMUNE'S VICE PRESIDENT OF RESEARCH, ON HIS LEFT, AND DR. JIM YOUNG, MEDIMMUNE'S PRESIDENT OF RESEARCH & DEVELOPMENT, ON HIS RIGHT.

2002 Financial Review

Report of Management

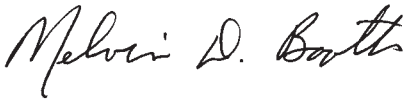
The management of the Company is responsible for the preparation of the financial statements and related financial information included in this annual report. The statements were prepared in conformity with accounting principles generally accepted in the United States of America and, accordingly, include 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 and Vice Chairman

Gregory S. Patrick
Senior Vice President and Chief Financial Officer



Melvin D. Booth
President and Chief Operating Officer

Lota S. Zoth
Vice President and Controller

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements regarding future events and our future results that are based on current expectations, estimates, forecasts, and the beliefs and assumptions of our management. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Readers are referred to the "Forward Looking Statements" and "Risk Factors" sections in Part I, Item 1 of the Company's annual report on Form 10-K for the year ended December 31, 2002.

OVERVIEW

Since 1988, MedImmune has been focused on using biotechnology to produce innovative products to prevent or treat infectious disease, autoimmune disease and cancer. Having made significant advances in the last several years, MedImmune is now a fully integrated company with the ability and infrastructure to take a product from discovery through development, manufacturing, and into the market via our oncology, pediatric, and hospital-based sales forces.

During January 2002, we acquired Aviron (the "Acquisition"), a biopharmaceutical company focused on preventing disease through innovative vaccine technologies. The operating results of Aviron, which was subsequently renamed MedImmune Vaccines, Inc., have been included in our consolidated operating results beginning January 10, 2002.

MedImmune currently actively markets three products: our flagship product Synagis, which we launched in the United States in 1998, Ethyol and CytoGam. Our leading product candidate, FluMist, an influenza vaccine delivered as a nasal mist, is under regulatory review by the FDA.

CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements requires us to make estimates and judgments with respect to the selection and application of accounting policies that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosures of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting estimates have the greatest impact on the preparation of our consolidated financial statements:

Acquired In-Process Research and Development

We recorded a charge of $1,179.3 million during the year ended December 31, 2002 for the write-off of purchased in-process research and development in conjunction with the Acquisition. The write-off represents the fair value of purchased in-process technologies at the acquisition date, calculated as the sum of probability-adjusted commercial scenarios. This method is based upon management's estimates of the probability of FDA approval and commercial success for FluMist. As with all biotechnology products, the probability of FDA approval and commercial success for any particular research and development project is highly uncertain. Management's projections were based on assumptions, which may or may not remain valid for the relevant period, including the estimated impact of four "key" factors: price per dose; dose volume; launch date; and the potential failure of the frozen or liquid formulations of the influenza vaccine. Based on current information, management believes that the estimates and assumptions underlying the fair value analysis are reasonable.

Inventory Reserves

Most of the inventory components for FluMist have expiration dates that range from 9 to 24 months. Through September 2002, we produced inventory in anticipation of a possible launch of FluMist for the 2002/2003 flu season. At that time, we recognized that FDA approval would not be received in time for a launch for the 2002/2003 flu season, and we recorded a full reserve for the inventory components we believed would not be used prior to reaching their expiration dates. In the fourth quarter of 2002, we began production of certain inventory components in anticipation of a possible launch of FluMist for the 2003/2004 flu season, as FDA approval is expected to be received in the second quarter of 2003 if not sooner. With respect to all inventory components on hand as of December 31, 2002, we reviewed the following assumptions to determine the amount of any additional reserves: the expected date of approval; the expected sales volume; the concentration of viral material in our vaccine; potential changes in the influenza strains recommended by the Centers for Disease Control and Prevention for each season's vaccine; anticipated changes in the manufacturing process and other variables associated with product launch efforts. As of December 31, 2002, we have $62.5 million of inventory against which we have a reserve of $47.5 million, resulting in a net inventory balance of $15.0 million. Should FluMist be approved for the 2003/2004 flu season and sales levels are higher than expected, we may be able to utilize more inventory than anticipated, and as such, our margins would be favorably impacted in these periods when the inventory is sold. Conversely, should FluMist not be approved, or if sales levels are lower than expected, we may have further reserves or writedowns for obsolete inventory.

For our other products, we periodically assess our inventory balances to determine whether net realizable value is below recorded cost. Factors we consider include expected sales volume, production capacity and expiration dates.

Sales allowances and other sales related estimates

We estimate the amount of sales discounts and sales returns, recorded as a reduction of gross product sales, by applying rates determined by our past experience to actual sales for the period. We estimate our co-promotion expense and sales commissions, recorded as selling, general and administrative expense, by applying an estimated rate that is based upon an estimate of projected sales for the season, to our actual sales for the period. We estimate the level of bad debts based upon our assessment of the concentration of credit risk, the financial condition and environment of our customers, the level of credit insurance we obtain on our customers and the expected impact of current reimbursement issues our customers experience. We estimate the aggregate amount of government reimbursements, recorded as a reduction to gross product sales, based upon historical experience and our best estimate of the proportion of the seasonal sales that will be subject to this reimbursement, largely comprised of Medicaid payments to state governments. If our historical trends are not indicative of the future, or our actual seasonal sales are materially different from projected amounts, or if our assessments prove to be materially different than actual occurrence, our results could be affected. During the fourth quarter of 2002, we recorded an additional charge of $2.1 million to co-promotion expense, resulting from the final reconciliation of gross to net sales for the 2001/2002 contract year. During 2001 and 2000, the adjustments were not material.

Taxes

We record a valuation allowance to reduce our deferred tax assets to the amount that is anticipated to be realized. We consider future taxable income and ongoing tax planning strategies in assessing the need for the valuation allowance. Should we determine that we were able to realize more than the recorded amounts of net deferred tax assets in the future, our net income would increase in the period such determination was made. Likewise, should we determine that we would not be able to realize all or part of the net deferred tax asset in the future, our net income would decrease in the period such determination was made.

Investments

We regularly enter into collaborative research and development agreements with strategic partners. As part of the agreements, we may obtain common stock, preferred stock or other equity securities in these strategic partners. These companies may be public or privately held companies. At the time the securities are obtained, we determine if the investment should be accounted for under the cost method, equity method, or consolidation method based upon multiple factors including: percentage ownership of the company; representation on board of directors; participation in policy-making processes; technological dependency; veto rights of partners; our role on key technical or product development committees; revenue dependence; and other extraordinary voting rights. Investments accounted for under the equity method are adjusted quarterly for the Company's proportionate share of the investee's gains or losses, which may fluctuate significantly from quarter to quarter. Each quarter, we evaluate all of our investments, and recognize an impairment charge in the consolidated statements of operations when a decline in the fair value of an investment falls below its cost value and is judged to be other than temporary. We consider various factors in determining whether we should recognize an impairment charge, including the length of time and extent to which the fair value has been less than our cost basis, the financial condition and near-term prospects of the issuer, fundamental changes to the business prospects of the investee, share prices of subsequent offerings, and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value.

RESULTS OF OPERATIONS

2002 Compared to 2001

To present our results in the same manner as we view the performance of the business and the resulting underlying trends, we have presented certain expense categories with and without certain Acquisition-related amounts, including: the acquired in-process research and development charge; amortization of intangible assets, compensation expense associated with the assumption and vesting of unvested stock options, retention and severance payments; and the amortization of the premium on convertible subordinated notes. Inclusion of such Acquisition related expenses is consistent with generally accepted accounting principles. Where we exclude such expenses, we use the term "adjusted."

REVENUES

PRODUCT SALES

(In Millions)	2002	2001	Growth
Synagis	$667.8	$516.4	29%
Ethyol	80.4	20.3	296%
Other Products	37.8	42.8	(12%)
	$786.0	$579.5	36%

Product sales grew 36% to $786.0 million as compared to $579.5 million in 2001, primarily due to increased sales of Synagis and the impact of reacquiring the domestic marketing rights to Ethyol from ALZA as of October 1, 2001.

Synagis

Synagis accounted for approximately 85% and 89%, respectively, of our 2002 and 2001 product sales. We achieved a 33% increase in domestic Synagis sales to $637.4 million in 2002, up from $479.7 million in 2001. This growth was largely due to increased demand in the United States, and resulted in a 30% increase in domestic units sold. Also aiding growth was a 3.5% price increase that took effect in June 2002, partially offset by an increase in sales allowances, which are accounted for as a reduction to product sales. Our reported international sales of Synagis decreased 17% to $30.4 million in 2002 compared to $36.7 million in 2001, due to a 40% decrease in units sold to AI, our exclusive distributor of Synagis outside of the United States. We believe that the decrease is due to

reductions in the inventory stocking levels of AI, rather than reduced product demand by end users. The decrease in unit volume was offset by an increase in the per unit sales price recognized upon delivery of product to AI under the terms of our international distribution agreement. Based on information received from AI, we believe that end-user sales have increased over last year. We record Synagis international product sales based on AI's sales price to customers, as defined in the agreement. We have been working with AI to expand the number of countries where we are licensed to sell Synagis. As of February 28, 2003, Synagis had been approved for marketing in 50 countries, (including the United States), the most recent of which was Canada in May 2002. There can be no assurance that approvals by the appropriate regulatory authorities will continue to be granted or that we will receive pricing and reimbursement approvals in countries where we have received regulatory approval.

Ethyol

Ethyol accounted for approximately 10% and 4% of our product sales in 2002 and 2001, respectively. On October 1, 2001 we reacquired domestic marketing rights to Ethyol from ALZA and have since recorded all revenues from domestic sales of Ethyol to wholesalers and distributors. As part of this agreement, no third quarter 2001 supply sales were made to ALZA, and we purchased ALZA's remaining Ethyol inventory at their original purchase price, which was recorded as a reduction to product sales. Beginning April 1, 2002, we pay ALZA a declining royalty through 2011 based on net sales of Ethyol in the United States. Domestic Ethyol sales were $74.7 million in 2002, as compared to $14.3 million in 2001. The increase is primarily attributable to a three-fold increase in domestic units sold in 2002 versus the 2001 year, which included nine months of revenues generated under our product supply agreement with ALZA and three months of sales to wholesalers and distributors. Further, two domestic price increases occurred during 2002, including a 9% increase in April 2002 and a 6% increase in September 2002. In addition, 2001 included net returns of $2.3 million, relating to our assumption of Ethyol marketing rights. Prior to October 1, 2001, we recorded Ethyol domestic product sales based on ALZA's net unit selling price as defined in the agreement. Our international sales of Ethyol to our distribution partner, Schering, were $5.7 million for 2002, down 5% from the prior year sales of $6.0 million. We record Ethyol international product sales based on a percentage of Schering's end user sales, as defined in our agreement.

Other Products

Sales of other products in 2002, which include sales of CytoGam, NeuTrexin, RespiGam, and by-products that result from the CytoGam manufacturing process, decreased $5.0 million, or 12% compared to last year. The decrease was due to marginal declines in all of our other product lines.

Forward-looking commentary

We believe that the growth rate of our product sales, while still at double-digit levels, will decelerate in 2003. However, the level of future product sales will depend on several factors, including, but not limited to, the timing and extent of future regulatory approvals of our products and product candidates, receiving reimbursement pricing, availability of finished product inventory, approval and commercialization of competitive products and the degree of acceptance of our products in the marketplace.

We continue to make progress in the FDA review process for FluMist. On January 29, 2003, we received a CRL from the FDA containing five questions, to which we responded in early February 2003. We anticipate that we will receive FDA approval for FluMist during the second quarter of 2003, if not sooner.

Revenues – Other Revenues

Other revenues increased 58% to $61.8 million for 2002 compared to $39.2 million in 2001. The increase is largely attributable to $25 million received from Wyeth, our marketing partner for FluMist, for compensation of 2002 FluMist manufacturing costs under recent amendments to the collaborative agreements. An increase of $9.7 million in revenues from the sale of excess production capacity to a third party and $7.7 million in funding for FluMist clinical development and sales and marketing activities from Wyeth also contributed to the growth over 2001. Partially offsetting these increases is a decrease of $15.5 million in revenue recorded under collaborative agreements, including a $2.7 million decrease in clinical funding received for our HPV vaccine candidate as we are nearing completion of Phase 1 and 2 clinical trials and our preparation of clinical material.

Forward-looking commentary

We anticipate the level of other revenues to increase in 2003 largely due to milestone and royalty payments associated with the approval and commercialization of FluMist. The level of contract revenues in future periods will depend primarily upon the extent to which we enter into other collaborative contractual arrangements, if any, and the extent to which we achieve certain milestones provided for in existing agreements. Future revenues from the sale of excess production capacity will vary depending upon the extent to which we enter into these types of arrangements, and are not expected to be significant for 2003 or thereafter.

The expected timing of annual revenues to be recognized through 2005 under major collaborative agreements entered into before January 1, 2002, which we have accounted for using the contingency adjusted performance model and deferred a portion of the up-front and milestone payments received, based on current estimates of costs to complete, is as follows (in millions):

	2003	2004	2005
Abbott Laboratories	$2.7	$ —	$ —
Schering-Plough Corporation	0.4	0.4	0.4
Total	$3.1	$0.4	$0.4

Cost of Sales

Cost of sales for 2002 increased 45% to $200.9 million from $138.7 million in 2001, due to the increase in sales volumes and additional royalties owed for Synagis, partially offset by manufacturing cost reductions following implementation of an improved manufacturing process at the FMC which enhances the yields for Synagis. As a result, gross margins for 2002 were down two percentage points to 74% from 76% for the year ended December 31, 2001.

Forward-looking commentary

We expect that gross margins may vary significantly from quarter to quarter, based on the product mix. We expect that on an annual basis, our gross margin percentage for 2003 should be lower than 2002, as a result of the anticipated launch of FluMist.

Research and Development Expenses

Research and development expenses of $144.2 million in 2002 increased 74% from $83.0 million in 2001. Excluding Acquisition related amounts of $9.4 million in 2002 for retention payments, stock option acceleration and stock compensation expense for unvested options assumed, research and development expenses were $134.8 million, up 62% over 2001. This increase was largely due to the on-going activities of MedImmune Vaccines and payments of approximately $19.0 million to gain access to various technologies and intellectual property to advance our pipeline. These increases were offset by decreases in clinical trial expenses, as several of our clinical trials were either completed, cancelled or delayed during 2002. During 2002, we completed several important clinical trials, including a successful Phase 3 trial for Synagis in children with congenital heart disease and three Phase 2 trials for siplizumab.

During 2002, we incurred significant costs related to the development of various products and product candidates. A summary of our more significant research and development efforts is shown on the chart on this page.

As indicated in the table below, we completed the preliminary analysis of three Phase 2 trials for siplizumab involving almost 700 psoriasis patients. While the drug appeared to be generally well tolerated and some patients exhibited an improvement in their psoriatic disease, an anti-antibody response (also known as immunogenicity) was observed in the laboratory tests of over 50 percent of the patients. This anti-antibody response did not appear to cause any clinical complications. In 2003, we plan to conduct retreatment Phase 2 studies to further assess the potential clinical impact of the immunogenicity. We also completed two Phase 2 trials of our *E. coli* urinary tract infection vaccine, and have determined that there is not a sufficient level of efficacy in prevention of urinary tract infections to proceed with additional trials. Our ongoing clinical program also includes several product candidates in various phases of evaluation, including a Phase 1 trial in adults using a liquid formulation of Synagis and certain trials for FluMist. Additionally, we have multiple programs in preclinical development.

Forward-looking commentary

We expect research and development expenses to be up slightly in 2003 compared to 2002. This is largely due to the impact of the conclusion of trials and studies as described above offset by the anticipation of post-marketing commitments, additional trials associated with FluMist and the continued progress of our pipeline candidates.

During 2002, we entered into several research collaborations and licensing agreements, which commit us to future payments of $186.7 million, should certain events or milestones occur.

The development-stage efforts listed above and other research and development projects may never reach clinical trials, achieve success in the clinic, be submitted to the appropriate regulatory authorities for approval, or be approved for marketing or manufacturing by the appropriate regulatory authorities. Further, we rely on numerous third parties to assist us in various stages of the development process. Should they be unable to meet our needs, we may incur substantial

Product Candidates	Description	Stage of Development
Synagis	Potential prevention of RSV in infants with congenital heart disease	Phase 3 completed
Siplizumab	Potential treatment for psoriasis	Phase 2
Urinary tract infection vaccine	Potential vaccine to prevent urinary tract infections caused by *E. coli*	Terminated
Human papillomavirus vaccine	Potential vaccine to prevent cervical cancer	Phase 2 completed
Vitaxin	Potential product to slow tumor growth and to prevent the progress of rheumatoid arthritis	Phase 1
FluMist	Influenza vaccine delivered as a nasal mist	FDA review

additional costs. Any of such uncertainties, if they should occur, could have a material adverse effect on our financial condition and results of operations.

Selling, General, and Administrative Expenses

Selling, general and administrative ("SG&A") expenses increased 54% to $299.3 million in 2002 compared to $194.8 million for the 2001 period. Excluding Acquisition- related amounts of $11.9 million in expense in 2002 relating to retention payments, stock option acceleration and stock compensation for unvested stock options assumed and amortization of intangibles, SG&A expenses were $287.5 million, up 48% over 2001. As a percentage of product sales, adjusted SG&A expense increased to 37% of product sales in the 2002 period from 34% in the 2001 period. The increase in this ratio is largely reflective of the impact of the Acquisition and the inclusion of MedImmune Vaccines' ongoing expenses. Additionally, we incurred increased co-promotion expense directly related to the growth in domestic sales of Synagis, higher salaries and sales commissions, as well as increased Synagis marketing expense. SG&A expenses for 2002 also included a $5.0 million charge associated with the settlement of a contractual dispute in August 2002 regarding an agreement with the Massachusetts Biologic Laboratories of the University of Massachusetts ("MBL") to transfer certain technology relating to the Company's monoclonal antibody manufacturing operations. The comparison to last year is favorably impacted as $13.4 million of expenses related to our accelerated acquisition of Ethyol marketing rights from ALZA was included in SG&A for 2001.

Forward-looking commentary

We expect SG&A expenses as a percentage of product sales to decrease in 2003, largely due to a shift in product sales mix.

Other Operating Expenses

Other operating expenses, which reflect manufacturing start-up costs and other manufacturing related costs, increased to $100.0 million in 2002 from $9.6 million in 2001. Excluding Acquisition-related amounts of $20.8 million in expense in 2002 relating to stock compensation for unvested stock options assumed and amortization of intangibles, adjusted other operating expenses were $79.2 million. The increase over 2001 is primarily related to $56.9 million of pre-production costs and inventory reserves for FluMist. The majority of the cost incurred for FluMist was associated with preparing for the aborted 2002 commercial launch. Additionally, we incurred a $12.9 million charge for the write-off of CytoGam manufacturing equipment as the Company has outsourced CytoGam production activities as of November 2002. Also included in other operating expense for both periods are excess capacity costs associated with the plasma production section of the FMC.

Forward-looking commentary

We expect the level of other operating expenses will decline significantly in 2003 as we anticipate that approval of FluMist will occur in the second quarter of 2003, if not sooner.

In-Process Research and Development

We incurred charges of $1,179.3 million for the year ended December 31, 2002 for the write-off of purchased in-process research and development in conjunction with the Acquisition. The write-off represents the fair value of purchased in-process technologies at the acquisition date, calculated utilizing the sum of the probability-adjusted scenarios under the income approach using a discount rate of 18.7%, and certain in-process research and development projects, primarily FluMist. We do not anticipate that there will be any alternative future use for the in-process technologies that were written off.

FluMist is a live, attenuated vaccine delivered via a nasal mist for the prevention of influenza. It is a frozen vaccine requiring freezer storage. A liquid influenza vaccine, better suited to international markets where freezers are not as readily available to pharmacists and physicians, is currently being developed by our partner Wyeth. While there are other flu vaccines currently marketed by other companies, FluMist would be the only live virus vaccine administered as a nasal mist.

In October 2000, we submitted a BLA for FluMist to the FDA seeking approval for licensure. We received a CRL from the FDA and filed our response to this letter in January 2002. A second CRL was received from the FDA in July 2002 requesting clarification and additional information relating to clinical data and chemistry, manufacturing and controls data previously submitted. We submitted the requested information in August 2002. We met with the FDA's VRBPAC committee in December 2002 who voted favorably on the questions of safety and efficacy for FluMist in preventing influenza in healthy children, adolescents and adults ages five through 49 and safety for healthy individuals aged 50-64 years. On January 29, 2003, we received a third CRL from the FDA containing five questions, to which we responded in early February 2003.

The valuation of the acquired in-process research and development is based upon certain estimates and assumptions by management. The valuation is based upon management's estimates of the probability of FDA approval and commercial success for FluMist. As with all biotechnology products, the probability of FDA approval and commercial success for any particular research and development project is highly uncertain. Management's projections were based on assumptions, which may or may not remain valid for the relevant period, including the estimated impact of four "key" factors: price per dose; dose volume; launch date; and the potential failure of the frozen or liquid formulations of the influenza vaccine. Based on current information, management believes that the estimates and assumptions underlying the fair value analysis are substantially accurate. In addition, as of February 28, 2003, none of the existing manufacturing facilities involved in the production of FluMist had been licensed by any regulatory agency and FluMist had not yet been manufactured at a sustained commercial scale. There can be no assurance that these facilities can achieve licensure by the FDA or any other regulatory agency, or can there be any assurances that if licensed, commercial scale

production could be achieved or sustained. If we fail to obtain FDA approval for the marketing and manufacture of FluMist, we will absorb all of the related ongoing expenses while recording no corresponding revenue.

Interest Income and Expense

We earned interest income of $49.4 million for 2002, compared to $36.5 million in 2001, reflecting higher cash balances available for investment, largely due to the Acquisition, partially offset by a decrease in interest rates, which lowered the overall portfolio yield. Interest expense for 2002, net of amounts capitalized, was $9.1 million, up $8.5 million over 2001. Excluding the Acquisition-related amount of $1.8 million for the amortization of premium on the 5¼% Convertible Subordinated Notes ("the Notes") , adjusted interest expense was $10.9 million. The increase over 2001 is due to interest expense on the Notes assumed in the Acquisition.

Loss on Investment Activities

We incurred $14.1 million in losses on investment activities for 2002. The losses consisted primarily of impairment charges of $4.5 million on our publicly traded equity investments and $9.6 million on our minority interest investments related to declines in fair value that were judged to be other than temporary.

Taxes

We recorded income tax expense of $48.2 million for the year ended December 31, 2002. Excluding items not deductible for tax purposes, principally the write-off of purchased in-process research and development, the resulting effective tax rate is 37.2%. This compares to tax expense of $79.5 million recorded for the year ended December 31, 2001, based on an effective tax rate of 34.8%. The higher effective tax rate for 2002 versus 2001 is due to lower credits estimated to be available for research and development activities, including credits earned for orphan drug status of certain research and development activities. These credits will vary from year to year depending on the activities of the Company.

Forward-looking commentary

We expect that our 2003 effective tax rate will continue to be at approximately the same rate as 2002.

Net loss

Net loss for the year ended December 31, 2002 was $1.1 billion, or $4.40 per share compared to net earnings for the year ended December 31, 2001 of $149.0 million or $0.70 basic and $0.68 diluted earnings per share. Excluding the after-tax impact of the Acquisition-related amounts totaling $1.2 billion, adjusted net earnings for 2002 were $106.6 million, or $0.42 adjusted earnings per diluted share.

Shares used in computing net loss per share in 2002 were 249.6 million. Shares used in computing basic and diluted earnings per share for 2001 were 213.4 million and 220.1 million, respectively. The increase in share count primarily reflects the 34.0 million additional shares issued in conjunction with the Acquisition.

We do not believe inflation had a material effect on our financial statements.

Forward-looking commentary

In 2003, we expect to generate net earnings per diluted share. The level of net earnings will depend on many factors, including, but not limited to, the timing and extent of regulatory approvals of our products and product candidates, the degree of acceptance of our products in the marketplace and adequate product supply to meet demand.

RESULTS OF OPERATIONS
2001 Compared to 2000

REVENUES

PRODUCT SALES

(In Millions)	2001	2000	Growth
Synagis	$516.4	$427.0	21%
CytoGam	32.3	36.5	(12%)
Ethyol	20.3	21.4	(5%)
Other Products	10.5	10.9	(4%)
	$579.5	$495.8	17%

Product sales grew 17% to $579.5 million in 2001 from $495.8 million in 2000, primarily due to increased sales of Synagis.

Synagis

Sales of Synagis increased 21% over 2000 from $427.0 million to $516.4 million in 2001. Contributing to the growth was a 20% increase in domestic Synagis sales from $399.5 million in 2000 to $479.7 million in 2001. This growth was attributable to higher demand in the United States, resulting in a 19% increase in domestic sales unit volume, and a 3.6% increase in the domestic selling price of Synagis effective in the second quarter of 2001. Partially offsetting the increase was higher estimated government reimbursements, which were accounted for as a reduction of product sales, as Synagis usage by patients eligible for Medicaid grew over the prior year. Contributing to the strong growth in international sales during 2001 was the timing of a contractual shift in May 2001 to a higher proportion of the per unit sales price recognized upon delivery of product to Abbott under the terms of our international distribution agreement. Units shipped to Abbott during 2001 decreased approximately 16% from 2000, which we believe reflects reductions in Abbott's inventory stocking levels rather than reduced product demand by end users. We believe, based on information provided by AI, that end user demand increased from 2000 to 2001.

CytoGam

CytoGam sales decreased 12% from $36.5 million in 2000 to $32.3 million in 2001. Domestic sales units decreased 21%, which was partially offset by a domestic price increase of 8% effective in the second quarter of 2001 and a decrease in government reimbursements for the product. We believe that a portion of the CytoGam sales that occurred in 2000 was the result of product substitution occurring because of the then worldwide shortage of standard IVIG products. In

late 2000, the supply of standard IVIG products increased, and certain Medicaid agencies began to limit or discontinue reimbursement of CytoGam as a substitute for IVIG. Thus, CytoGam sales relating to product substitution decreased significantly in 2001.

Ethyol

Ethyol revenues decreased 5% from $21.4 million in 2000 to $20.3 million in 2001. Sales of Ethyol in 2001 were impacted by our early assumption of domestic marketing responsibility for Ethyol from ALZA. The transfer of marketing responsibility from ALZA was originally scheduled to occur in April 2002. However, in September 2001, we reached an agreement with ALZA to accelerate to October 1, 2001 the transfer to us of Ethyol marketing rights. In anticipation of that transfer, we ceased supply sales of Ethyol to ALZA during the third quarter of 2001, and we purchased ALZA's remaining Ethyol inventory at historical cost as of September 30, 2001, which we recorded as a reduction to product sales in the amount of $2.3 million. Beginning October 1, 2001, we recorded all revenues from domestic sales of Ethyol and, beginning April 1, 2002, we pay ALZA a declining royalty for nine years thereafter based on sales of Ethyol in the U.S. We recorded net domestic product sales of Ethyol of $12.7 million during the fourth quarter of 2001. Prior to October 1, 2001, we recorded Ethyol domestic product sales based on a price of 25% to 35% of ALZA's net unit selling price. Our international sales of Ethyol to our distribution partner, Schering, declined slightly to $6.0 million during 2001 as compared to $6.5 million in 2000, as unit sales decreased 3%. In accordance with our product supply agreement, we recorded Ethyol international product sales based on a percentage of Schering's end user sales. We believe the decrease in international sales was primarily due to reductions in inventory stocking levels at our international distribution partner.

Other Products

Sales of other products in 2001, which included sales of NeuTrexin, RespiGam, and by-products that result from the CytoGam manufacturing process, were comparable to 2000 sales. Results for the year ended December 31, 2000 also included net sales of Hexalen. We sold this product to MGI Pharma in November 2000 and, therefore no longer recorded product sales of Hexalen; rather, we recognized royalty income and other revenue pursuant to our agreement with MGI Pharma. These amounts were included in other revenues for 2001.

Revenues – Other Revenues

Other revenues decreased 12% from $44.7 million in 2000 to $39.2 million in 2001. Other revenues during both years consisted primarily of revenues under collaborative agreements. We recognized revenue of $21.4 million in 2001 compared to $21.1 million in 2000 related to upfront and milestone payments under these agreements. We recognized non-refundable fees and milestone payments in connection with research and development and commercialization agreements as the contractual obligations and performance requirements were fulfilled, using the contingency adjusted performance model for revenue recognition. Under this method, the amount of revenue recognized during each period was based the ratio of actual costs incurred relative to the total projected costs.

Other revenues also included research funding from GSK for the development of an HPV vaccine. Funding decreased $5 million to $2.8 million in 2001, as our responsibilities under the collaboration agreement, primarily Phase 1 and 2 clinical trials and preparation of clinical material, were nearing completion. Other revenues also included approximately $5.3 million in 2001 and $1.2 million in 2000 from MGI Pharma related to the agreement for the sale of our Hexalen business. During 2001, we also entered into an agreement to sell excess production capacity to a third party and recorded $7.5 million in other revenues under the arrangement. Other revenues in both years also included royalty income from ALZA in accordance with the terms of the Ethyol distribution agreement. Other revenues during 2000 also included $10.0 million related to the license agreement signed with GSK for our *Streptococcus pneumoniae* vaccine technology.

Cost of Sales

Cost of sales for 2001 increased 9% to $138.7 million from $127.3 million in 2000 due to increased sales volumes. Gross margins for the year ended December 31, 2001 improved to 76% from 74% for the year ended December 31, 2000. Gross margins in 2001 were principally improved as a result of a product mix shift to Synagis. Synagis has higher margins than MedImmune's other products, which is in part attributable to lower manufacturing costs following implementation of an improved manufacturing process at the FMC, which increased fermentation yields. Additionally, margins in 2000 were adversely affected by a $2.4 million charge associated with the write-off of certain Synagis inventory, as a result of a contamination in the manufacturing process at the FMC, as well as a $1.5 million charge associated with the write-off of by-product inventory associated with our plasma production activities.

Research and Development Expenses

Research and development expenses increased 25% to $83.0 million in 2001 from $66.3 million in 2000, primarily due to a larger number of active clinical trials. During 2001, we initiated nine new clinical trials and completed patient enrollment in twelve trials. Our clinical trials included a Synagis Phase 3 study in infants with congenital heart disease, a trial with adults using a liquid formulation of Synagis, three Phase 2 and one Phase 1 human papillomavirus vaccine trials, one Phase 1 trial and three Phase 2 trials for use of siplizumab in psoriasis patients, two Phase 2 trials for our UTI vaccine, and two Phase 1 and one Phase 2 Vitaxin trials. In addition, to accommodate more research and development activity, we expanded our workforce and facilities, resulting in increased wages and occupancy expense.

During 2001, we incurred significant costs related to the development of various products and product candidates. A summary of our more significant research and development efforts as of December 31, 2001 would include Synagis (Phase 3), siplizumab (Phase 2), UTI (Phase 2), HPV vaccine (Phase 2) and Vitaxin (Phase 1).

The development-stage efforts listed above and other research and development projects may never reach clinical trials, achieve success in the clinic, be submitted to the appropriate regulatory authorities for approval, or be approved for marketing or manufacturing by the appropriate regulatory authorities. Further, we rely on numerous third parties to assist us in various stages of the development process. Should they be unable to meet our needs, we may incur substantial additional costs. Any of such uncertainties, if they should occur, could have a material adverse effect on our financial condition and results of operations.

Selling, General and Administrative Expense

SG&A expense increased 24% to $194.8 million in 2001 from $157.3 million in 2000. As a percentage of product sales, SG&A expense increased to 34% in 2001 from 32% in 2000. A portion of this increase is reflective of $13.4 million in termination fees relating to our agreement with ALZA for the accelerated acquisition of Ethyol marketing rights in the United States. In addition, we incurred increased salary and related expenses for approximately 40 additional sales representatives and increased marketing expenses for the relaunch of Ethyol during the second half of 2001. SG&A expense also increased due to increased wage and related expenses for our pediatric sales force which was established in mid-year 2000, costs for expanded Synagis marketing programs, and increased co-promotion expense to the Ross Products Division of Abbott Laboratories for the promotion of Synagis in the United States. Offsetting these increases was a decrease in legal expenses from 2000, as several legal matters outstanding in 2000 were resolved.

Other Operating Expenses

Other operating expenses, which reflect manufacturing start-up costs, the cost of idle manufacturing capacity and other manufacturing related costs, increased 4% to $9.6 million in 2001 from $9.2 million in 2000. This increase was mainly attributable to a $1.3 million charge in 2001 to record certain plasma inventories at their net realizable value. The plasma was intended for the start-up operations of our manufacturing plant and was not approved for use in the current production process.

Interest Income and Expense

We earned interest income of $36.5 million during 2001 compared to $29.6 million in 2000, reflecting higher cash balances available for investment and a shift in our investment strategy to include investments with longer maturities, partially offset by a decline in interest rates which lowered our portfolio yield. Interest expense was comparable in 2001 to 2000.

Taxes

We recorded income tax expense of $79.5 million for the year ended December 31, 2001, resulting in an effective tax rate of 34.8%. This compared to tax expense of $64.4 million recorded for the year ended December 31, 2000, based on an effective tax rate of 30.8%. The variation in the effective tax rate for 2001 compared to 2000 is due to the amount of credits available for research and development activities. In addition, due to state tax law changes for the year ended December 31, 2001, the value of our state deferred tax assets decreased. The change in the statutory tax rate required us to reduce our deferred tax assets and accompanying valuation allowance to value them at the new rate, resulting in a $2.4 million additional charge to tax expense during 2001.

Cumulative Effect of a Change in Accounting Principle

We recorded a non-cash charge to 2000 earnings of $33.8 million, net of tax, or $0.16 on a diluted per share basis, 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 recognized as revenue prior to 2000. These amounts related to up-front payments or milestone payments that we received in prior years under arrangements for which performance obligations related to the up-front or milestone payments had been met, but for which we were contractually obligated to perform additional research and development activities or other activities in future periods.

Net Earnings

Earnings for the year ended December 31, 2001 were $149.0 million, compared to earnings for the year ended December 31, 2000 of $145.0 million, before the cumulative effect of a change in accounting principle of $33.8 million. Net earnings per share for the year ended December 31, 2001 were $0.70 for basic earnings per share and $0.68 diluted earnings per share. Shares used in computing basic and diluted earnings per share were 213.4 million and 220.1 million, respectively. Net earnings for the year ended December 31, 2000, which include the cumulative effect of a change in accounting principle, were $111.2 million, or $0.53 basic and $0.50 diluted earnings per share. Shares used in computing basic and diluted earnings per share were 209.1 million and 220.4 million, respectively.

We do not believe inflation had a material effect on our financial statements.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

The Company's capital requirements have generally been funded from operations, cash and investments on hand, and issuance of common stock. Cash and marketable securities (short and long-term) increased 83% to $1.4 billion at December 31, 2002 from $777.7 million at December 31, 2001. This increase is due to the impact of the Acquisition, as well as cash generated from operations. Working capital increased 31% to $476.8 million at December 31, 2002 from $365.2 million at December 31, 2001. Also, as a result of the

Acquisition, we have added $200 million in Notes with the entire balance due in 2008.

Operating Activities

Net cash provided by operating activities increased to $263.5 million in the year ended December 31, 2002 as compared to $250.9 million in the comparable 2001 period, primarily as the result of the net earnings for the period (excluding the write-off of in-process research and development and other non-cash items) and volume-related increases in accrued co-promotion expenses for Synagis and royalties payable. The Company has made $5.1 million in cash restructuring payments relating to the Acquisition. The remaining restructuring liability of $1.0 million is expected to be settled by 2004 with cash generated from operations.

Investing Activities

Cash used for investing activities during 2002 was $347.0 million, as compared to $188.2 million in 2001. Cash used for investing activities in 2002 included net additions to our investment portfolio of $404.3 million, offset by $146.9 million in cash acquired as a result of the Acquisition. We also invested $8.7 million in preferred equity securities of strategic partners, including Panacea, A&G and Iomai. We expended $80.9 million for capital expenditures, primarily for the land purchase for and construction of our new corporate headquarters in Gaithersburg, Maryland, and for the continued expansion of our manufacturing facilities in Pennsylvania, Speke (England) and Maryland.

Financing Activities

Financing activities generated $42.0 million in cash for 2002, as compared to $23.6 million in 2001. Approximately $46.7 million was received upon the issuance of common stock relating primarily to the exercise of employee stock options in 2002, as compared to $24.3 million received in 2001, largely reflecting the inclusion of option exercises by employees subsequent to the Acquisition. In 2002, repayments on long-term obligations were $4.6 million, compared to $0.7 million in 2001, primarily reflecting paydowns of long-term obligations assumed with the Acquisition.

Forward-looking commentary

We expect to have approximately $115 million in capital expenditures during 2003. Construction of the first phase of the new headquarters facility, at a total estimated cost of $85 million as well as major construction projects at our facilities in Pennsylvania and in England, will be funded from cash generated from operations and investments on hand. Additionally, we have options to purchase an additional 14 acres of land adjacent to the new headquarters facility. Construction began during March 2002, and we expect to take occupancy of the first phase, a complex of approximately 220,000 square feet, in the fall of 2003. The majority of our existing space in Gaithersburg is leased through 2006, a portion of which is expected to be subleased. There can be no guarantee that we will be successful in subleasing the space.

In conjunction with our licensing agreement with Genentech and research and development collaborations reached with Panacea, A&G and ViroNovative during 2002, we are obligated to pay up to $186.7 million in various milestone payments subject to the achievement of specified clinical, regulatory, and sales milestones. We are also obligated to pay up to $108.2 million in potential milestones under various research and development agreements we have entered into since inception. Additionally, we are required to pay research and development funding and maintenance fees under certain of the contracts. Payments are expected to be funded from cash generated from operations and investments on hand.

Through MedImmune Ventures, Inc., we plan to invest up to $100 million over the next three years in minority interest investments in strategic partners that are either public or early-to-late stage private biotechnology companies focused on discovering and developing human therapeutics.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations and commitments that will require significant cash outlays in the future:

CONTRACTUAL OBLIGATIONS	TOTAL	2003	2004	2005	2006	2007	BEYOND
Long-term debt *	$208.8	$ 0.8	$ 0.9	$ 0.9	$1.0	$ 1.1	$204.1
Facilities leases	62.9	8.6	8.6	6.5	4.4	2.6	32.2
Unconditional purchase obligations	69.8	46.6	23.2	—	—	—	—
Evans liability	30.7	3.9	22.9	3.9	—	—	—
Total contractual obligations	$372.2	$59.9	$55.6	$11.3	$5.4	$ 3.7	$236.3
Other Commercial Commitments							
Standby letters of credit	$ 2.3	$ 2.1	$ —	$ 0.2	$ —	$ —	$ —
Evans liability	2.0	0.5	1.5	—	—	—	—
Obligations under Collaborative Agreements	294.9	7.1	7.5	9.2	3.7	14.4	253.0
Total other commercial commitments	$299.2	$ 9.7	$ 9.0	$ 9.4	$3.7	$14.4	$253.0

** A portion of this amount represents the aggregate principal amount of the Notes. The Notes are recorded at a premium on the balance sheet, which represents their fair value at the time of the Acquisition.*

Financial Statements and Supplementary Data

Consolidated Balance Sheets

(in thousands)	2002	2001
Assets		
Cash and cash equivalents	$ 130,056	$ 171,255
Marketable securities	396,882	162,375
Trade receivables, net	113,774	126,371
Inventory, net	59,963	50,836
Deferred tax assets	25,735	27,280
Other current assets	17,023	9,063
Total Current Assets	743,433	547,180
Marketable securities	896,118	444,060
Property and equipment, net	183,992	95,402
Deferred tax assets, net	222,038	136,361
Intangible assets, net	113,275	—
Goodwill	15,970	—
Other assets	13,463	13,852
Total Assets	$2,188,289	$1,236,855
Liabilities and Shareholders' Equity		
Accounts payable, trade	$ 19,773	$ 5,873
Accrued expenses	157,359	112,434
Product royalties payable	74,048	47,720
Deferred revenue	6,789	13,839
Other current liabilities	8,684	2,149
Total Current Liabilities	266,653	182,015
Long-term debt	217,554	8,791
Obligations to Evans	24,755	—
Other liabilities	2,093	1,776
Total Liabilities	511,055	192,582
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, $.01 par value; authorized 5,525 shares; none issued or outstanding	—	—
Common stock, $.01 par value; authorized 320,000 shares; issued and outstanding 251,262 at December 31, 2002 and 214,484 at December 31, 2001	2,513	2,145
Paid-in capital	2,613,075	891,627
Deferred compensation	(6,823)	—
Accumulated (deficit) earnings	(956,140)	141,875
Accumulated other comprehensive income	24,609	8,626
Total Shareholders' Equity	1,677,234	1,044,273
Total Liabilities and Shareholders' Equity	$2,188,289	$1,236,855

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, 2002	2001	2000
Revenues			
Product sales	$ 785,961	$579,529	$495,803
Other revenue	61,778	39,150	44,692
Total revenues	847,739	618,679	540,495
Costs and Expenses			
Cost of sales	200,927	138,707	127,320
Research and development	144,150	82,985	66,296
Selling, general, and administrative	299,323	194,841	157,330
Other operating expenses	100,029	9,606	9,231
Acquired in-process research and development	1,179,321	—	—
Total expenses	1,923,750	426,139	360,177
Operating (loss) income	(1,076,011)	192,540	180,318
Interest income	49,355	36,516	29,569
Interest expense	(9,110)	(590)	(474)
Loss on investment activities	(14,074)	—	—
(Loss) earnings before income taxes and cumulative effect of a change in accounting principle	(1,049,840)	228,466	209,413
Provision for income taxes	48,175	79,506	64,436
(Loss) earnings before cumulative effect of a change in accounting principle	(1,098,015)	148,960	144,977
Cumulative effect of a change in accounting principle, net of tax	—	—	(33,821)
Net (loss) earnings	$(1,098,015)	$148,960	$111,156
Basic (loss) earnings per share:			
(Loss) earnings before cumulative effect of a change in accounting principle	$ (4.40)	$ 0.70	$ 0.69
Cumulative effect of a change in accounting principle, net of tax	—	—	(0.16)
Net (loss) earnings	$ (4.40)	$ 0.70	$ 0.53
Shares used in calculation of basic (loss) earnings per share	249,625	213,378	209,101
Diluted (loss) earnings per share:			
(Loss) earnings before cumulative effect of a change in accounting principle	$ (4.40)	$ 0.68	$ 0.66
Cumulative effect of a change in accounting principle, net of tax	—	—	(0.16)
Net (loss) earnings	$ (4.40)	$ 0.68	$ 0.50
Shares used in calculation of diluted (loss) earnings per share	249,625	220,101	220,428
Pro forma amounts assuming the change in accounting principle was applied retroactively:			
Net earnings			$144,977
Basic earnings per share			$ 0.69
Diluted earnings per share			$ 0.66

The accompanying notes are an integral part of these financial statements

Consolidated Statements of Cash Flows

(in thousands)	For the year ended December 31, 2002	2001	2000
Cash Flows From Operating Activities			
Net (loss) earnings	$(1,098,015)	$ 148,960	$ 111,156
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities:			
Cumulative effect of a change in accounting principle, net of tax	—	—	33,821
Acquired in-process research and development	1,179,321	—	—
Deferred taxes	50,806	76,398	68,024
Deferred revenue	(8,663)	(21,430)	(21,117)
Depreciation and amortization	36,820	9,124	7,322
Amortization of premium (discount) on marketable securities	9,752	(2,024)	(2,798)
Amortization of deferred compensation	19,228	—	—
Amortization of bond premium	(1,819)	—	—
Loss on investment activities	14,074	—	—
Impairment of long-lived assets	14,058	—	—
Increase (decrease) in sales allowances	17,427	9,599	(125)
Increase (decrease) in provision for inventory reserve	23,988	2,910	(1,018)
Change in restructuring liability for cash employee termination costs	(5,142)	—	—
Other	2,409	(138)	2,161
Increase (decrease) in cash due to changes in assets and liabilities:			
Trade receivables	3,944	(2,866)	(28,616)
Inventory	(23,276)	(6,559)	(11,999)
Other assets	(2,220)	2,697	(2,833)
Accounts payable and accrued expenses	4,627	25,451	6,849
Product royalties payable	26,328	7,166	12,026
Other liabilities	(105)	1,627	410
Net cash provided by operating activities	263,542	250,915	173,263
Cash Flows From Investing Activities			
Investments in securities available for sale	(1,008,936)	(842,589)	(685,207)
Maturities of securities available for sale	467,254	312,954	430,845
Proceeds from sales of securities available for sale	137,393	371,230	63,375
Net cash acquired in acquisition of Aviron	146,853	—	—
Capital expenditures, net of capitalized interest	(80,871)	(18,258)	(8,588)
Investments in strategic alliances	(8,735)	(11,499)	—
Net cash used in investing activities	(347,042)	(188,162)	(199,575)
Cash Flows From Financing Activities			
Proceeds from issuance of common stock	46,664	24,339	76,286
Repayments on long-term obligations	(4,639)	(742)	(1,505)
Net cash provided by financing activities	42,025	23,597	74,781
Effect of exchange rate changes on cash	276	(69)	(65)
Net (decrease) increase in cash and cash equivalents	(41,199)	86,281	48,404
Cash and cash equivalents at beginning of year	171,255	84,974	36,570
Cash and cash equivalents at end of year	$ 130,056	$ 171,255	$ 84,974
Supplemental cash flow data:			
Cash paid during the year for interest	$ 11,013	$ 559	$ 607
Cash (received) paid during the year for income tax (refunds) payments	$ (2,320)	$ 505	$ 1,016

Supplemental schedule of noncash investing and financing activities:

During January 2002, the Company acquired 100% of the outstanding capital stock of Aviron through an exchange offer and merger transaction. The Company exchanged approximately 34.0 million of its common shares for all of the outstanding shares of Aviron common stock and assumed Aviron's outstanding options and warrants, for which approximately 7.0 million additional shares of the Company's common stock are issuable. The estimated fair value of the net assets acquired was $1,635.1 million, and included $1,179.3 million of acquired research and development assets that were charged to current period results at the date of acquisition and $211.4 million of 5¼% convertible subordinated notes due in 2008.

The accompanying notes are an integral part of these financial statements

Consolidated Statements of Shareholders' Equity

(in thousands)	Common Stock, $.01 par Shares	Common Stock, $.01 par Amount	Paid-in Capital	Deferred Compensation	Accumulated Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 1999	203,840	$ 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	7,508	75	76,210	—	—	—	76,285
Tax benefit associated with the exercise of stock options	—	—	111,720	—	—	—	111,720
Balance, December 31, 2000	211,348	2,113	842,815	—	(7,085)	5,739	843,582
Net earnings	—	—	—	—	148,960	—	148,960
Foreign currency translation adjustment	—	—	—	—	—	(216)	(216)
Unrealized gain on investments, net of tax	—	—	—	—	—	3,071	3,071
Unrealized gain on hedged inventory purchases, net of tax	—	—	—	—	—	32	32
Comprehensive income							151,847
Common stock options exercised	3,092	31	22,818	—	—	—	22,849
Issuance of common stock under the employee stock purchase plan	44	1	1,489	—	—	—	1,490
Tax benefit associated with the exercise of stock options	—	—	24,505	—	—	—	24,505
Balance, December 31, 2001	214,484	2,145	891,627	—	141,875	8,626	1,044,273
Net loss	—	—	—	—	(1,098,015)	—	(1,098,015)
Foreign currency translation adjustment	—	—	—	—	—	778	778
Unrealized gain on investments, net of tax	—	—	—	—	—	15,079	15,079
Unrealized gain on hedged inventory purchases, net of tax	—	—	—	—	—	126	126
Comprehensive loss							(1,082,032)
Common stock options exercised	2,663	27	42,673	—	—	—	42,700
Issuance of common stock under the employee stock purchase plan	163	2	3,962	—	—	—	3,964
Tax benefit associated with the exercise of stock options	—	—	14,804	—	—	—	14,804
Shares issued related to the acquisition of Aviron	33,952	339	1,664,412	(39,454)	—	—	1,625,297
Amortization of deferred compensation for the vesting of stock options	—	—	—	19,228	—	—	19,228
Reversal of deferred compensation for cancellation of stock options	—	—	(4,403)	4,403	—	—	—
Decrease in restructuring liability for amortization of deferred compensation for the vesting of stock options	—	—	—	9,000	—	—	9,000
Balance, December 31, 2002	**251,262**	**$ 2,513**	**$2,613,075**	**$ (6,823)**	**$ (956,140)**	**$24,609**	**$ 1,677,234**

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

Notes to Consolidated Financial Statements

1. ORGANIZATION

MedImmune, Inc., a Delaware corporation (together with its subsidiaries, the "Company"), is a biotechnology company headquartered in Gaithersburg, Maryland. During January 2002, the Company completed its acquisition of Aviron, subsequently renamed MedImmune Vaccines, Inc., a biopharmaceutical company headquartered in Mountain View, California, through an exchange offer and merger transaction (the "Acquisition"). The Acquisition was accounted for as a purchase, and the results of operations of MedImmune Vaccines are included in the results of the Company effective January 10, 2002 (see Note 3).

The Company currently actively markets three products, Synagis, Ethyol, and CytoGam, and maintains a diverse research and development pipeline. The Company's leading product candidate, FluMist, is under review by the FDA. The Company is focused on developing important new products that address significant medical needs in the areas of infectious diseases, immunology 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.

Seasonality

The Company's largest revenue-generating product, Synagis, is used to prevent RSV in high-risk infants. RSV is most prevalent in the winter months in the Northern Hemisphere. Because of the seasonal nature of RSV, limited sales, if any, of Synagis are expected during the second and third quarters of any calendar year, causing results to vary significantly from quarter to quarter. Sales of Synagis comprised approximately 85%, 89%, and 86% of total product sales for the years ended December 31, 2002, 2001, and 2000, respectively.

FluMist, which has not yet been approved by the FDA, is used to prevent influenza, which is most prevalent in the fall and winter months. If FluMist is approved, limited sales, if any, are expected in the first and second quarters of any calendar year because of the seasonal nature of influenza, causing results to vary significantly from quarter to quarter.

Cash, Cash Equivalents and Marketable Securities

The Company considers all highly liquid instruments purchased with a maturity of three months or less at date of purchase to be cash equivalents. Investments in marketable securities consist principally of debt securities of United States corporations, including commercial paper and notes, debt securities of international banks, and United States Government and Agency notes and bonds. Investments with maturities of three to 12 months from the balance sheet date are considered current assets, while those with maturities in excess of one year 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. Accordingly, the Company records these investments at fair value, with unrealized gains and losses on investments reported, net of tax, as a component of other comprehensive income.

Substantially all of the Company's cash and cash equivalents, and short-term and long-term investments, are held in custody by three major U.S. financial institutions. The majority of the Company's cash equivalents consist of U.S. Government Federal Agency Securities, short-term marketable securities, and overnight repurchase agreements. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and, therefore, bear minimal risk. The Company's short-term and long-term investments generally consist of marketable securities with investment grade credit ratings and deposits with major banks. The Company's investment guidelines are intended to limit the amount of investment exposure as to institution, maturity, and investment type. Maturities generally range from three months to seven years. The fair values of these investments are sensitive to changes in interest rates and the credit-worthiness of the security issuers. Further, interest income earned on variable rate debt securities is exposed to changes in the general level of interest rates.

Minority Interest Investments

In connection with its research and development collaborations, the Company holds minority interests in companies having operations or technology in areas within its strategic focus. The investments are maintained on the cost or equity method of accounting, according to the facts and circumstances of the individual investment. Under either method, the investments are subject to adjustment for other-than-temporary impairments. Additionally, for investments carried on the equity method, the Company's proportionate share of the investee's gains or losses is recorded on a quarterly basis. For minority interests maintained in publicly traded companies, the Company's investment is maintained as available-for-sale securities. Due to the highly volatile share prices of these investments, the investments are subject to unrealized holding gains or losses.

During 2002, the Company determined that the declines in fair value below the basis of certain of its minority interest

investments were other than temporary, based primarily on the duration and magnitude of the declines in fair value, largely due to the downward movement in the capital markets, as well as the financial condition and near-term prospects of the investee companies. For the year ended December 31, 2002, the Company recorded realized losses of $9.5 million to write-down the cost basis of certain of its minority interest investments to estimated fair value.

Fair Value of Financial Instruments

The carrying amount of financial instruments, including cash and cash equivalents, trade receivables, contracts receivable, other current assets, accounts payable, and accrued expenses, approximate fair value as of December 31, 2002 and 2001 due to the short maturities of these instruments.

Concentration of Credit Risk

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.

As of December 31, 2002, trade accounts receivable included three customers that each accounted for 22%, 21%, and 19%, of net trade accounts receivable, respectively. As of December 31, 2001, trade accounts receivable included two customers that each accounted for 29% and 26% of net trade accounts receivable, respectively.

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. The Company records an inventory reserve for estimated obsolescence, excess or unmarketable inventory in an amount equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions.

Product Sales

The Company recognizes revenue on product sales when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectibility is probable. These criteria are generally met upon receipt of the product by customers. In certain of the Company's international distribution agreements, the compensation received by the Company from its partner is variable based, in part, on the end-user sales price. When all of the other revenue criteria have been met, the Company recognizes revenue to the extent that the customer has an obligation to pay, if the customer has limited or no control over the end-user sales price and, accordingly, any subsequent adjustments to the recorded revenue are not expected to be significant. Subsequent adjustments to recorded revenue that result from variances between amounts previously invoiced and the total sales price received are recorded as an adjustment to product sales in the quarter in which they become known. Product sales are recorded net of allowances for estimated chargebacks, returns, discounts, and government rebates. Both in the United States and elsewhere, sales of pharmaceutical products depend on the availability of reimbursement to the consumer from third-party payors, such as government and private insurance plans. The Company estimates the portion of its sales that will be covered by government insurance and records allowances at a level that management believes is sufficient to cover estimated requirements for reimbursements. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Allowances for discounts, returns, chargebacks, and bad debts, which are netted against accounts receivable, totaled $18.1 million and $9.4 million at December 31, 2002 and 2001, respectively. Allowances for government reimbursements were $26.2 million and $17.5 million as of December 31, 2002 and 2001, respectively, and are included in accrued expenses in the accompanying balance sheets.

Other Revenues

Contract Revenues

For contracts executed prior to January 1, 2002, contract revenues are recognized during each period based on a percentage-of-completion model based on actual costs incurred relative to the total projected costs. Upfront fees and milestone payments under collaborative agreements are recognized when they are earned in accordance with the applicable performance requirements and contractual terms, using the contingency-adjusted performance (percentage-of-completion) model. Under this method, payments received that are related to future performance are deferred and recorded as revenues as they are earned over specified future performance periods. Recognized revenues are subject to revisions as the collaboration efforts progress and estimated costs to complete are revised.

For new contracts executed or acquired after January 1, 2002, the Company uses the milestone payment method when all milestones to be received under contractual arrangements are determined to be substantive, at-risk and the culmination of an earnings process. Substantive milestones are payments that are conditioned upon an event requiring substantive effort, when the amount of the milestone is reasonable relative to the time, effort and risk involved in achieving the milestone and when the milestones are reasonable relative to each other and the amount of any up-front payment. If all of these criteria are not met, then the Company will use the contingency-adjusted performance model (see Note 4).

Miscellaneous Revenues

Other revenues include licensing fees, grant income, royalty income, corporate funding, and reimbursement of expenses under research and other collaborative agreements. These revenues are recognized on the earlier of when the payments are received or when collection is assured and only when no further performance obligations exist.

Royalty Expense

Product royalty expense is recognized concurrently with the recognition of product revenue based on a contractually stipulated royalty percentage, and is included in cost of sales.

Research and Development Expenses

Licensing Fees

In the normal course of business, the Company enters into collaborative research and development and in-licensing agreements to acquire access to technology. These collaborative agreements usually require the Company to pay up-front fees and milestone payments, some of which are significant. When the Company pays an up-front or milestone payment, management evaluates the stage of the acquired technology to determine the appropriate accounting treatment. If the technology is considered to be in the early development stage (generally defined as pre-clinical through Phase 1 (initial human testing)), the up-front or milestone payment is expensed. If the technology has entered Phase 2 or Phase 3 clinical trials but has not yet been approved by regulatory authorities, the Company will evaluate the facts and circumstances of each case to determine if a portion or all of the payment have future benefit and should be capitalized at fair value. Payments made to third parties subsequent to regulatory approval will be capitalized with that cost generally amortized over the patented life of the product. The agreements may also require that the Company provide funding for research programs of our partners. These costs are expensed as incurred.

Other

The Company accrues estimated costs for clinical and preclinical studies performed by contract research organizations or by internal staff based on the total of the costs incurred through the balance sheet date. The Company monitors the progress of the trials and their related activities to the extent possible, and adjusts the accruals accordingly.

Selling, General and Administrative Expenses

Co-promotion Expenses

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 Abbott achieving certain sales thresholds over the annual contract year. The contract year extends from July to June each year and generally coincides with the annual 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. Any adjustments to the co-promotion expense that result from variances between estimated and actual net sales are recorded as an adjustment to expense in the quarter they become known. During the fourth quarter of 2002, the Company recorded an additional charge of $2.1 million to co-promotion expense, resulting from the final reconciliation of net sales for the 2001/2002 contract year. During 2001 and 2000, the adjustments were not material.

Property and Equipment

Property and equipment are stated at cost. Interest cost incurred during the period of construction of plant and equipment is capitalized until the asset is placed in service, after FDA licensure is obtained. Depreciation and amortization expense commence when the asset is placed in service for its intended purpose. Depreciation and amortization is computed using the straight-line method based upon the following estimated useful lives:

	YEARS
Building and improvements	15–30
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. Depreciation and amortization expense for the years ended December 31, 2002, 2001, and 2000 was $ 20.7 million, $9.1 million, and $7.3 million, respectively.

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 $7.0 million, $3.3 million, and $4.1 million for the years ended December 31, 2002, 2001, and 2000, respectively.

The Company evaluates the recoverability of the carrying value of property and equipment. 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.

Intangible Assets

Intangible assets are stated at amortized cost. The Company reviews its intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Intangible assets at December 31, 2002, are comprised of the following (in millions):

	2002
Worldwide collaborative agreement with Wyeth	$ 90.0
Contract manufacturing agreement with Evans	39.0
Other intangible assets	0.4
	129.4
Less accumulated amortization	(16.1)
	$113.3

Amortization of intangible assets is computed on the straight-line method based on the estimated useful lives of the assets. Amortization expense for the year ended December 31, 2002 was $16.1 million. The estimated aggregate amortization expense for each of the next five years is as follows: 2003, $16.6 million; 2004, $16.4 million; 2005, $16.4 million; 2006, $12.0 million; and 2007, $7.7 million.

Goodwill

Goodwill represents the excess of the Company's cost to acquire MedImmune Vaccines over the net of the amounts assigned to assets acquired and liabilities assumed. Goodwill is not amortized, but is evaluated for impairment at least annually.

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.

All derivative instruments are 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 so, 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 are reported in other comprehensive income. The gains and losses on these derivatives that are reported in other comprehensive income are reclassified as earnings or losses in the periods in which the related inventory is sold. The ineffective portion, if any, of all hedges or gains or losses on cash-flow hedges related to inventory transactions that subsequently become not probable of occurring are recognized in the current period. In accordance with the transition provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", the Company recorded a net-of-tax cumulative-effect-type gain of $0.3 million in accumulated other comprehensive income as of January 1, 2001 to recognize at fair value all derivatives, which are designated as foreign currency cash-flow hedging instruments.

As of December 31, 2002, the Company had outstanding forward Euro contracts for the purchase of 1.1 million Euros, all expiring within one year, with a fair value of $0.3 million. As of December 31, 2001, the Company had no outstanding forward contracts. During the years ended December 31, 2002 and 2001, net unrealized gains on forward exchange contracts, net of tax, of $0.6 million and $0.1 million, respectively, were reclassified as earnings during the year as the related inventory was sold. During the year ended December 31, 2002, the Company reclassified a gain of $0.2 million to current period earnings for hedge ineffectiveness related to forward exchange contracts.

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. Future reversals of valuation allowance of $15.6 million on acquired deferred tax assets of the Company's subsidiary, MedImmune Vaccines, will first be applied against goodwill and other intangibles before recognition of a benefit in the consolidated statement of operations. 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 based on the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed based on the weighted average shares outstanding adjusted for all dilutive potential common shares. The dilutive impact, if any, of common stock equivalents outstanding during the period, including outstanding stock options and warrants, is measured by the treasury stock method. The dilutive impact, if any, of the Company's convertible subordinated notes is measured using the if-converted method. Potential common shares are not included in the computation of diluted earnings per share if they are antidilutive.

Comprehensive Income

Comprehensive income is comprised of net earnings and other comprehensive income, which includes certain changes in equity that are excluded from net earnings. Other comprehensive income includes certain changes in equity that are excluded from net earnings or loss, such as translation adjustments, unrealized holding gains and losses on available-for-sale marketable securities, and gains and losses on hedging instruments.

Stock-based Compensation

Compensation costs attributable to stock option and similar plans are recognized based on any excess of the quoted market price of the stock on the date of grant over the amount the employee is required to pay to acquire the stock, in accordance with the intrinsic-value method under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Such amount, if any, is accrued over the related vesting period, as appropriate. In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), the Company makes annual pro forma disclosures of net earnings as if the fair-value-based method of accounting had been applied.

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.

Reclassification

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

New Accounting Standards

The Company adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), effective January 1, 2002. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed at least annually for impairment. The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. Inasmuch as the Company had no recorded goodwill or intangible assets prior to the January 2002 acquisition of Aviron, the adoption of SFAS 142 did not have an impact on the Company's financial position, results of operations, or cash flows.

Effective January 1, 2002, the Company adopted the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS 144"), requiring recognition and measurement of impairment if indicators are present.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). SFAS 146 addresses issues regarding the recognition, measurement and reporting of costs that are associated with exit and disposal activities, including restructuring activities. The scope of SFAS 146 includes costs to terminate contracts that are not capital leases, costs to consolidate facilities or relocate employees and termination benefits provided to employees who are involuntarily terminated under terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual compensation contract. The provisions of the Statement are effective for exit or disposal activities initiated after December 31, 2002. The Company anticipates that the adoption of SFAS 146 will not have a material impact on the Company's financial position, results of operations or cash flows.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" ("SFAS 148"). SFAS 148 amends SFAS 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The alternative methods of transition and additional disclosure requirements of SFAS 148 are effective January 1, 2003.

Also during 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 elaborates on the existing disclosure requirements for most guarantees, and clarifies that at the time a company issues a guarantee, the Company must recognize an initial liability for the fair value of the obligation it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. In accordance with FIN 45, the Company has disclosed the nature and potential future payments under existing guarantees as of December 31, 2002 (see Note 17). The Company's adoption of FIN 45 did not have a material impact on the Company's financial position, results of operations or cash flows.

3. ACQUISITION

On January 10, 2002, the Company completed the Acquisition through an exchange offer and merger transaction. Through the Acquisition, the Company obtained its lead product candidate, FluMist, which is a nasally delivered, live, attenuated virus vaccine not yet approved by the FDA. The Acquisition was accounted for as a purchase and, accordingly, the results of MedImmune Vaccines' operations have been included with the Company's operations since January 10, 2002.

Under the terms of the Acquisition, the Company exchanged approximately 34.0 million of its common shares for 100% of the outstanding common stock of Aviron. Additionally, the Company assumed outstanding options and warrants for which approximately 7.0 million shares of the Company's common stock are issuable. Holders of Aviron's Notes may convert the Notes into a total of approximately 3.4 million shares of the Company's common stock, based on a conversion price of $58.14 per share.

During the year ended December 31, 2002, the Company recorded adjustments to the purchase price resulting from a final reconciliation of Aviron registered shares of common stock as of the acquisition date, a refinement to the calculation of unearned compensation for terminated employees, and a reconciliation of transaction costs. The purchase price adjustments resulted in a net decrease of $1.3 million to the purchase price and a corresponding decrease to goodwill.

The revised aggregate purchase consideration was approximately $1.6 billion, as follows (in millions):

Common stock	$1,497.3
Assumption of Aviron's options and warrants, less intrinsic value of unvested portion	128.0
Transaction costs	9.8
	$1,635.1

The value of common shares issued was $44.10 per share, based on the closing market price of the Company's common stock on November 30, 2001, the last business day prior to the signing of the merger agreement. The fair value of options and warrants assumed in the transaction was estimated using the Black-Scholes option pricing model.

The following table summarizes the final estimated fair values (in millions) of the assets acquired and liabilities assumed at the date of acquisition.

Assets	
Cash and marketable securities	$ 417.5
Other current assets	24.9
Other assets	45.8
Deferred tax assets	127.6
Intangible assets	129.4
In-process research and development	1,179.3
Goodwill	16.0
Total assets	$1,940.5
Liabilities	
Current liabilities	$ 49.2
Restructuring liability	15.8
Long-term debt	211.4
Long-term obligations	28.5
Other liabilities	0.5
Total liabilities	305.4
Net assets acquired	$1,635.1

Intangible Assets

Of the $129.4 million of acquired intangible assets, $90.0 million was assigned to MedImmune Vaccines' worldwide collaborative agreement with Wyeth for the development, manufacture, distribution, marketing, promotion, and sale of FluMist, which is subject to amortization over its estimated useful life of approximately 11 years. The Company estimated the fair value of the Wyeth agreement using the sum of the probability-adjusted scenarios under the income approach. In applying this method, the Company relied on revenue assumptions, profitability assumptions and anticipated approval dates. The remaining $39.0 million was assigned to MedImmune Vaccines' contract manufacturing agreement with Evans Vaccines Limited, which is subject to amortization over its estimated useful life of approximately four years. The Company estimated the fair value of the Evans agreement using the cost approach, which is based on the theory that a prudent investor would pay no more for an asset than the amount for which the asset could be replaced. In its analysis, the Company reduced replacement cost for such factors as physical deterioration and functional or economic obsolescence.

In-Process Research and Development

Approximately $1,179.3 million of the purchase price was allocated to acquired research and development assets that were written off at the date of acquisition as a separate component of the Company's results of operations. The amount represents the fair value of purchased in-process technology for projects, principally FluMist, which, as of the date of the acquisition, had not yet reached technological feasibility and had no alternative future use.

Goodwill

Approximately $16.0 million in goodwill was recognized in the final allocation of the purchase price, none of which is expected to be deductible for tax purposes. Through December 31, 2002, the Company recorded net purchase price adjustments of $1.3 million; net reversals to the restructuring liability of $0.2 million (discussed below); a net increase of $3.7 million and a net reduction of $0.9 million to the fair values assigned to certain depreciable assets and certain liabilities, respectively, based on a final assessment of their net realizable value; and a net decrease in the fair value assigned to net deferred tax assets of $6.4 million resulting from the revisions to the purchase price allocation; which in the aggregate resulted in an increase to goodwill of $0.3 million. The Company performed its annual impairment analysis during the fourth quarter of 2002, and determined that the goodwill was not impaired.

Restructuring Liability

Included in the final allocation of acquisition cost is a restructuring liability of $15.8 million for estimated costs associated with the Company's restructuring plan. The restructuring plan was originally formulated and announced to employees in December 2001, to consolidate and restructure certain functions, including the involuntary termination of eight executives and 52 other employees of MedImmune Vaccines from various functions and levels. Through December 31, 2002, the Company recorded purchase accounting adjustments resulting from a refinement to the calculation of involuntary termination benefits, the removal from the original accrual of four positions that were retained, and to reflect revised costs estimated for outplacement fees and vacant leased office space. As a result of these adjustments, the Company recorded net restructuring charge reversals of $0.2 million through December 31, 2002, which resulted in a corresponding reduction to goodwill.

The restructuring liability activity through December 31, 2002 is summarized as follows (in millions):

	Original Accrual at 1/10/02	Adjustments	Adjusted Accrual	Restructuring Charges Incurred	Balance at 12/31/02
Employee severance costs	$ 5.4	$(0.3)	$ 5.1	$ (5.1)	$ —
Acceleration of employee stock options	9.5	(0.3)	9.2	$ (9.2)	—
Other facility-related costs	1.1	0.4	1.5	$ (0.5)	1.0
Total	$16.0	$(0.2)	$15.8	$(14.8)	$1.0

Transaction Costs

Included in the final allocation of acquisition costs were accrued transaction costs of $9.8 million, which primarily consist of investment banking, accounting and legal fees incurred by the Company. For the period ended December 31, 2002, there were no significant adjustments to accrued transaction costs and all costs have been paid.

Pro Forma Data

The following unaudited pro forma condensed combined supplemental data present the revenues, net earnings and earnings per share of the combined entity as though the business combination had been completed as of January 1, 2002 and 2001, respectively. The unaudited pro forma condensed combined supplemental data gives effect to actual operating results prior to the acquisition, adjusted to include the pro forma effect of amortization of intangibles, deferred stock compensation costs, the elimination of the non-recurring charge for acquired in-process research and development, the tax effects to the pro forma adjustments and the recognition of the tax benefits arising from Aviron's net loss for the 2001 period. The unaudited pro forma condensed combined supplemental data are not necessarily an indication of the results that would have been achieved had the transaction been consummated as of the dates indicated or that may be achieved in the future (in millions, except per share data).

	YEAR ENDED DECEMBER 31,	
	2002	2001
Revenues	$847.7	$635.7
Net earnings	$ 81.3[1]	$ 56.5
Diluted earnings per share	$ 0.32[1]	$ 0.22

[1] Excludes a non-recurring charge of $1,179.3 million for acquired in-process research and development.

4. ACCOUNTING CHANGES

For new contracts executed or acquired after January 1, 2002, the Company has changed its accounting method for contract revenues such that the Company may recognize contract revenues associated with substantive at-risk performance milestones when the milestone is achieved, when no future service obligation is attendant to that milestone and when the related revenue is due and payable under the milestone payment method. The change in accounting principle was made to more closely reflect the essence of the Company's contractual obligations with collaborative partners. Also, the new method is prevalent in the industry in which the Company operates. The effect on net loss and net loss per share for the year ended December 31, 2002 is not material.

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 accounting principles generally accepted in the United States of America to certain revenue transactions in financial statements. The implementation of SAB 101 as of January 1, 2000 affected amounts previously recognized as revenue relating to up-front payments or milestone payments received by the Company in years prior to 2000 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.

The Company implemented SAB 101 effective January 1, 2000. 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 $0.06 per diluted share. The effect on 2000 net earnings (including a non-cash, cumulative effect 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. In connection with the adoption, a portion of the upfront and milestone payments received under collaborative agreements with Abbott, Alza, GSK, and Schering were deferred and are being recognized over the period of fulfillment of the contractual obligations. As of December 31, 2002 and 2001, the remaining balance of deferred revenue with respect to amounts received under these agreements was $3.9 million and $12.5 million, respectively.

5. SEGMENT INFORMATION

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.

During 2001, two mergers occurred involving four of the pharmaceutical wholesalers and distributors to which the Company sells its products. Three of the four companies individually accounted for at least ten percent of the Company's product sales prior to the mergers. Customers individually accounting for at least ten percent of the Company's product sales during the past three years are as follows:

	2002	2001	2000
Company A	27%	26%	27%
Company B	17%	18%	19%
Company C	13%	13%	16%
Company D	11%	12%	11%
Total % of product sales	68%	69%	73%

The Company has 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 Company also relies on a limited number of distributor agents/affiliates to sell CytoGam and NeuTrexin internationally.

The breakdown of product sales by geographic region is as follows (in millions):

	2002	2001	2000
United States	$748.0	$531.5	$456.3
All other	38.0	48.0	39.5
Total product sales	$786.0	$579.5	$495.8

The breakdown of long-lived assets by geographic region is as follows (in millions):

	2002	2001
United States	$161.0	$92.5
All other	23.0	2.9
Total long-lived assets	$184.0	$95.4

Other revenue of $61.8 million, $39.2 million, and $44.7 million in 2002, 2001, and 2000, respectively, consists mainly of United States distribution, licensing, milestone revenues, corporate funding, and contract manufacturing revenues.

6. MARKETABLE SECURITIES

Investments in marketable securities are comprised of the following (in millions):

	Principal Amount	Cost/ Amortized Cost	Fair Value at Balance Sheet Date	Gross Unrealized Gains	Gross Unrealized Losses
December 31, 2002:					
Equity Securities	$ —	$ 1.9	$ 1.9	$ —	$ —
U.S. Government and Agencies	245.9	251.0	254.2	3.2	—
Corporate Debt Securities	900.4	935.4	967.9	32.9	(0.3)
Foreign Bank Debt Securities	64.6	66.3	69.0	2.6	—
Total	$1,210.9	$1,254.6	$1,293.0	$38.7	$(0.3)
December 31, 2001:					
Equity Securities	$ —	$ 6.4	$ 11.2	$ 4.8	$ —
U.S. Government and Agencies	8.0	8.1	8.3	0.2	—
Corporate Debt Securities	530.4	546.9	556.5	9.9	(0.3)
Foreign Bank Debt Securities	28.0	29.8	30.4	0.6	—
Total	$ 566.4	$ 591.2	$ 606.4	$15.5	$(0.3)

The amortized cost and fair market value of investments at December 31, 2002 and 2001, by contractual maturities are (in millions):

	2002		2001	
	Cost/ Amortized Cost	Fair Value	Cost/ Amortized Cost	Fair Value
Equity Securities	$ 1.9	$ 1.9	$ 6.4	$ 11.2
Due in one year or less	393.4	395.0	149.5	151.2
Due after one year through two years	252.6	259.6	71.8	73.4
Due after two years through five years	496.3	521.9	363.5	370.6
Due after five years through seven years	110.4	114.6	—	—
Total	$1,254.6	$1,293.0	$591.2	$606.4

Gross gains recognized on sales of securities in 2002, 2001 and 2000 were $0.9 million, $2.1 million and $1.6 million, respectively, as determined by specific identification. Gross losses recognized on sales of securities were immaterial during 2002, 2001 and 2000, as determined by specific identification.

During 2002, the Company determined that the decline in fair value below the cost basis of its investment in the marketable equity securities of a public company was other than temporary, based primarily on the duration and magnitude of the declines in fair value, in turn largely due to the downward movement in the capital markets, as well as the financial condition and near-term prospects of the investee company. For the year ended December 31, 2002, the Company recorded a realized loss of $4.5 million to write-down the cost basis of the investment to fair value.

7. INVENTORY

Inventory at December 31, is comprised of the following (in millions):

	2002	2001
Raw materials	$30.4	$16.8
Work in process	19.4	13.7
Finished goods	10.2	22.2
	60.0	52.7
Less noncurrent	—	(1.9)
	$60.0	$50.8

The Company has commenced production of inventory, including Normal Allantoic Fluid (NAF), Virus Harvest (VH), sprayers, and finished goods, in connection with its proposed launch of FluMist, which has not yet been approved by the FDA. In recognition of management's assessment that the entire inventory of finished goods and certain other inventory materials will reach their expiration dates prior to FDA approval, the Company recorded reserves for such inventory. As of December 31, 2002, the Company has a FluMist related inventory balance of $62.5 million, against which there is a reserve of $47.5 million, resulting in a net inventory balance of $15.0 million.

Inventory balances are net of reserves for RespiGam inventory, for which minimal product sales are expected to result for the foreseeable future. In April 2002, the Company reduced the inventory and reserve balances by $3.4 million upon the disposal of expired product. RespiGam inventory and reserve balances, respectively, were $0.6 million and $0.2 million as of December 31, 2002, and $4.9 million and $4.2 million, as of December 31, 2001.

Noncurrent inventory at December 31, 2001 is comprised of some of the Company's raw plasma as well as certain CytoGam production lots that are being tested for long-term stability. Noncurrent inventory at December 31, 2002 is fully reserved.

8. PROPERTY AND EQUIPMENT

Property and equipment, stated at cost at December 31, is comprised of the following (in millions):

	2002	2001
Land and land improvements	$ 15.7	$ 2.3
Buildings and building improvements	52.6	54.3
Leasehold improvements	33.9	15.2
Laboratory, manufacturing and facilities equipment	50.1	33.1
Office furniture, computers, and equipment	28.5	15.0
Construction in progress	56.7	10.0
	237.5	129.9
Less accumulated depreciation and amortization	(53.5)	(34.5)
	$184.0	$ 95.4

During March 2002, the Company paid approximately $13.4 million to acquire 11 acres of land in Gaithersburg, Maryland, which will serve as the site of the Company's new corporate headquarters and research facilities. Additionally, the Company has options to purchase an additional 14 acres of land. The Company has begun construction of the first phase of the new facility, at a total estimated cost of $85 million. The Company expects to take occupancy of the first phase of construction, which

will feature a complex totaling approximately 220,000 square feet, in the fall of 2003.

In connection with the Acquisition, the Company acquired property, plant and equipment valued at approximately $42.5 million, comprised primarily of leasehold improvements, lab, manufacturing and office equipment, and partially-constructed manufacturing facilities.

As of December 31, 2002, construction in progress includes $17.6 million of engineering and construction costs and other professional fees related to Phase I of the new headquarters. In addition, construction in progress includes $33.4 million of engineering, construction and equipment costs related to construction activities at the Company's manufacturing facilities in Pennsylvania and Speke, England. As of December 31, 2001, construction in progress primarily includes engineering, construction, and equipment costs associated with the expansion of the cell culture production area in the FMC, which was placed in service during 2002.

Effective November 2002, the Company outsourced the process of converting human plasma to the critical intermediate used in CytoGam production to a third party manufacturer. Prior to that date, the process was performed at the Company's Frederick Manufacturing Facility. Accordingly, the Company recorded a $12.9 million impairment charge during the fourth quarter of 2002 for the write-off of certain plasma manufacturing assets.

Interest costs capitalized in connection with the Company's construction activities totaled $0.9 million in 2002. Interest costs capitalized during 2001 and 2000 were immaterial.

9. ACCRUED EXPENSES

Accrued expenses at December 31, is comprised of the following (in millions):

	2002	2001
Co-promotion expenses	$ 60.1	$ 41.2
Government reimbursements	26.2	17.5
Sales and marketing costs	17.2	14.0
Research and development expense	16.1	12.6
Bonuses	11.0	—
Contract termination fees	—	13.4
Other	26.8	13.7
	$157.4	$112.4

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, 2002, 2001, and 2000 was $9.0 million, $2.2 million, and $3.4 million, respectively.

The Company's future minimum lease payments under operating leases are as follows (in millions):

YEAR ENDING DECEMBER 31,	
2003	$ 8.6
2004	8.6
2005	6.5
2006	4.4
2007	2.6
Thereafter	32.2
	$62.9

11. LONG-TERM DEBT

Long-term debt at December 31, is comprised of the following (in millions):

	2002	2001
5¼% Convertible Subordinated Notes	$209.6	$ —
4% notes due to Maryland Department of Business and Economic Development, due 2016	5.4	5.7
7.53% note due to Maryland Industrial Development Finance Authority, due 2007 (collectively with the 4% notes referred to as the "Maryland Notes")	3.1	3.6
Note due to Cooperative Rabobank, B.A., due 2009, variable interest rate	0.3	0.2
	218.4	9.5
Less current portion included in other current liabilities	(0.8)	(0.7)
	$217.6	$ 8.8

Convertible Subordinated Notes

Following the Acquisition, MedImmune Vaccines remains obligated for its outstanding indebtedness, which includes $200.0 million aggregate principal amount of the Notes. Approximately $211.4 million of the acquisition cost was allocated to the Notes, which represents the fair value as of the acquisition date, based on quoted market prices. The Notes are convertible into an aggregate of 3.4 million shares of the Company's common stock, based on a conversion price of $58.14, at any time on or before February 1, 2008. The Company may redeem the Notes beginning in February 2004, at redemption prices declining from 103% of their principal amount in 2004 to 100% in 2008, plus accrued interest. Interest is payable semi-annually in arrears in cash on February 1 and August 1 each year. Interest paid during 2002 was $10.5 million. The estimated fair value of the Notes as of December 31, 2002 was $198.2 million, based on quoted market prices.

Collateralized Loans

The Maryland Notes are collateralized by the land, buildings and building fixtures of the FMC. The agreements include a provision for early retirement of the notes by the Company. Principal and interest payments on the Maryland Notes began in 1998. Pursuant to the terms of the 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 Maryland Notes, which is included in other assets.

In May 1994, the Company's subsidiary, 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 interest rate as of December 31, 2002 was 5.85%.

Maturities of the collateralized loans for the next five years are as follows: 2003, $0.8 million; 2004, $0.9 million; 2005, $0.9 million; 2006, $1.0 million; and 2007, $1.1 million.

The estimated fair values of the Company's collateralized loans at December 31, 2002 and 2001, respectively, based on quoted market prices or discounted cash flows using currently available borrowing rates, were $9.3 million and $10.0 million compared to the carrying values of $8.8 million and $9.5 million.

12. SHAREHOLDERS' EQUITY

Pursuant to the terms of the Stockholder Rights Plan adopted by the Company's Board of Directors, common stock purchase rights ("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% or more of the Company's stock. The Rights will expire on July 9, 2007.

13. EARNINGS PER SHARE

The following is a reconciliation of the denominators of the diluted EPS computation for the years ended December 31, 2002, 2001, and 2000. There are no reconciling items to the numerator for the EPS computation for the periods reported.

	2002	2001	2000
Denominator (in millions):			
Weighted average shares outstanding	249.6	213.4	209.1
Effect of dilutive securities:			
Stock options and warrants	—	6.7	11.3
Denominator for diluted EPS	249.6	220.1	220.4

The Company incurred a net loss for the year ended December 31, 2002 and, accordingly, did not assume exercise or conversion of potential common shares for the year, as follows, because to do so would be antidilutive:

(IN MILLIONS)	
Stock options, at prices ranging from $0.47 to $83.25	28.6
Warrants, at $9.30 per share	0.4
Notes, at a conversion price of $58.14	3.4
Total potential common shares	32.4

The following table shows the number of shares and related price ranges of those shares that were excluded from the EPS computations for the years ended December 31, 2001 and 2000. 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 (in millions).

	2001	2000
Price range of stock options:		
$40.50–$83.25	6.6	
$61.50–$83.25		0.9

14. COMMON STOCK EQUIVALENTS

The Company currently grants stock options under certain of the following stock option plans originated by the Company. In May 2002, the Company's shareholders voted to increase the maximum number of shares of common stock reserved for issuance under the 1999 Plan from 19,250,000 to 25,250,000 shares.

Plan	Description	Shares Authorized (in millions)
Old Plan	Provides option incentives to employees, consultants and advisors of the Company	1.5
1991 Plan	Provides option incentives to employees, consultants and advisors of the Company	33.0
1993 Non-Employee Directors Plan	Provides option incentives to non-employee directors	1.5
1999 Plan	Provides option incentives to employees, consultants and advisors of the Company	25.3

The following compensation plans, for which no future grants will be made, were acquired by the Company in 1999 in connection with its acquisition of MedImmune Oncology.

Plan	Description	Shares Authorized (in millions)
Non-Executive Stock Option Plan	Provided option incentives to employees who are not officers or directors of MedImmune Oncology, consultants and advisors of the Company	1.0
1996 Non-Employee Directors Stock Option Plan	Provided option incentives to elected non-employee directors of MedImmune Oncology	—

In addition, the following compensation plans, for which no future grants will be made, were acquired by the Company in 2002 in connection with its acquisition of MedImmune Vaccines.

Plan	Description	Shares Authorized (in millions)
1996 Equity Incentive Plan ("1996 Plan")	Provides for the grant of incentive and nonstatutory stock options to employees and consultants of MedImmune Vaccines	4.7
1999 Non-Officer Equity Incentive Plan ("1999 Plan")	Provides for the grant of nonstatutory stock options, stock bonuses, rights to purchase restricted stock, and stock appreciation rights to consultants and employees who are not officers or directors of MedImmune Vaccines	4.2

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 34.6 million shares of common stock for issuance under these plans as of December 31, 2002.

Related stock option activity, is as follows (shares in millions):

	Plans Prior to Establishment of the 1991 Plan		1991 and 1999 Plans		Non-Employee Directors Plan		MedImmune Oncology Plans		MedImmune Vaccines Plans	
	Shares	Price per share[1]	Shares	Price per share[1]	Shares	Price per share[1]	Shares	Price per share[1]	Shares	Price per share[1]
Balance Dec. 31, 1999	0.1	$0.13	19.9	$10.94	0.6	$ 7.72	1.5	$22.12	—	$ —
Granted	—	—	7.2	59.75	0.2	72.75	—	—	—	—
Exercised	(0.1)	0.13	(6.0)	7.76	(0.2)	5.33	(1.3)	21.77	—	—
Canceled	—	—	(0.7)	38.75	—	—	—	—	—	—
Balance Dec. 31, 2000	—	—	20.4	28.15	0.6	24.23	0.2	25.52	—	—
Granted	—	—	4.7	38.14	0.2	47.20	—	—	—	—
Exercised	—	—	(3.0)	7.15	(0.1)	12.51	(0.2)	20.70	—	—
Canceled	—	—	(1.9)	43.87	—	—	—	—	—	—
Balance Dec. 31, 2001	—	—	20.2	32.17	0.7	29.22	—	—	—	—
Acquisition	—	—	—	—	—	—	—	—	6.5	27.25
Granted	—	—	5.9	36.74	0.2	28.90	—	—	—	—
Exercised	—	—	(0.8)	6.75	—	—	—	—	(1.8)	20.28
Canceled	—	—	(1.2)	44.97	—	—	—	—	(1.1)	36.06
Balance Dec. 31, 2002	—	$ —	24.1	$33.45	0.9	$29.53	—	$ —	3.6	$28.17

[1] Price per share is the weighted average exercise price.

Additional information related to the plans as of December 31, 2002 is as follows (shares in millions):

	Options Outstanding			Options Exercisable	
Range of exercise prices	Options outstanding	Wtd Avg remaining contractual life (yrs)	Wtd Avg Ex. Price	Options Exercisable	Wtd Avg Ex. Price
$0.01–$10.00	4.1	4.2	$ 5.40	3.8	$ 5.17
$10.01–$20.00	4.5	6.0	$16.71	3.2	$15.97
$20.01–$30.00	4.7	7.4	$25.47	1.9	$24.82
$30.01–$40.00	5.3	7.5	$37.00	2.4	$37.19
$40.01–$50.00	5.0	8.7	$42.41	1.2	$43.03
$50.01–$60.00	0.7	6.8	$56.58	0.4	$56.59
$60.01–$70.00	3.9	7.0	$60.96	1.9	$60.91
$70.01–$80.00	0.4	7.7	$72.23	0.2	$72.30
	28.6	6.9	$32.64	15.0	$27.39

In June 2001, the Company introduced an employee stock purchase plan ("ESPP") under which 3.0 million shares of common stock were reserved for issuance. Eligible employees may purchase a limited number of shares of the Company's common stock at 85% of the market value at plan-defined dates. Employees purchased 163,345 shares and 43,976 shares for $4.0 million and $1.5 million during 2002 and 2001, respectively, under the plan.

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 and shares issued pursuant to the ESPP. As such, no compensation cost has been recognized for grants under the Company's stock compensation plans. If the Company had elected to recognize compensation cost for grants under its stock compensation plans consistent with SFAS 123, the Company's results on a pro forma basis would be (in millions, except per share data):

	2002[1]	2001	2000
Net (loss) earnings–as reported	$(1,098.0)	$149.0	$111.2
Net (loss) earnings–pro forma	$(1,192.6)	$ 67.0	$ 49.3
Basic (loss) earnings per share			
-as reported	$ (4.40)	$ 0.70	$ 0.53
-pro forma	$ (4.78)	$ 0.31	$ 0.24
Diluted (loss) earnings per share			
-as reported	$ (4.40)	$ 0.68	$ 0.50
-pro forma	$ (4.78)	$ 0.30	$ 0.22

Note:

[1] During 2002, the Company recognized stock compensation expense of $19.2 million in its historical and proforma results for the vesting of stock options assumed in conjunction with the Acquisition, calculated in accordance with FIN 44, "Accounting for Certain Transactions Involving Stock Compensation – an Interpretation of APB 25."

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:

	2002	2001	2000
Risk-free interest rate	4.16%	4.72%	6.20%
Expected life of options – years	6	6	7
Expected stock price volatility	53%	69%	69%
Expected dividend yield	N/A	N/A	N/A

To better estimate the future expected stock price volatility, during 2002 the Company changed its method of calculating historical volatility from using daily stock price observations to using monthly observations.

The weighted average fair value of options granted during 2002, 2001, and 2000 was $20.56, $25.23, and $42.80, respectively.

In connection with the Acquisition, the Company assumed outstanding warrants to purchase common stock, which are as follows as of December 31, 2002:

Shares (in thousands)	Exercise Price	Expiration
365.5	$9.30	February 2007
53.8	$9.30	March 2008
419.3		

Additional warrants to purchase 5,147 shares of the Company's common stock at an exercise price of $55.13 are issuable on the date of the first commercial sale of FluMist.

15. INCOME TAXES

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

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
Current:			
Federal	$ (1.9)	$ 3.3	$ —
State	—	—	—
Foreign	0.1	0.3	0.1
Total current expense (benefit)	(1.8)	3.6	0.1
Deferred:			
Federal	48.7	71.1	60.5
State	1.3	4.8	3.8
Foreign	—	—	—
Total deferred expense (benefit)	50.0	75.9	64.3
Total tax expense (benefit)	$48.2	$79.5	$64.4

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 (in millions):

	2002	2001
Deferred tax assets:		
Net operating loss carryforwards	$194.7	$107.1
U.S. general business credit carryforwards	46.8	31.3
Accrued expenses not currently deductible	28.6	20.6
Property and equipment	13.3	—
Accounts receivable allowances and reserves	13.0	8.7
Deferred compensation	7.0	—
Deferred revenue	1.5	4.6
Prepaid and long term debt	5.4	—
California capitalized research expenses	4.1	—
Other	9.9	11.1
Total deferred tax assets	324.3	183.4
Deferred tax liabilities:		
Unrealized gains on investments	(13.5)	(5.3)
Acquired intangibles	(30.7)	—
Total deferred tax liabilities	(44.2)	(5.3)
Valuation allowance	(32.3)	(14.5)
Net deferred tax assets	$247.8	$163.6

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,		
	2002	2001	2000
(Benefit) tax at U.S. federal statutory rate	(35.0)%	35.0%	35.0%
State taxes, net of federal benefit	0.3	0.7	1.2
Change in valuation allowance	0.2	—	0.1
Nondeductible IPR&D	39.3	—	—
U.S. general business credits	(0.4)	(2.1)	(5.9)
Effect of foreign operations	0.1	—	—
Change in state statutory rate	—	1.1	—
Other	0.1	0.1	0.4
Total	4.6 %	34.8%	30.8%

At December 31, 2002 the Company had consolidated net operating loss carryforwards for U.S. income tax purposes of approximately $490 million expiring between 2010 and 2021. The Company also has U.S. general business credit carryforwards comprised of federal research and experimentation and orphan drug credit carryforwards of approximately $52 million at December 31, 2002 expiring through 2022. 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. Additionally, at December 31, 2002, the Company had foreign net operating loss carryforwards of $29 million for U.K. income tax purposes. The Company has provided a full valuation allowance against the deferred tax asset arising from the foreign net operating losses since realization of these tax benefits cannot be reasonably assured.

The change in the valuation allowance was an increase of $17.8 million and a decrease of $5.5 million in 2002 and 2001, respectively. The changes in 2002 relate primarily to acquired losses and tax credits from the Company's subsidiary, MedImmune Vaccines. The portion of the valuation allowance for which subsequently recognized tax benefits will be first applied to reduce goodwill was $15.6 million at December 31, 2002.

Due to state tax law changes during the year ended December 31, 2001, the Company's net deferred tax asset decreased, resulting in a net tax expense of $2.4 million during 2001. This net adjustment is comprised of a reduction of $7.9 million in the deferred tax asset related to the state tax effect of net operating loss carryforwards and other future deductible items, as well as a reduction of $5.5 million in the valuation allowance associated with a portion of those deferred tax assets.

Because of uncertainties regarding 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 the Company's subsidiary, MedImmune Oncology (formerly USB), prior to its acquisition by the Company, a full valuation allowance remains for these deferred tax assets at December 31, 2002 and 2001.

16. COLLABORATIVE ARRANGEMENTS

Abbott Laboratories

In December 1997, the Company signed two agreements with Abbott Laboratories. The first agreement calls for Abbott to co-promote Synagis in the United States. The second agreement allows Abbott International, a division of Abbott, to exclusively distribute Synagis outside the United States. Under the terms of the United States co-promotion agreement, the Company is required to pay Abbott an increasing percentage of net United States sales based on Abbott achieving certain sales thresholds over the annual contract year. 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 International 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 was deferred in 2000 and is being recorded as other revenue as the Company fulfills certain obligations under the agreement. During 2001, the Company revised its estimate of the total cost to fulfill its obligations under the agreement, based on significant progress at less effort than originally expected towards obtaining regulatory approval in Japan, which was officially granted during January 2002. The Company recorded the cumulative effect of this change in estimate, which resulted in the recognition of additional revenues of $3.6 million during the year ended December 31, 2001, which are included in other revenues. During 2002, Synagis received regulatory approval in Japan and Canada, and therefore the Company expects to fulfill its remaining obligations under the agreement during the second quarter of 2003. The Company could receive up to an additional $15 million based on the achievement of certain sales goals.

ALZA Corporation

In December 1995, the Company entered into an exclusive marketing and distribution agreement with ALZA Corporation for Ethyol in the United States. Under the terms of the agreement, ALZA had exclusive rights to market Ethyol in the United States and was responsible for sales and marketing of the product. The original term of the agreement expired in April 2001, and during 2000 ALZA exercised a one-time option to extend the agreement to April 1, 2002. In September 2001, the Company amended the agreement with ALZA to accelerate to October 1, 2001 the transfer to the Company of Ethyol marketing rights. Under the terms of the agreement, the Company received $35 million in up-front and milestone payments prior to 2000. In accordance with SAB 101, a portion of these payments was deferred in 2000 and recorded as other revenue in 2001, as the Company fulfilled certain obligations under the agreement and completed the transfer of marketing rights. Under the terms of the agreement, the Company's oncology/immunology sales force co-promoted the product with ALZA in the United States. The Company sold Ethyol to ALZA at a price based on a percentage of the net sales price of Ethyol in the United States, and ALZA then sold Ethyol to the distributors and wholesalers that supply Ethyol for prescription sales.

In anticipation of the October 2001 transfer, the Company ceased sales of Ethyol to ALZA during the third quarter of 2001, and purchased ALZA's remaining Ethyol inventory at historical cost as of September 30, 2001, which was recorded as a reduction to product sales in the amount of $2.3 million. During the third quarter of 2001, the Company recognized the remaining deferred revenues of $2.2 million, which are included in other revenues, and recorded to selling general and administrative expense $13.4 million in termination fees due to ALZA, which are included in accrued expenses as of December 31, 2001. Beginning October 1, 2001, the Company records all revenues from domestic sales of Ethyol, and beginning April 1, 2002, the Company pays ALZA a declining royalty for nine years, based on sales of Ethyol in the United States.

CSL Limited

In June 1998, the Company entered into a collaboration agreement with CSL Limited, of Victoria, Australia for the development, sale and distribution of FluMist in Australia, New Zealand and some countries in the South Pacific. The Company and CSL are conducting clinical trials in Australia for FluMist. Under the agreement, CSL will sponsor the marketing application with the Therapeutic Goods Administration, Australia's equivalent to the FDA. CSL will have exclusive rights to sell and distribute FluMist in these countries, and the Company will share profits from these sales. The Company will also benefit from expansion of CSL's current flu vaccine in pediatric and healthy adult market segments following the approval to market FluMist in the territory. In addition, CSL has agreed under an option agreement to grant warrants to the Company to purchase CSL common stock upon CSL's attainment of certain milestones.

Evans Vaccines Limited

In July 1999, the Company entered into an agreement with a division of Celltech Group Plc, which was later acquired by PowderJect Pharmaceuticals Plc and is now called Evans Vaccines Limited, for the manufacture of key components of FluMist, specifically the bulk manufacture of monovalents and diluent, as well as use of the manufacturing facilities. During October 2000, the Company restructured its agreement with Evans in order to gain direct control over FluMist manufacturing operations. The Company obtained responsibility for bulk manufacture of FluMist in Evans' Speke, England facility, hired approximately 100 Evans employees who had been working on FluMist, and entered into subleases through June 2006 for the FluMist manufacturing areas on the existing site. In connection with the restructuring of the manufacturing agreement, the Company made an initial payment of $15.0 million and additional payments of $3.9 million each in September 2001 and 2002. The Company is obligated to make three additional annual payments of $3.9 million in September 2003 through September 2005, which are included in other current liabilities and Obligations to Evans in the accompanying consolidated balance sheet as of December 31, 2002. The Company is also obligated to make other additional payments of $19 million, less accrued interest, which will be paid over the term of the agreement based on net sales of FluMist, if and when approved for marketing, with the unpaid balance, if any, due January 2006. The balance of $18.6 million as of December 31, 2002 is included in Obligations to Evans in the accompanying consolidated balance sheet. In addition, the Company is obligated to make payments during the term of the agreement of $150,000 per year for the use of the Company's unit in the Evans manufacturing plant, payments up to an aggregate of $2.0 million for attaining specific milestones, and payments for other support services based on the costs of these services incurred. The Company expenses rent and other support services as the costs are incurred, and expenses milestones as they become due.

GlaxoSmithKline

In December 1997, the Company and GlaxoSmithKline entered into a strategic alliance to develop and commercialize 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, research funding of $22.7 million through 2002, potential developmental and sales milestones which together could total up to $48 million in the future, as well as royalties on any product sales and an equity investment of $5 million. Under the terms of the agreement, the companies will collaborate on research and development activities. The Company conducted 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 was deferred in 2000 and is being recorded as other revenue as the Company fulfills certain obligations under the agreement. During 2001, the Company revised its estimate of the total cost to fulfill its obligations under the agreement, based on significant progress at lower cost than previously estimated. The Company recorded the cumulative effect of this change in estimate, which resulted in additional revenues of $0.5 million, for a total of $0.9 million for the year ended December 31, 2001, which are included in other revenues. Research funding of $0.2 million, $2.8 million and $7.8 million associated with the agreement has been included in other revenues for the years ended December 31, 2002, 2001, and 2000, respectively.

In July 2000, the Company granted GlaxoSmithKline a worldwide, exclusive license to its *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.

Schering-Plough Corporation

In May 1993, MedImmune Oncology entered into an exclusive marketing and distribution agreement with Scherico, Ltd., 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. Prior to 2000, the Company received payments of $11 million under the terms of the agreement, a portion of which was deferred in 2000 in accordance with SAB 101, and is being recorded as other revenue as the Company fulfills certain obligations under the agreement.

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.

Wyeth

In January 1999, the Company signed a worldwide collaborative agreement with Wyeth Lederle Vaccines, a subsidiary of Wyeth, for the development, manufacture, distribution, marketing, promotion, and sale of FluMist. Under this agreement, Wyeth has exclusive worldwide rights to market FluMist, excluding Korea, Australia, New Zealand and some South Pacific countries. The two companies have agreed to co-promote FluMist in the United States, with the Company focusing on non-traditional channels. Wyeth holds the marketing rights in the United States for an initial term of seven years from the first commercial sale of FluMist in the United States. Outside the United States (with the exclusions noted above), Wyeth holds the marketing rights for an initial term of eight years from the first commercial sale of FluMist outside the United States. Wyeth has the option to extend its rights in the United States for an additional four years and internationally for an additional three years, the aggregate of which could result in payments to the Company ranging from $145 million to $400 million. Under the terms of the agreement with Wyeth, the two companies are to collaborate on the regulatory, clinical and marketing programs for FluMist within the United States.

As a part of the collaboration, the Company is to receive certain payments related to the achievement of key milestones and events for FluMist. In December 2002, the Company received $25.0 million from Wyeth as compensation for manufacturing costs incurred in preparing for the then-expected 2002 FluMist launch. Under the agreements, as recently amended, potential milestones and related payments to the Company from Wyeth include: $20 million for FDA approval in the United States; $20 million for advisory body recommendations and expanded label claims; up to $25 million in supply goal payments; up to $17.5 million for FDA approval of use in multiple target populations; $10 million for the submission of a license application in Europe; $27.5 million for FDA approval of a liquid formulation of FluMist; and up to $50 million upon licensure in international regions. Additionally, Wyeth is committed to

provide the Company with up to $20 million in financing, contingent upon regulatory approval of FluMist. The total potential future value for the license fees, milestones, financing support and term extension options that the Company could receive from Wyeth could range from approximately $300 million to $600 million.

Under the terms of the agreement, Wyeth will distribute FluMist and record all product sales. The Company will receive approximately 50% of FluMist revenues, paid in the form of product transfer payments and royalties. These payments are higher in the United States than internationally. The Company incurs expenses to manufacture, supply and co-promote FluMist. There is potential for the manufacturing cost incurred by the Company to exceed transfer payments received from Wyeth. Wyeth reimburses the Company for a portion of the product's clinical development and sales and marketing expenses, and has agreed to spend up to $100 million over the first three years for commercialization of FluMist in the United States.

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 and milestone payments of approximately $7.1 million and $7.5 million in 2003 and 2004, respectively, and $294.9 million in the aggregate upon the occurrence of certain events in the future, such as the granting by the FDA of a license for product marketing in the United States. 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. COMMITMENTS AND CONTINGENCIES

Manufacturing, Supply and Purchase Agreements

The Company has entered into manufacturing, supply and purchase agreements 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. Prior to November 2002, human plasma for CytoGam was converted to an intermediate (Fraction II+III paste) at the FMC. Effective November 2002 and through June 2004, Precision Pharma Services is providing all manufacturing of the Company's Fraction II+III paste. The intermediate material is then supplied to the manufacturer of the bulk product, MBL. Pursuant to the agreements with MBL, the Company paid $3.2 million in 2002, $6.8 million in 2001, and $8.7 million in 2000 for production and process development. The Company has a commercial agreement with MBL for planned production of CytoGam and RespiGam through June 2004 for $15.6 million, subject to production level adjustments. If MBL, 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 agreements with Aventis Pasteur through April 2003 and MBL through June 2004 for the fill and finish of CytoGam product.

In December 1997, the Company entered into an agreement with BI, to provide supplemental manufacturing of the Company's second generation RSV product, Synagis. The Company paid $6.7 million in 2002, $14.3 million in 2001, and $26.4 million in 2000 related to production and scale-up of production as part of this agreement. The Company has firm commitments with BI for planned production through March 2005 for approximately 42.6 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.

The Company has additional agreements with Chiron and BI for the filling, finishing and packaging of Synagis product, manufactured at the FMC.

In August 1998, the Company signed a worldwide multi-year supply agreement with Becton Dickinson for the supply of its AccuSpray non-invasive nasal spray delivery system for administration of FluMist. The Company has firm commitments with Becton Dickinson for future purchases of sprayers of $7.7 million and $1.6 million in 2003 and 2004, respectively. Under the agreement, the Company advanced a total of $2.0 million to Becton Dickinson for facility expansion of plant capacity, which will be recovered against future payments for sprayers supplied under the agreement. As of December 31, 2002, $0.5 million of the advance has not been recovered and is included in other assets in the accompanying balance sheet.

In August 2000, the Company entered into a production agreement with PCI, to perform secondary production (i.e., assembly, labeling and packaging) of FluMist. As part of this agreement, the Company is obligated to pay PCI annual non-refundable minimum payments of $1.1 million for each contract year, regardless of the level of actual production. Payments of $1.1 million were made for each of the years 2002 and 2001. Future minimum payments of $1.1 million each are required to be made in 2003 and 2004. Should the actual level of future production exceed the contract minimum, then actual payments will be correspondingly higher.

The Company has issued irrevocable standby letters of credit to guarantee performance under certain agreements related to the construction project for the Company's new headquarters and research and development facility. The undiscounted maximum potential amount of future payments that the Company could be required to make under such guarantees, in the aggregate, is approximately $1.9 million.

18. OTHER OPERATING EXPENSES

Other operating expenses primarily reflect other manufacturing related costs that are not associated with commercially saleable products. Expenses in 2002 include $77.7 million in pre-production costs and inventory reserves for FluMist, primarily resulting from preparations for the proposed 2002 commercial launch; $12.9 million for the impairment of certain plasma manufacturing assets (see Note 8); and $9.6 million in excess capacity related to the plasma production portion of the FMC. Expenses in 2001 and 2000 also include amounts for the excess plasma capacity as well as manufacturing startup costs incurred prior to FDA approval for the FMC, and certain other plasma-related charges.

19. 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, which primarily vest pro ratably over four years of service. During 2002, 2001, and 2000, the Company contributed approximately $2.0 million, $1.1 million, and $0.9 million, respectively, in cash to the plans.

20. LEGAL PROCEEDINGS

In 1998, MediGene AG ("MediGene") initiated a legal action against Loyola University of Chicago ("Loyola") and the Company in the United States District Court for the Northern District of Illinois alleging, among other things, breach of contract and tortious interference by the Company with an alleged prospective business relationship between MediGene and Loyola. MediGene sought damages from the Company ranging from approximately $40 million to $115 million. The District Court granted summary judgment in favor of the Company on all claims and MediGene appealed. In January 2003 the parties reached a settlement resolving this matter at no cost to the Company.

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 sought payment of a 2% royalty based on net sales of Synagis sold or manufactured in the United States, with interest, and certain costs, including attorney's fees. The Company filed answering papers denying that any royalties are due on the basis that Celltech's United States patent does not cover Synagis and has sought 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 October 28, 2002, the High Court of Justice ruled in favor of the Company and dismissed Celltech's case on this basis. Celltech has filed an appeal, which is scheduled for argument in June 2003.

On November 29, 2001, the Company received a letter from counsel for Celltech enclosing a copy of a patent granted by the European Patent Office on November 14, 2001. That letter requested various information concerning the manufacture and sale of Synagis in Europe and sought confirmation that the Company would pay royalties on such sales pursuant to the license agreement dated January 19, 1998. On September 16, 2002, Celltech (now known as Celltech R&D Limited) commenced a second legal proceeding against the Company in the U.K. High Court of Justice, Chancery Division, Patents Court, based on the license agreement dated January 19, 1998. Celltech seeks payment of a 2% royalty based on net sales of Synagis sold or manufactured in Germany, with interest and certain costs, including attorney fees. To date, the Company had not made the royalty payments that were the subject of Celltech's November 29, 2001 letter or its September 16, 2002 lawsuit. The Company filed answering papers in December 2002 denying that it owes the royalties that Celltech seeks through its second proceeding. There can be no guarantee that the Company will be successful in this dispute.

On April 5, 2002, the Company filed a suit against Centocor, Inc. ("Centocor") in the United States District Court for the District of Maryland. The Company currently pays Centocor a royalty for sales of Synagis made or sold in the United States pursuant to a patent Sublicense Agreement between the parties dated as of September 15, 2000 (the "Sublicense Agreement"). In the litigation, the Company seeks a declaratory judgment that it has no obligation to continue paying royalties to Centocor on the basis that the patent is invalid, unenforceable and does not cover Synagis. Additionally, the Company seeks an injunction preventing Centocor from enforcing this patent. On July 1, 2002, Centocor moved to dismiss this action on the basis that it did not include the Trustees of Columbia University in the City of New York ("Columbia") and the Board of Trustees of the Leland Stanford University ("Stanford") as the owners of the patent. On December 12, 2002, the Maryland Court denied Centocor's motion to dismiss the Company's action and directed the Company to amend its Complaint to add Columbia and Stanford as defendants, which it did in January 2003. Centocor, Columbia and Stanford have filed their answers to the amended complaint. There can be no assurance that the Company will be successful in this dispute

On July 9, 2002, Centocor, Columbia and Stanford initiated an action against the Company in the United States District Court for the Northern District of California. In the California litigation, Centocor, Columbia and

Stanford sought a declaratory judgment that the patent at issue in the Sublicense Agreement is valid and enforceable and that the Company would be liable for patent infringement but for the Sublicense Agreement, as well as a declaratory judgment that the Sublicense Agreement is enforceable. The Company moved to dismiss the California action, among other arguments, on the basis that a prior action was filed in the U. S. District Court for the District of Maryland and the California action should not go forward. On October 21, 2002 the Court ruled in favor of the Company and dismissed the California litigation. Columbia and Stanford filed an appeal from the dismissal of the California action, but then agreed to dismiss their appeal with prejudice.

On January 14, 2003, a lawsuit was filed by the County of Suffolk New York ("Suffolk") in the United States District Court, Eastern District of New York, naming the Company along with approximately 25 other pharmaceutical and biotechnology companies as defendants. The complaint asserts claims under the federal RICO statute, as well as various state, statutory and common laws to recover monetary damages, civil penalties, declaratory and injunctive relief, disgorgement of profits, treble and punitive damages suffered as a result of defendants' alleged unlawful practices related to prescription medications paid for by Medicaid. Suffolk alleges that the defendants manipulated the "average wholesale price" ("AWP") causing Suffolk to pay artificially inflated prices for covered drugs. As to the Company, Suffolk's actions relates to Synagis. In addition, Suffolk argues that the defendants (including the Company) did not report the "best price" under the Medicaid Program.

The Company is also involved in other legal proceedings arising in the ordinary course of its business. After consultation with its legal counsel, the Company believes that it has meritorious defenses to the claims referred to above and 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, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of MedImmune, Inc. and its subsidiaries at December 31, 2002 and December 31, 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, 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 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 discussed in Note 4 to the financial statements, the Company changed its method of revenue recognition for contract revenues, effective January 1, 2002.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
January 27, 2003
McLean, Virginia

Corporate Information

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

COUNSEL
Dewey Ballantine
New York, NY

INDEPENDENT AUDITORS
PricewaterhouseCoopers LLP
McLean, VA

ANNUAL SHAREHOLDERS' MEETING
The next annual meeting of the shareholders will be held on May 22, 2003 10:00 a.m. (EDT) at the Gaithersburg Marriott, 9751 Washingtonian Boulevard, Gaithersburg, MD 20878 (301) 590-0044.

SEC FORM 10K AND REQUESTS FOR INFORMATION
A copy of the company's annual report to the Securities and Exchange Commission on Form 10-K is available without charge on our website (www.medimmune.com) 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 stock trades on The Nasdaq National Market under the symbol MEDI. As of December 31, 2002, there were 251,261,929 shares of common stock outstanding held by over 166,000 stockholders of record. 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.

	2002		2001	
	High	Low	High	Low
First Quarter	$48.35	$37.30	$54.56	$27.63
Second Quarter	41.05	24.80	48.05	29.19
Third Quarter	30.43	20.37	48.08	29.51
Fourth Quarter	29.24	20.45	48.95	33.47
Year End Close	$27.17		$46.35	

FORWARD-LOOKING STATEMENTS
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 that 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 the Company's principal product, Synagis; whether FluMist receives approval by the U.S. Food and Drug Administration and, if it does, whether it will be successfully manufactured and launched at a favorable price; 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 litigation, including claims relating to intellectual property, product liability and government or private pricing or reimbursement; 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; changes in equity markets affecting the value of the Company's equity investments; and the risks, uncertainties and other matters discussed under "Risk Factors" and elsewhere in this annual report and in our other 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, 2002. This annual report will not be updated as a result of new information or future events.

Officers and Directors

DIRECTORS

Wayne T. Hockmeyer, Ph.D. [6]
Chairman and former Chief Executive Officer, MedImmune, Inc.; President, MedImmune Ventures, Inc.

David M. Mott [4] [6]
Chief Executive Officer and Vice Chairman, MedImmune, Inc.

M. James Barrett, Ph.D. [1] [2] [5] [6]
Chairman, Sensors for Medicine and Science, Inc.; General Partner, New Enterprise Associates

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

James H. Cavanaugh, Ph.D. [2] [3] [6]
General Partner, HealthCare Ventures LLC; Past President, Smith, Kline & French Laboratories U.S., Inc.

The Honorable Barbara Hackman Franklin [1] [2] [3] [4]
President and Chief Executive Officer, Barbara Franklin Enterprises; Former U.S. Secretary of Commerce

Gordon S. Macklin [1] [2] [3] [4] [6]
Chairman, White River Corporation

Franklin H. Top, Jr., M.D.
Medical Director, MedImmune, Inc.

Elizabeth H. S. Wyatt [1] [5]
Former Vice President, Corporate Licensing, Merck & Co.

[1] *Member of the Audit Committee*
[2] *Member of the Compensation and Stock Committee*
[3] *Member of the Corporate Governance and Nominating Committee*
[4] *Member of the Investment Committee*
[5] *Member of the Compliance Committee*
[6] *Member of the Executive 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

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

Edward J. Arcuri, Ph.D.
Senior Vice President, Manufacturing, Vaccines

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

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

Gregory S. Patrick
Senior Vice President and Chief Financial Officer

William C. Bertrand, Jr., J.D.
Vice President, Legal Affairs

David A. Carlin, Ph.D.
Vice President, Clinical Development, Trials Design and Analysis

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

Jeffrey S. Hackman
Vice President, Marketing

Luz Hammershaimb, M.D.
Vice President, Clinical Development

Luc Hermans
Vice President, Manufacturing, UK

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

Charles F. Katzer
Vice President, Manufacturing, PA

Peter A. Kiener, D.Phil.
Vice President, Research

Pamela J. Lupien
Vice President, Human Resources

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

Edward T. Mathers
Vice President, Corporate Development

Paul M. Mendelman, M.D.
Vice President, Clinical Development, Infectious Diseases & Vaccines

Peter A. Patriarca, M.D.
Vice President, Regulatory Affairs

Timothy R. Pearson
Vice President, Treasurer and Secretary

James M. Pluda, M.D.
Vice President, Clinical Development, Oncology

R. Michael Smullen
Vice President, Sales

Franklin H. Top, Jr., M.D.
Medical Director

Eric I. Tsao, Ph.D.
Vice President, Process and Manufacturing Sciences

Randall M. Turner
Vice President, Engineering & Facilities

Ronald L. Wilder, M.D., Ph.D.
Vice President, Clinical Development, Immunological and Inflammatory Diseases

Lota S. Zoth
Vice President and Controller

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