People…

…make the difference.

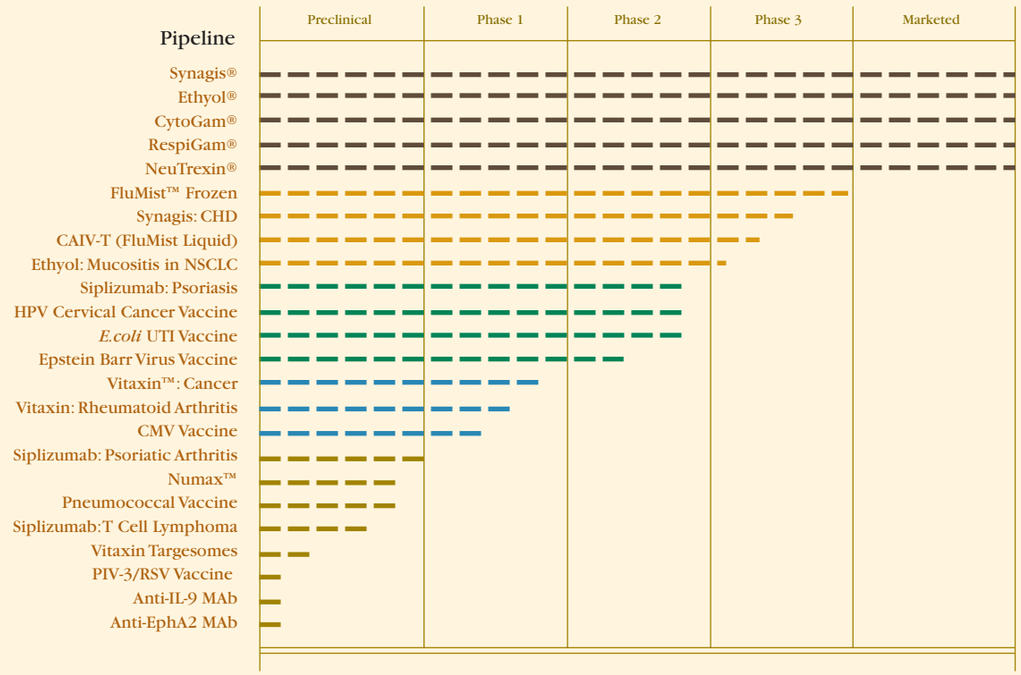
MedImmune, Inc.

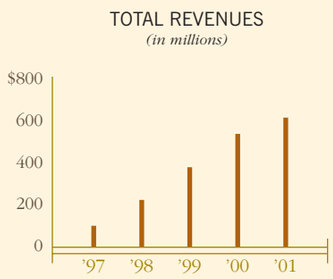
2001 Annual Report

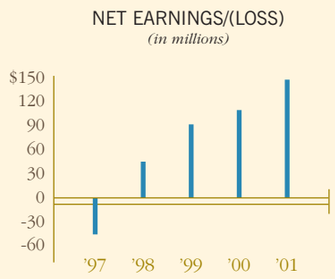
2001 Highlights

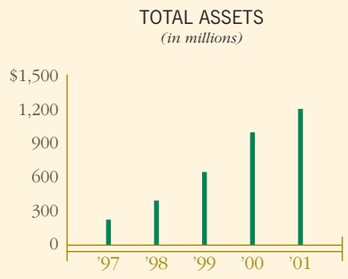
(all items in millions except per share data)

	2001	2000	1999	1998	1997
Consolidated Statements of Operations Data					
Total Revenues	$ 619	$ 540	$ 383	$ 227	$ 106
Gross Profit	441	368	267	108	39
Net Earnings/(Loss)	149	111	93	47	(45)
Per Share Data					
Basic Earnings/(Loss)	0.70	0.53	0.49	0.28	(0.30)
Diluted Earnings/(Loss)	0.68	0.50	0.44	0.24	(0.30)
Consolidated Balance Sheet Data					
Cash and Investments	788	526	270	177	101
Total Assets	1,219	1,007	648	406	233
Long-Term Debt	10	10	12	88	90
Total Stockholders' Equity	1,044	844	537	249	88









- Net earnings increased 34 percent to $149 million
- Revenues grew 15 percent to $619 million
- Worldwide sales of Synagis grew 21 percent to $516 million
- Enhanced Yield Process for Synagis approved by FDA
- Synagis capacity quadrupled at Frederick Manufacturing Center
- $1.5 billion acquisition of Aviron announced
- Acquired U.S. marketing rights to Ethyol
- Oncology commercial organization expanded
- Nine new clinical trials initiated; enrollment in eight studies completed
- Entered agreements for three new exciting early-stage technologies

Photo above: from left: Jennifer Reed, Ph.D. and Tony Gayle

MedImmune, Inc.

MedImmune is a leading biotechnology company focused on researching, developing and commercializing products to prevent or treat infectious diseases, autoimmune diseases and cancers. MedImmune actively markets three products, Synagis, Ethyol and CytoGam, and has 11 products in clinical testing. MedImmune employs approximately 1,500 people, is headquartered in Gaithersburg, Maryland, and has additional operations in Frederick, Maryland; Pennsylvania; California; the United Kingdom; and the Netherlands.

DEAR FELLOW SHAREHOLDERS:

As we take a look back on year 2001, we can do so with pride and with excitement for the future. We ended the year setting new records for revenues and earnings. Our marketed products, led by Synagis, continued to help people live longer and healthier lives. Our research, development and clinical pipeline advanced and expanded to become the deepest and most diverse in our corporate history. Additionally, we continued to build our management team by recognizing the growth and leadership capabilities of internal leaders and by selectively accenting our team with new talent from outside the company. As we close 2001, MedImmune has the strongest product portfolio, research and development pipeline, financial position and management team in our history.

Throughout the year, MedImmune focused its attention on making strategic decisions that would enhance the long-term growth of the company. The two most significant examples were the acquisition of Ethyol from ALZA and the acquisition of Aviron, a California-based vaccine company, completed in January 2002. The former allowed us to gain full control of the U.S. sales and marketing rights for Ethyol, a key oncology product in our portfolio. The latter builds upon MedImmune's expertise in vaccine development and adds a potential billion dollar product to our portfolio that could come to market later in 2002. On a smaller scale, our activities to strategically grow the business resulted in licenses to two new exciting antibody technologies: IL-9 to treat or prevent asthma and EphA2 to treat cancer or prevent metastasis. All of the strategic initiatives undertaken in 2001 have the potential to contribute meaningfully to our future growth.

From a financial perspective, 2001 was our fourth consecutive record year for both revenues and earnings, with double-digit increases in each. This growth was driven by a tremendous sales and marketing effort behind Synagis. The hard work of the MedImmune sales and marketing organization, its specialty distributors, and that of our partner Abbott Laboratories led to a 21-percent growth in worldwide sales of Synagis to $516 million from $427 million in 2000. Our net earnings for the year increased 34 percent over the previous year to $149 million, or $0.68 per diluted share. Total revenues grew to a record $619 million. Needless to say, MedImmune finds itself in a strong financial position at the end of 2001, with its assets now totaling over $1.2 billion, and approximately 65 percent of those assets held as cash or marketable securities.

We also made great clinical progress in 2001, resulting in 11 products now in clinical development: four in Phase 3, four in Phase 2 and three in Phase 1. During the year, we completed several key Phase 3 studies, including trials for FluMist and Ethyol. We also completed enrollment in a four-year congenital heart disease trial for Synagis, the results from which we hope to have by the end of 2002. We completed enrollment in six Phase 2 trials involving siplizumab for psoriasis and our vaccines to prevent cervical cancer and urinary tract infections. In addition, we initiated three clinical studies for Vitaxin, targeting both cancer and rheumatoid arthritis indications.

The tremendous momentum seen in our clinical pipeline is also evident in our preclinical efforts. Several programs made solid progress toward the clinic in 2001, including Numax, our next-generation anti-RSV antibody, additional indications for siplizumab, and the recently acquired anti-IL-9 technology. We will continue to feature antibody products, oncologics, and novel vaccines as we build and advance our pipeline, both through internal research and development efforts and licensing agreements with third parties.

On the manufacturing front, we again find ourselves in an enviable position with five, state-of-the-art manufacturing facilities across the globe. One of MedImmune's long-term goals has been to increase its manufacturing capacity and production yields to assure that our products can be manufactured in necessary quantities. In August 2001, we took a big step toward that goal with the approval of our "Enhanced Yield Process" (EYP) for antibody production for Synagis. EYP is significant for three reasons: first, it allows us to manufacture approximately four-fold more Synagis per production run than ever before; second, it positively impacts us financially by reducing the product's cost of goods over the next few years and by minimizing the need for a costly manufacturing expansion; and third, it is potentially applicable to all of our monoclonal antibody products now in development.

While 2001 was truly an exceptional year for MedImmune, there are still many opportunities for improvement and growth. Over the next twelve months, we intend to continue to grow sales of Synagis, and, for the first time as a MedImmune-controlled product, Ethyol. We'll focus our regulatory, clinical, and marketing attention on influenza as we work towards the launch of our next product opportunity, FluMist. We will move several of our key clinical products into late-stage clinical testing, and we will move still more into and through earlier stages of clinical testing. Our attention will also continue to focus on strategic opportunities to enhance our long-term growth. All of us at MedImmune want to thank you for your support throughout year 2001, and look forward to continuing to build MedImmune in 2002.

David M. Mott
Chief Executive Officer

Wayne T. Hockmeyer, Ph.D.
Chairman

Creating A Premier Biotech Company

MEDIMMUNE'S 2001 ACQUISITION ACTIVITIES

In 2001, MedImmune took several strategic steps toward its goal of becoming one of the elite biotechnology companies in the world. Most significant was its announcement of an agreement to acquire Aviron, a California-based vaccine company. This acquisition, along with the acquisition of U.S. rights to Ethyol from ALZA and the in-licensing of several exciting new research-stage technologies, dramatically enhanced MedImmune's opportunities for short- and long-term growth. Through these strategic actions, MedImmune expanded its infectious disease infrastructure, building on its strengths in virology and immunology, and added promising new product candidates in various stages of clinical testing. Most significantly, MedImmune added to its portfolio, FluMist, the world's first nasally delivered, live attenuated flu vaccine, currently under review by the U.S. Food and Drug Administration. MedImmune will leverage its historical strengths in sales and marketing, regulatory compliance, and manufacturing in an effort to help FluMist achieve its potential. We look forward to working with Wyeth, our sales, marketing, and clinical development partner for FluMist.

With five products on the market, one product under FDA review, 11 products in clinical testing, five state-of-the-art manufacturing facilities, $1.2 billion in total assets, nearly $800 million in cash and marketable securities, and a commercial operation generating over $250 million in annual free cash flow, MedImmune is stronger than it has ever been.

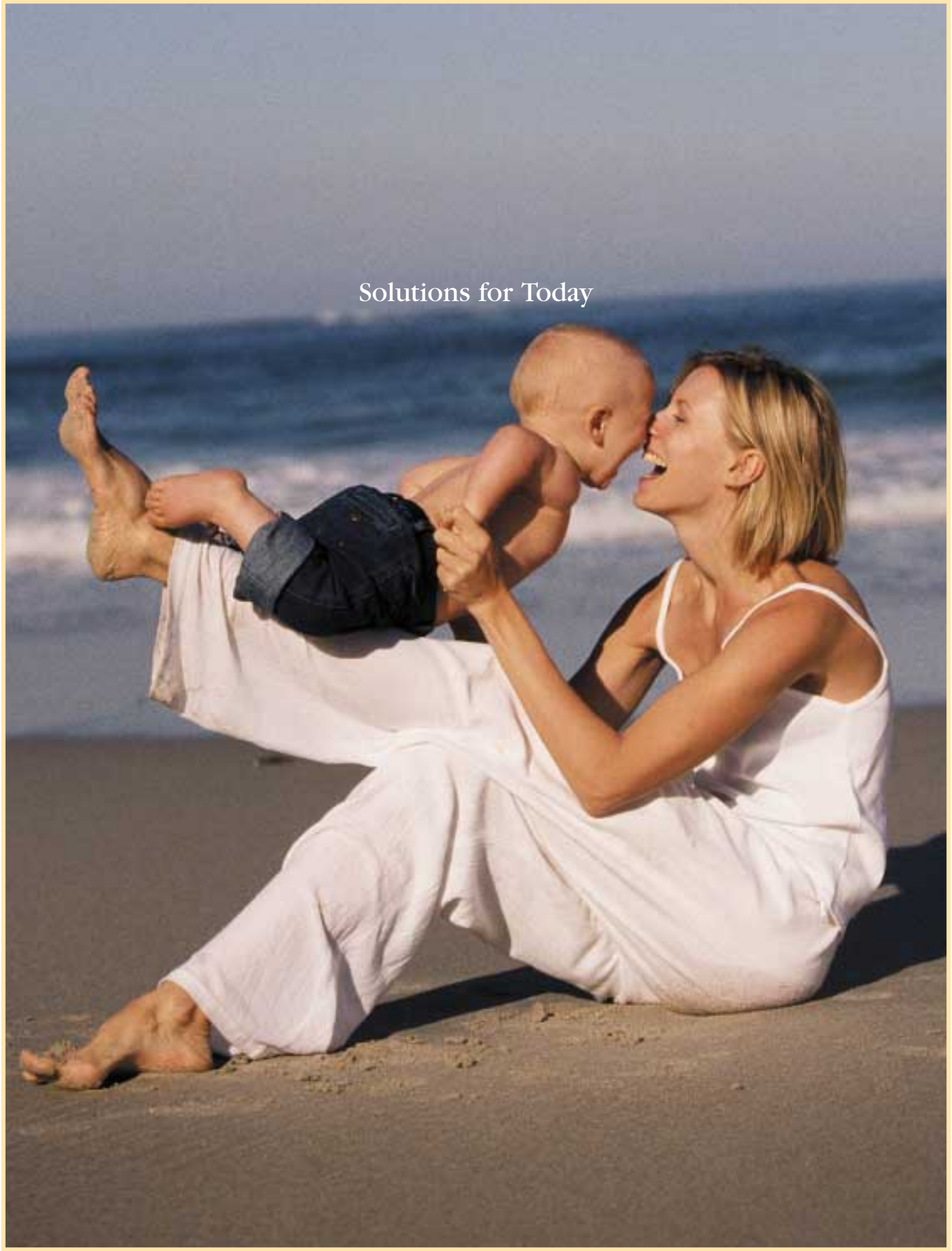
Aviron: an excellent strategic fit for MedImmune:

Scientific and technical synergies:
- Infectious disease
- Respiratory disease
- Vaccine technology
- Pediatrics

Leverages infrastructure and capabilities:
- Product development
- Regulatory
- Manufacturing
- Marketing and sales

Mel Booth, President & Chief Operating Officer of MedImmune, leads a discussion among members of the MedImmune/Aviron transition team, including Ed Connor, M.D., Carol Olson, Harry Greenberg, M.D., James Young, Ph.D., Robert Obst, Dianne Mastilock, Ben Machielse, Drs., and Mike Makris.

Photos above, from left: Marla Chu; eggs in incubation


Solutions for Today

SYNAGIS

Synagis is the only available monoclonal antibody approved and used to prevent respiratory syncytial virus disease in infants at high risk of RSV infection.

Respiratory syncytial virus (RSV), the leading cause of infant bronchiolitis and pneumonia, is a seasonal virus, resurfacing annually in October and continuing through April in the Northern Hemisphere. The virus is highly infectious and ubiquitous, and reaches epidemic proportions each and every year. In fact, by the age of two, nearly every child has been infected with RSV. Most healthy children and adults will clear the virus quickly. However, children born at less than 36 weeks of gestation and those with certain underlying chronic conditions are at greater risk of serious RSV illness, primarily due to poorly functioning or immature immune and respiratory systems. Every year, there are approximately 320,000 children born at high risk of acquiring serious RSV infection in the United States.

Synagis is the first RSV preventative of its kind. It is the first monoclonal antibody approved to prevent RSV infection in infants at high risk of the disease. An abundance of safety and efficacy data from clinical trials and real-world usage has shown that the drug is safe, effective and well-tolerated in these patients. Through its first three-and-a-half RSV seasons on the market, the product has been safely used in more than 300,000 infants to reduce RSV hospitalizations and prevent RSV disease.

The growth in sales of Synagis since its introduction to the market in late 1998 demonstrates clearly that pediatricians and healthcare professionals are increasingly comfortable with its ease-of-use, safety, and efficacy in fragile infants. In 1999, the product's first full year of availability, sales reported by MedImmune reached $293 million. By 2001, sales of Synagis had grown to $516 million, a 76-percent increase in just two years.

MedImmune has continued to monitor the efficacy of Synagis in reducing RSV hospitalizations through collection of data in its annual outcomes registry. The 2000-2001 Synagis Outcomes Registry data were presented at the *American Academy of Pediatrics (AAP) 2001 National Conference and Exhibition* in San Francisco in October 2001. The registry database tracked 2,116 infants with a broad range of gestational ages and risk factors who received at least one monthly dose of Synagis through the entirety of the 2000-2001 RSV season. Of these patients, only 59 (2.9 percent) were hospitalized due to RSV infections, reaffirming the low hospitalization rates seen in outcomes surveys from the 1999-2000 and 1998-1999

Photos above, from left: Franco Piazza, M.D.; Michelle DeLauter, R.N., John Tedeschi, M.D.

From left: Daniel Pappas, Joan Brandt, Ph.D., Dilip Ashtekar, Ph.D.

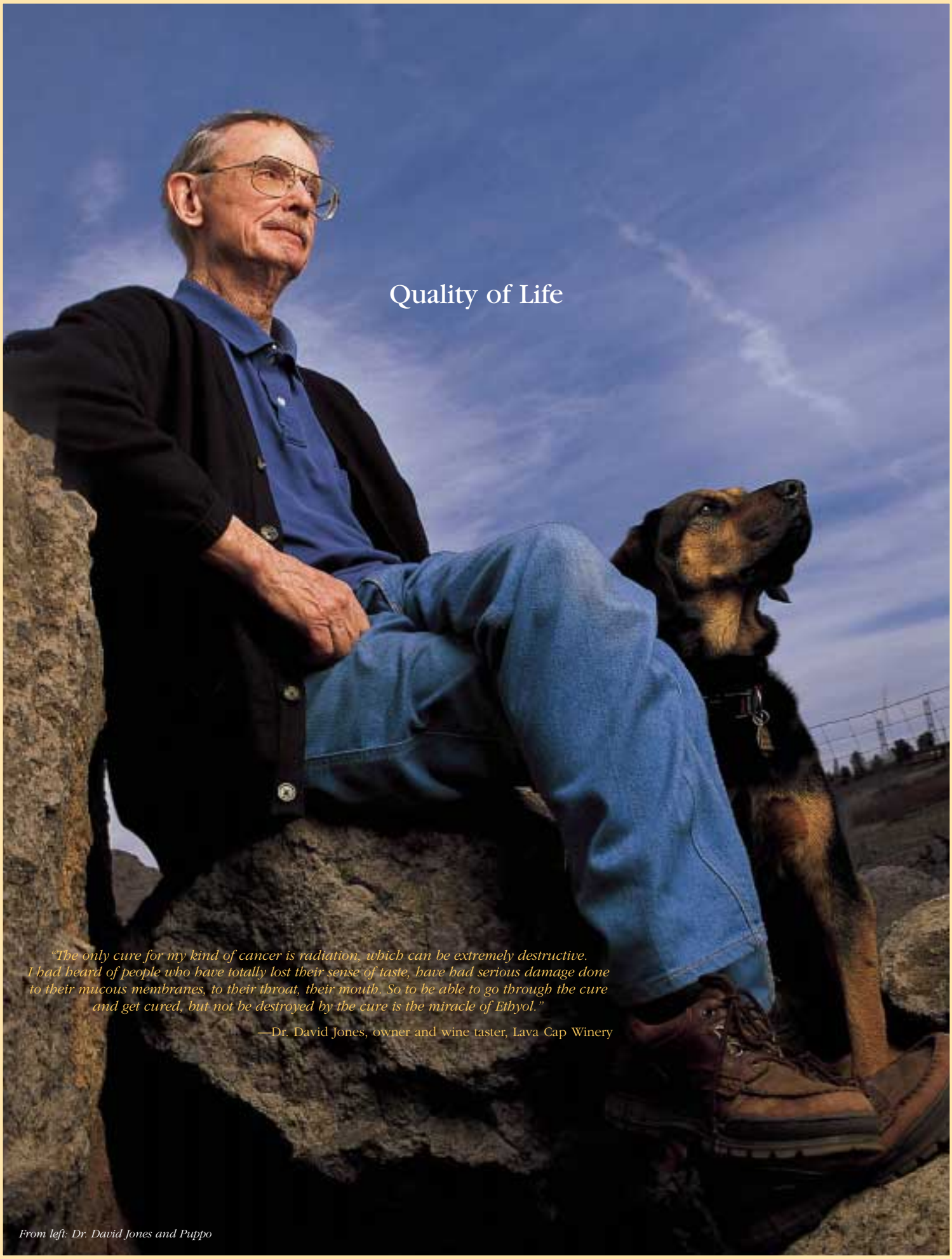
seasons (2.4 percent and 2.3 percent, respectively). Results from all of these outcomes surveys compare favorably to the rates of hospitalization observed in MedImmune's pivotal clinical trial with Synagis conducted in 1996 and 1997, in which prophylaxis reduced hospitalization from 10.6 percent in the placebo group to 4.8 percent in those children receiving Synagis.

Synagis is given once per month during the RSV season. We now understand that full compliance with this dosing schedule is essential to preventing infection and subsequent hospitalization. The 2000-2001 Outcomes Registry showed that RSV hospitalizations nearly doubled in children at risk of infection if one or more doses were missed. Additionally, these data demonstrated that an early start to prevention is also essential. Nearly half of the small number of RSV hospitalizations in children who received Synagis occurred before the second injection.

In the U.S., Synagis is marketed by MedImmune's two pediatric-focused sales forces and the Ross division of Abbott Laboratories. Outside the U.S., Abbott International distributes the product. RSV infection is a worldwide problem, and we have made great progress through 2001 in making Synagis available to children at risk of RSV disease throughout the world. As of early 2002, we have filed regulatory applications seeking approval in 58 countries and have received approval in 47. Importantly, Abbott's Japanese affiliate, Dainabot, reached a major milestone as Synagis was approved by the Japanese Ministry of Health, Labor, and Welfare in January 2002. Abbott is now seeking the appropriate reimbursement and pricing approvals for Synagis in Japan, following which, they will begin marketing the product. Synagis was also the winner of the prestigious German Prix Galien, the highest accolade for research and development in the Biomedical Industry in Germany, as the outstanding pharmaceutical product in 2001.

"As a parent, you'll do anything you can to keep your kids safe and healthy; being proactive in their healthcare is an essential part of it. One step we took was to give our premature twins, Jenna and Jordyn, Synagis to prevent RSV infections, after it was recommended by our pediatrician."

—Tami and Brandt Mensh



Quality of Life

"The only cure for my kind of cancer is radiation, which can be extremely destructive. I had heard of people who have totally lost their sense of taste, have had serious damage done to their mucous membranes, to their throat, their mouth. So to be able to go through the cure and get cured, but not be destroyed by the cure is the miracle of Ethyol."

—Dr. David Jones, owner and wine taster, Lava Cap Winery

From left: Dr. David Jones and Puppo

ETHYOL

Ethyol is used to improve the quality of life for cancer patients by preventing some of the harmful toxicities associated with radiation and chemotherapy.

Throughout 2001, MedImmune Oncology focused much of its attention on positioning Ethyol, its lead product, in the marketplace for future growth. Ethyol is a unique and important product that has the potential to address a significant unmet need faced by a number of cancer patients. It is currently approved for use in head and neck cancer patients undergoing radiation therapy to prevent xerostomia (dry mouth), an often severe and irreversible side effect of radiation therapy that can permanently damage salivary glands. It is also approved for use in patients who have advanced ovarian and non-small cell lung cancers to reduce the cumulative kidney toxicities associated with repeated administration of cisplatin, a common chemotherapy agent.

As part of the effort to grow the future market for Ethyol, MedImmune is conducting a number of studies, that if successful, could expand the product's label to include new indications and add alternative routes of administration to make the drug more convenient to use in certain settings. For example, clinical trials are planned to assess the drug's ability to prevent mucositis, a painful inflammation of the lining of the mouth and throat associated with radiation therapy, in patients who have non-small cell lung cancer. MedImmune will also continue to study whether subcutaneous administration of Ethyol has the potential to provide comparable protective results as the currently approved intravenous route of administration.

On the commercial front, MedImmune acquired the U.S. rights to Ethyol from ALZA Corporation effective October 1, 2002. These rights were originally scheduled to return to the company on April 1, 2002; however, following ALZA's acquisition by Johnson & Johnson in June 2001, MedImmune believed it was in the product's best interest to regain full commercial responsibility as soon as possible. On October 1, 2001, MedImmune began recording 100 percent of U.S. sales and expanded its sales, marketing and medical affairs infrastructure with approximately 50 new professionals, bringing the oncology commercial team to a total of 80 people.

MedImmune believes that its recent oncology expansion activities on both the commercial and clinical fronts will not only help support the future prospects of Ethyol, but also help position the company to market additional products for cancer patients.

Photos above, from left: Christine Fazenbaker, David Cassatt, Ph.D., Christine Bachy; Paul Skinner, Brian Goldsmith, M.D.


A Promising Tomorrow

FLUMIST

FluMist is a live, attenuated vaccine delivered as a nasal mist being developed by MedImmune for the prevention of influenza. Clinical trials with FluMist show that it is highly effective in reducing the incidence of influenza in both children and adults. FluMist also offers a significant advantage in its administration by nasal spray, eliminating the unpleasantness of needle-based injectable vaccines and local injection site reactions.

Influenza, or "flu" as it is most commonly known, can be a devastatingly harsh seasonal disease. It is the most common cause of medically attended acute respiratory illness in the U.S., often involving fever, chills, muscle weakness, cough, sore throat, nasal congestion, headache and general malaise. In high-risk populations, such as the elderly, it can lead to severe complications and even death. According to the Centers for Disease Control and Prevention and the American Lung Association, 20 to 50 million people are infected annually in the U.S. alone, causing 70 million lost work days, 38 million lost school days, and 20,000 to 50,000 deaths each year. The annual burden of the disease to society has been estimated as $15 billion.

Currently, it is estimated that approximately 80 million doses of traditional inactivated, injectable flu vaccine are made available each year in the United States. These doses are initially targeted at high-risk individuals to afford them the earliest possible protection against influenza before it becomes widespread in the community for that season. The remaining balance of influenza vaccine is then made available to the broader population.

FluMist was submitted to the FDA for consideration of licensure on October 31, 2000. In January 2002, answers to questions raised by the agency during its initial review of the application were submitted. MedImmune expects the FDA to review the new data and information and provide a response no later than July 2002. Should the FDA's review be favorable, MedImmune and its partner, Wyeth, expect that they could be ready to launch FluMist in the U.S. for the 2002-2003 flu season.

Photos above, at right: FluMist product sample; Chuck Katzer

Creating Solutions

"The importance of new drug discovery can not be underestimated, as tomorrow's cures will no doubt stem from today's research. Only through this type of basic research may we be able to help treat or prevent the suffering and deformities that I see in many of my patients."

—Seth H. Lourie, M.D., Rheumatologist

From left: Seth Lourie, M.D. with patient

RESEARCH & DEVELOPMENT

By any measure, MedImmune's pipeline at the beginning of 2002 is the strongest and most diverse in the company's history. With key strengths in antibodies and vaccines, the pipeline includes product candidates targeting infectious diseases, immune system disorders, and cancer. Significant progress was made in 2001 to advance the many programs in development, several of which are described below.

Cold Adapted Influenza Vaccine (Liquid Formulation)

The original formulation of FluMist must be shipped and stored frozen. Unfortunately, most international markets cannot adequately handle frozen vaccines. As a result, MedImmune and its partner Wyeth, are collaborating to develop a second generation, refrigerator-stable, liquid trivalent cold adapted influenza vaccine (CAIV-T). There are several Phase 3 clinical trials ongoing in Europe and Asia to demonstrate the safety and efficacy of CAIV-T.

Siplizumab

Siplizumab (MEDI-507) is an investigational anti-CD2 monoclonal antibody that can selectively suppress the immune system by binding to the CD2 receptor found on T cells. In 2001, MedImmune completed its Phase 1 psoriasis program with the drug and presented the resulting data at two international psoriasis symposia. The data, which included results from three Phase 1 studies, showed the drug was generally well tolerated, improved psoriatic disease as measured by PASI (Psoriasis Area and Severity Index) score, and responses appeared to be durable after completion of treatment for the three-month follow-up period included in these trials. Moving ahead, MedImmune also treated over 600 psoriasis patients with siplizumab in 2001 in three Phase 2 clinical trials, again testing for safety and efficacy. These trials should be completed during 2002. The company also is looking to expand the focus of siplizumab in such areas as psoriatic arthritis and T cell lymphoma.

Urinary Tract Infection Vaccine

Throughout 2001, MedImmune's *E. coli* urinary tract infection (UTI) vaccine made significant clinical progress. The company completed enrollment in two Phase 2 clinical trials: one assessing the vaccine's efficacy in women who suffer from recurrent UTIs; the other assessing the vaccine's ability to prevent UTIs in women who do not have a history of such infections. In 2002, MedImmune expects to analyze data from each of these trials, and initiate new studies to further evaluate the vaccine's safety and potential efficacy.

Human Papillomavirus Vaccine

Infection with certain types of human papillomavirus (HPV) has been shown to be the primary cause of cervical cancer. In 2002, the American Cancer Society estimates that there will be about 13,000 new cases of invasive cervical cancer in the United States. Throughout the world, cervical cancer remains the third most common form of cancer, and the leading cause of cancer death among women in developing countries. There are currently no vaccines available to prevent such infection. Since 1997, MedImmune has been working with GlaxoSmithKline (GSK) on an HPV cervical cancer vaccine. With significant Phase 1 data in hand, MedImmune and GSK have completed enrollment in four Phase 2 clinical trials. Additionally, a large 3,000-patient epidemiology study was completed. Data from these trials, once completed and analyzed, may help support the initiation of Phase 3 clinical testing.

Vitaxin

Vitaxin is an investigational monoclonal antibody that reacts with $\alpha_v\beta_3$, an integrin found on new blood vessels as well as activated macrophages, monocytes, and osteoclasts. As such, the antibody may be useful in several destructive diseases, such as rheumatoid arthritis and cancer. During 2001, MedImmune started two Phase 1 clinical studies with Vitaxin, involving refractory solid tumors and rheumatoid arthritis, and one Phase 1/2 study in colorectal cancer patients. Additional clinical studies with Vitaxin are expected to start throughout 2002.

Numax

MedImmune continues to look for ways to improve protection against RSV disease. A main focus is the potential development of a third-generation anti-RSV product (Numax) that could be superior to Synagis. Toward this goal, several variants of Synagis were developed in 2000 that were at least ten times more potent than Synagis in microneutralization studies. In 2001, MedImmune identified the top three of these variants, and is currently evaluating them in animal models to determine which molecule to take into clinical development as Numax.

Anti-IL-9

According to the American Lung Association, 26 million Americans have been diagnosed with asthma. Of these, 10.6 million have had an asthma episode in the past 12 months. In 2001, MedImmune licensed the rights to technology that could result in the creation of an antibody to treat or prevent the symptoms of asthma. The company is now developing antibody candidates that target and block IL-9, a protein implicated in the pathogenesis of asthma and other respiratory disorders.

Anti-EphA2

During 2001, MedImmune also licensed the rights to EphA2 technology. EphA2 is a protein normally expressed at low levels on most epithelial cells; however, when overexpressed, it is believed EphA2 may act as a tumor-causing protein. During 2002, MedImmune will work to create antibodies that target EphA2, which may restore normal cell growth regulation or induce tumor cell killing.

Additional Pipeline Products

MedImmune continues to work on a number of additional product candidates to further broaden its research and development pipeline. Several studies are underway to evaluate the company's vaccine candidates against Epstein-Barr virus, cytomegalovirus, parainfluenza virus-3 and respiratory syncytial virus.

Photos above: from left: Eric Tsao, Ph.D., Ken Hwang; Christine Holland, Ph.D., John Hope, Ph.D.

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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

Gordon S. Macklin
Chairman of the Audit Committee

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

We are pleased to report to you on our financial condition and results of operations. During 2001, MedImmune achieved total revenues of $618.7 million, a 14% increase from 2000, and net earnings grew 34% to $149.0 million. The following discussion should be read in conjunction with the accompanying financial statements and related notes.

Overview

Since inception, we have incurred significant operating expenses developing our products and experienced substantial operating losses until achieving profitability in 1998. The profitability was driven by sales of Synagis, our second generation anti-RSV drug which was approved by the FDA on June 18, 1998 and by the Centralized European Agency for the Evaluation of Medicinal Products ("EMEA") in August 1999. Synagis is approved in the United States for the prevention of serious lower respiratory tract disease caused by RSV in pediatric patients at high risk for RSV disease. Because of the seasonal nature of RSV, limited sales, if any, are expected during the second and third quarters of any calendar year, causing results to vary significantly from quarter to quarter. Synagis sales for the 2000/2001 and 1999/2000 RSV seasons totaled $480 million and $357 million, respectively. We also market CytoGam for the attenuation of primary CMV disease in kidney, lung, liver, pancreas and heart transplant patients, and RespiGam for the prevention of serious lower respiratory tract infection caused by RSV in children under 24 months of age with BPD or a history of prematurity. RespiGam, our first generation anti-RSV drug, has been largely replaced in the marketplace by Synagis.

In November 1999, we completed a merger with U.S. Bioscience, Inc. ("USB," now known as MedImmune Oncology, Inc.) in a transaction accounted for as a pooling-of-interests. As a consequence, historical results of MedImmune and USB have been combined. In addition to gaining clinical, marketing and sales personnel specializing in oncology, we also added three approved products to our product portfolio, including two oncology products. Ethyol was approved by the FDA in December 1995 as a selective cytoprotective agent to reduce the cumulative renal (kidney) toxicity associated with repeated administration of cisplatin in patients with advanced ovarian cancer. In 1996, the label was expanded to include patients with non-small cell lung cancer ("NSCLC"). The label was further expanded in June 1999 to include the prevention of severe dry mouth caused by post-operative radiation treatment in certain head and neck cancer patients. Ethyol was made commercially available by our United States distribution partner, ALZA Corporation ("ALZA"), in March 1996.

On October 1, 2001, we accelerated the return to MedImmune Oncology of domestic Ethyol marketing rights. Thus, we are now responsible for all sales and marketing activities for Ethyol in the United States. NeuTrexin, introduced in January 1994, is approved for concurrent use with leucovorin administration (leucovorin protection) as an alternative therapy for the treatment of moderate-to-severe *Pneumocystis carinii* pneumonia ("PCP") in immunocompromised patients, including patients with AIDS. Hexalen, introduced in January 1991, is a cytotoxic drug for use as a single agent in the palliative treatment of patients with persistent or recurrent ovarian cancer. In November 2000, we sold this product to MGI Pharma for approximately $7.2 million plus future royalties.

During January 2002, we completed the acquisition of Aviron through an exchange offer and merger transaction valued at approximately $1.6 billion, net of cash. Aviron is a biopharmaceutical company headquartered in Mountain View, California, focused on prevention of disease through innovative vaccine technologies. Aviron's lead product candidate is FluMist, a live, attenuated virus vaccine delivered as a nasal mist for the prevention of influenza. We believe our experience in research and development, manufacturing, marketing, and regulatory affairs are well suited to enhance Aviron's current efforts to gain regulatory approval to market the product.

Our acquisition of Aviron will be accounted for as a purchase business combination and, consequently, the results of operations of Aviron will be included in our consolidated operating results effective January 10, 2002. Under the terms of the transaction, we exchanged approximately 34.0 million of our common shares for approximately 31.6 million shares of Aviron common stock, and an additional 7.1 million of our common shares are issuable upon exercise of Aviron's outstanding options and warrants. In addition, holders of Aviron's $200 million of convertible notes will be able to convert the notes into a total of 3.4 million of our common shares at a conversion price of $58.14 per share.

Critical Accounting Policies and 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 policies and significant judgments and estimates have the greatest impact on the preparation of our consolidated financial statements.

Product Sales

We generally sell our products to a limited number of wholesalers and distributors. We recognize 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 when the product is received by our customers. In certain of the Company's distribution agreements the total sales price received from the customer 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, government rebates, discounts, returns, and other reductions to product sales. 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. Third-party payors are increasingly challenging the prices charged for products, and are limiting reimbursement levels offered to consumers for these products, possibly resulting in an incremental reduction of reimbursements from third-party payors. Synagis is currently widely reimbursed by Medicaid and other government programs. The Company estimates the portion of its sales that will occur to this end-user market and records allowances at a level that management believes is sufficient to cover estimated requirements for rebates. If our estimates of government rebates vary significantly from actual results, adjustments to recorded revenues may be required.

Contract Revenues

We recognize revenue from up-front and milestone payments under collaborative agreements using the contingency adjusted performance model for revenue recognition. 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. The amount of revenue recognized during each period is based on a percentage of completion model of actual costs incurred relative to the total projected costs to be incurred under the collaborative agreement. When the performance criteria for a non-refundable milestone payment are met, the cost of the effort that has been incurred to date is divided by the total projected costs under the development arrangement (i.e. ratio of performance), and revenue is recognized for that milestone to the extent of the ratio of performance to date. We follow this method since reasonably dependable estimates of the revenue and costs applicable to various stages of a collaboration agreement can be made. Recognized revenues are subject to revisions as the collaboration efforts progress and estimated costs to complete are revised. Revisions in revenue estimates are recorded to income in the period in which the facts that give rise to the revision become known.

Trade Receivable Bad Debt Reserves

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Co-Promotion Expenses

In connection with our agreement with Abbott Laboratories to co-promote Synagis in the United States, we are 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 respiratory syncytial virus ("RSV") season, which occurs primarily in the fourth and first quarters in the Northern Hemisphere. We estimate our 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 2001, 2000, and 1999, the adjustments were immaterial. If actual net sales are significantly different from the estimates, the adjustment to co-promotion expense may be significant.

Taxes

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. While we have considered future taxable income and ongoing

tax planning strategies in assessing the need for the valuation allowance, in the event we were to determine that we would be able to realize deferred tax assets in the future in excess of their net recorded amount, an adjustment to the deferred tax asset would increase income 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, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

Inventory Reserves

We record an inventory reserve for estimated obsolescence 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. If actual market conditions are less favorable than those projected by management, additional inventory reserves may be required.

Other Operating Expenses

We currently record in other operating expenses charges from the plasma production section of the Frederick facility, which currently has excess capacity. These charges are expected to continue for the foreseeable future until the plasma production section of the facility is fully utilized for its intended purpose.

Investments

We record investments in marketable securities at fair value, with unrealized gains and losses reported, net of tax, as a component of other comprehensive income. The fair value of these investments is sensitive to changes in interest rates and the credit-worthiness of the security issuers. We hold minority interests in companies having operations or technology in areas within our strategic focus, some of which are publicly traded and have highly volatile share prices. We record an investment impairment charge when we believe an investment has experienced a decline in value that is other-than-temporary. Adverse changes in market conditions or poor operating results of underlying investments could result in future losses.

Derivative Financial Instruments

We have contracts for the future purchase of inventory which are denominated in foreign currencies. To hedge the effect of fluctuating foreign currencies in our financial statements, we periodically enter into foreign forward exchange contracts which allow us to purchase, for a fixed price on a specific date in the future, the amount of foreign currency necessary to pay for the contractual purchase of inventory. We enter into foreign exchange forward contracts for purposes of hedging future cash flows, and never for speculative or trading purposes. We record all derivative financial instruments on our balance sheet at fair value, with changes in the fair value reported 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. The gains and losses on these derivatives that are reported in other comprehensive income are reclassified to earnings in the periods in which the related inventory is sold. Fluctuations in the anticipated payment date for the inventory could create hedge ineffectiveness, which could give rise to gains or losses for the fair value of the hedge.

Commitments and Contingencies

We have entered into manufacturing, supply and purchase agreements in order to provide production capability for our products, and to provide a supply of certain raw materials. We are involved in litigation and administrative proceedings arising in the ordinary course of business. We evaluate potential loss contingencies on a regular basis and accrue any such losses if and when they become probable and reasonably estimable. Future changes in our assessment of the probability of a loss contingency could have a material impact on our results of operations in the period the assessment changes.

Results of Operations

2001 Compared to 2000

Revenues

Product Sales *(In Millions)*	2001	2000
Synagis	$516.4	$427.0
CytoGam	32.3	36.5
Ethyol	20.3	21.4
Other Products	10.5	10.9
Total	$579.5	$495.8

Product sales of $579.5 million in 2001 grew 17% over 2000 levels of $495.8 million primarily due to increased sales of Synagis, and were also impacted by our reacquisition of Ethyol domestic marketing rights from ALZA. Synagis, our largest product, accounted for approximately 89% and 86%, respectively, of our 2001 and 2000 product sales. Sales of Synagis for the year ended December 31, 2001 increased 21% over 2000. Contributing to the growth in 2001 sales was a 20% increase in domestic Synagis sales to $479.7 million in 2001 from $399.5 million in 2000. The growth was attributable to increased demand in the United States, resulting in a 19% increase in domestic sales unit volumes, and a 3.6% increase in the domestic selling price of Synagis effective in the second quarter of 2001. The increase in sales was partially offset by an increase in Medicaid rebates, which are accounted for as a reduction to product sales, as Synagis usage by patients eligible for Medicaid grew over the prior year. Contributing to the

growth in international sales during 2001 was an increase in the per unit sales price recognized upon delivery of product to Abbott International ("Abbott") under the terms of our international distribution agreement. The terms of the distribution agreement (a) mandated an increase in the transfer price effective May 1, 2001 and (b) requires the entire purchase price to be payable upon delivery of product to Abbott. Under the revised terms, the price earned by the Company is determinable at the time of delivery. Under the previous contract terms, the Company invoiced Abbott and recognized revenue on sales to Abbott when Synagis was delivered based on a contractually stipulated transfer price, which approximated 60% of the ultimate revenue value to us. Following the end of each quarter, Abbott remitted a report to us detailing end-user sales for the quarter along with an additional amount due in excess of the transfer price. We recognized revenue for the additional amount due in excess of the transfer price at that time. 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. Furthermore, we have been working with Abbott to expand the number of countries where we are licensed to sell Synagis. As of February 1, 2002, international registrations have been filed in 58 countries for the approval of Synagis, for which approval in the United States and 46 foreign countries had been obtained. There can be no assurance that approvals by the appropriate regulatory authorities will continue to be granted. Additionally, we may not receive pricing and reimbursement approvals in countries where we have received regulatory approval.

CytoGam accounted for approximately 6% of our 2001 product sales, compared to 7% in 2000. CytoGam sales decreased to $32.3 million in 2001 from $36.5 million in 2000, a decrease of 12%. 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 rebates for the product. We believe that a portion of the CytoGam sales that occurred in 2000 were 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 for the year ended December 31, 2001 relating to product substitution decreased significantly. We expect the future use of CytoGam as a substitute for standard IVIG products will be limited.

Ethyol accounted for approximately 4% and 5% of our product sales in 2001 and 2000, respectively. Ethyol revenues decreased 5% from $21.4 million in 2000 to $20.3 million in 2001. Sales of Ethyol for the year ended December 31, 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 sales of Ethyol to ALZA during the third quarter of 2001, and we purchased ALZA's remaining Ethyol inventory as of September 30, 2001, which we recorded as a reduction to product sales in the amount of $2.3 million. In addition, we believe ALZA's domestic marketing focus on Ethyol during the first nine months of 2001 was adversely affected by the acquisition in 2001 of ALZA by Johnson & Johnson which, in turn, adversely affected ALZA's 2001 sales of Ethyol. Beginning October 1, 2001, we record all revenues from domestic sales of Ethyol and, beginning April 1, 2002, we will 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-Plough Corporation ("Schering"), declined slightly to $6.0 million during 2001 as compared to $6.5 million in 2000, as unit sales decreased 3%. We record 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.

Sales of other products in 2001, which include 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 we no longer record product sales of Hexalen; rather, we recognize royalty income and other income pursuant to our agreement with MGI Pharma, which are included in other revenues for 2001.

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

Other revenues for the year ended December 31, 2001 decreased $5.5 million, or 12%, to $39.2 million in 2001 from $44.7 million in 2000. Other revenues during both years

consisted primarily of revenues under collaborative agreements. We recognized revenue of $21.4 million in 2001 versus $21.1 million in 2000 related to up-front and milestone payments under these agreements. We recognize non-refundable fees and milestone payments in connection with research and development and commercialization agreements as the contractual obligations and performance requirements are fulfilled, using the contingency adjusted performance model for revenue recognition. Under this method, the amount of revenue recognized during each period is based on a percentage of completion model of actual costs incurred relative to the total projected costs. The expected timing of revenues to be recognized through 2005 under the major collaborative agreements for which we have deferred a portion of the up-front and milestone payments received, based on current estimates of costs to complete, are as follows (in thousands):

	2002	2003	2004	2005
Abbott Laboratories	$7,500	$2,700	$ —	$ —
GlaxoSmithKline	700	—	—	—
Schering-Plough Corporation	400	400	400	400
Total	$8,600	$3,100	$400	$400

Future changes in estimated total costs or differences between actual costs and projected costs in any one period could cause the actual reported amounts to differ from the projected amounts.

Other revenues also include research funding from GlaxoSmithKline ("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 I and II clinical trials and preparation of clinical material, are nearing completion. Other revenues during 2001 also include 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 include 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. 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.

Cost of Sales

Cost of sales for 2001 increased 9% to $138.7 million from $127.3 million in 2000 due to increases in 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 increased sales of Synagis, which has more favorable margins, as well as lower manufacturing costs following implementation of an improved manufacturing process at the Frederick Manufacturing Center ("FMC") which increases Synagis 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. 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 2002 should be lower than 2001, as a result of expenses for start-up of manufacturing operations of Aviron in anticipation of possible FDA approval of FluMist, which may or may not be granted.

Research and Development Expenses

Research and development expenses of $83.0 million in 2001 increased 25% 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 12 trials. Currently, our clinical trials include 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 MEDI-507 in psoriasis patients, two Phase 2 trials for our urinary tract infection (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. We expect clinical spending to increase significantly in the coming quarters as more of our product candidates move into the clinic, we expand trials on products already in the clinic, and we include Aviron's expenses in our results. Additionally, we expect to incur significant charges in 2002 for the write-off of purchased in-process research and development relating to our acquisition of Aviron. We are currently performing a valuation of all tangible and intangible assets and liabilities, including the acquired in-process research and development. Preliminarily, we have estimated that $1,145 million of the purchase price will be allocated to in-process research and development, and will be recognized as an expense during the first quarter of 2002. We expect to finalize the valuation of the purchased in-process research and development by March 31, 2002.

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 is as follows:

Development-Stage Products	Description	Stage of Development
Synagis	Potential treatment of RSV in infants with congenital heart disease	Phase 3
Siplizumab	Potential treatment for psoriasis	Phase 2
Urinary tract infection vaccine	Potential vaccine to prevent urinary tract infections caused by *E. coli*	Phase 2
Human papillomavirus vaccine	Potential vaccine to prevent cervical cancer	Phase 2
Vitaxin	Potential anti-angiogenic product to impede tumor growth, and potential rheumatoid arthritis therapy	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

Selling, general and administrative ("SG&A") expense was $194.8 million and $157.3 million in 2001 and 2000, respectively, an increase of 24%. As a percentage of product sales, SG&A expense increased to 34% in 2001 from 32% in 2000. A portion of the increase in SG&A expense in 2001 versus 2000 is reflective of expenses related to our accelerated acquisition of Ethyol marketing rights from ALZA. We recorded $13.4 million in termination fees relating to our agreement with ALZA. In addition, we incurred increased salary and related expenses for the expansion of our Ethyol sales force of 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. Co-promotion expense is based on a percentage of net domestic sales of Synagis and thus increases as net domestic Synagis sales increase. Offsetting these increases was a decrease in legal expenses from 2000, as several legal matters outstanding in 2000 have since been resolved. For 2002, we expect SG&A expenses to decrease slightly as a percentage of total revenues.

Other Operating Expenses

Other operating expenses, which reflect manufacturing start-up costs and other manufacturing-related costs, increased in 2001 to $9.6 million from $9.2 million in 2000. The slight increase is mainly attributable to charges in 2001 of $1.3 million 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. In December 2000, the FDA granted approval of an amendment to the Biologic License Application for CytoGam to allow us to perform a portion of the CytoGam production process at our Frederick facility. Currently, the plasma production section of the Frederick facility has excess capacity, which results in charges to other operating expenses. These charges are expected to continue for the foreseeable future until the plasma production section of the facility is fully utilized. Other operating expenses are expected to increase significantly in 2002 as a result of manufacturing-related and start-up costs associated with Aviron's operations in anticipation of possible FDA approval of FluMist, which may or may not be granted.

Interest Income and Expense

We earned interest income of $36.5 million during 2001 versus $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 compares 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 versus 2000 results from differences in the amount of credits taken for research and development activities and 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. In addition, due to state tax law changes for the year ended December 31, 2001, the value of our state deferred tax assets decreased. We believe this change in tax law will ultimately lower our tax rates; however, we were required 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. We expect that our year-to-date effective tax rate in future periods will approximate our statutory rate of 37.0%.

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 which 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. Accounting principles generally accepted in the United States of America previously required us to record the revenue from the up-front and milestone payments as received, when the performance obligations associated with those payments had been fully met. However, following the adoption of SAB 101, accounting principles generally accepted in the United States of America now require that we recognize the revenue received in conjunction with up-front or milestone payments over the remaining performance period under the contract as those obligations are fulfilled.

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 for the year ended December 31, 2001 were $149.0 million, or $0.70 basic 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.

These results were consistent with our objectives for the year and with the continued development of our products. The factors that affected 2001 results may continue to affect near-term financial results.

2000 Compared to 1999

Revenues

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

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

An increase in sales of Synagis, our largest product, which accounted for 86% and 82% of our 2000 and 1999 product sales, respectively. Sales of Synagis in 2000 increased 46% to $427.0 million over 1999 sales of $293.0 million. Increased domestic demand for the product resulted in a 35% increase in unit volume. A 3.1% domestic price increase which took effect in the second quarter of 2000 also contributed to the sales increase. International sales increased 233% to $27.5 million in 2000 and reflected primarily an increase in unit volume of 215% over the prior year, following approval of Synagis by the EMEA in August 1999. The unit volume increase reflected greater demand for the product as well as inventory stocking by Abbott International. Sales made to Abbott may not reflect the ultimate demand for the product by the end users. Abbott International acts as our exclusive distributor for Synagis sales outside of the United States. The terms of our agreement with Abbott provide for us to receive 40 to 50 percent of end user sales. We initially recognized sales to Abbott when Synagis was shipped to Abbott based on a contractual, guaranteed transfer price; this amount approximated 60 to 75 percent of the total sales revenue expected to be received for each vial. Following the end of each quarter, Abbott remitted a report to us detailing end user sales by Abbott for the quarter and we recognized revenue for the additional amount due in excess of the transfer price and up to 40 to 50 percent of the end user selling price. As of December 31, 2000, we and Abbott International had filed international registrations in 58 countries for the approval of Synagis, of which approvals in 43 countries had been obtained.

CytoGam sales increased to $36.5 million, or 5% over 1999 sales of $34.7 million. We believe that a portion of the CytoGam sales that occurred in both years was the result of product substitution occurring because of a worldwide shortage of standard IVIG products. During 2000, the supply of standard IVIG products increased, and certain Medicaid agencies began to limit or discontinue reimbursement of CytoGam as a substitute for IVIG. Thus, we believe CytoGam sales for the 2000 period relating to product substitution decreased significantly. Partially offsetting the decrease in the substitution

business was a moderate increase in usage in transplantation. Overall, unit volumes decreased 5% domestically and 40% internationally when compared to the 1999 year. Despite the unit volume decrease, sales dollars increased due to a domestic price increase of approximately 7% implemented during the second quarter of 2000, and due to decreased government rebates paid for the product, principally for Medicaid, related to the IVIG substitution sales.

Sales of Ethyol increased approximately 9% to $21.4 million over 1999 sales of $19.6 million. Ethyol was sold through distribution partners in the United States and internationally; we received a percentage of end user sales and recorded all related cost of goods sold. In 2000, revenue for Ethyol from ALZA, our United States distributor, was $14.8 million versus $14.0 million in 1999. We achieved an increase in sales volumes of 7% domestically and 9% internationally as a result of increased demand by the distribution partners. Sales made to our distribution partners may not reflect the ultimate demand for the product by the end users. In 2000, we estimated that end user demand for Ethyol in the United States increased by approximately 28%. The difference between end user demand and demand from our distributor represents fluctuations in wholesaler and distributor inventories.

Sales of other products in 2000 increased $1.4 million, or 15% from the prior year. Sales of other products included primarily sales of NeuTrexin and RespiGam. Also included in other product sales were sales of Hexalen. In November 2000, we sold this product to MGI Pharma.

Other revenues for the year ended December 31, 2000 of $44.7 million increased 68% from 1999 other revenues of $26.6 million. This increase was largely due to the implementation of SAB 101 in the fourth quarter of 2000, retroactively to January 1, 2000. SAB 101 summarizes certain of the SEC's views in applying generally accepted accounting principles to certain revenue transactions in financial statements. The implementation of SAB 101 included amounts previously recognized as revenue relating to up-front payments or milestone payments received by us 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. Generally accepted accounting principles previously required us to record the revenue from the up-front and milestone payments as received, when the performance obligations associated with those payments had been fully met. However, following the adoption of the SAB, generally accepted accounting principles now require that the revenue received in conjunction with up-front or milestone payments be recognized over the remaining performance period under the contract as those obligations are fulfilled. In accordance with the SAB, we recognized $21.1 million in licensing revenues for the year 2000 related to up-front fees and milestone payments received in prior years. Excluding these revenues, other revenues would have decreased $3.0 million, or 11%, as compared to 1999's level of $26.6 million, and included primarily $10.0 million from GlaxoSmithKline ("GSK") related to the sale of our *Streptococcus pneumoniae* vaccine technology, $7.8 million earned under a collaborative agreement with GSK for HPV vaccine development, and royalty income due from ALZA in accordance with the terms of the Ethyol distribution agreement. Other revenues in 1999 primarily included $6.2 million received under the HPV vaccine development collaboration with GSK and a payment of $15.0 million from Abbott upon European approval of Synagis.

Cost of Goods Sold

Cost of goods sold rose 41% in 2000 to $127.3 million versus $90.2 million in 1999. This increase was primarily a result of increased 2000 sales volumes. Gross margins were 74% for 2000, as compared to 75% for 1999. Included in cost of goods sold for 2000 was a $2.4 million charge associated with the write-off of certain Synagis inventory as a result of 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. We expect gross margins to vary from quarter to quarter, based on the product mix.

Research and Development Expenses

Research, development and clinical spending expenses increased 11% over the prior year from $59.6 million in 1999 to $66.3 million in 2000, primarily due to higher expenditures on our clinical trials and increased infrastructure costs needed to support the growing number of ongoing clinical trials. We are currently administering multiple trials for our products, primarily including: Synagis in infants with congenital heart disease, human papillomavirus vaccine trials, and several trials using MEDI-507.

Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expense was $157.3 million in 2000 versus $139.4 million in 1999, an increase of 13%. As a percent of product sales, however, SG&A expenses in 2000 decreased from 39% of product sales in 1999 to 32% of product sales in 2000. 1999 expenses included one-time items of $21.2 million for merger and severance related costs associated with the acquisition of USB, which was completed on

November 23, 1999. The charge consisted of approximately $14.7 million of deal related costs (i.e., banking fees, and audit and tax fees, printing fees, and other fees), approximately $5.6 million of involuntary employee termination costs, and approximately $0.9 million of other costs. Of the amount expensed, approximately $1.2 million of severance costs were accrued as of December 31, 1999. No material adjustments were made to the accrual during 2000. A significant portion of the increase in SG&A expense in 2000 related to co-promotion expenses due to the Ross Products Division of Abbott Laboratories for the promotion of Synagis in the United States; these expenses increased as the domestic sales for Synagis increased. Co-promotion expense is recorded ratably as a percentage of net domestic Synagis sales. Further increases in 2000 were attributable to wage and related expenses incurred in connection with the establishment of our pediatric sales force during 2000 and legal costs related to several outstanding legal matters, including those related to the MediGene AG and Celltech matters. During the fourth quarter of 1999, we favorably resolved a prior dispute with one of our partners resulting in the receipt of approximately $6.8 million. Such settlement amount was recorded as a reduction to selling, administrative and general expense in the fourth quarter of 1999.

Other Operating Expenses

Other operating expenses, which reflect manufacturing start-up costs, decreased 47% in 2000 to $9.2 million from $17.4 million in 1999. Expenses in both years included start-up costs for the Company's Frederick Manufacturing Center ("FMC"). Expenses in both the 2000 and 1999 periods included charges for the write-off of certain equipment associated with our plasma production activities of $1.8 million and $1.4 million, respectively. In December 2000, the FDA granted approval for the amendment to the BLA for CytoGam to allow for a portion of the production of CytoGam at the Frederick facility. We were granted FDA approval for the manufacture of Synagis at the Frederick facility in December 1999. Currently, the plasma production section of the Frederick facility has excess capacity.

Interest Income and Expense

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

Taxes

We recorded income tax expense in 2000 of $64.4 million as compared to a benefit of $7.1 million recorded in 1999. Our effective tax rate for 2000 was 30.8%. The variation from the statutory rate of 38.6% was principally due to increased credits for research and development expenditures and credits earned for orphan drug status of certain research and development activities. The benefit in 1999 included the reversal of the valuation allowance against deferred taxes related to federal net operating losses of USB in the amount of $41.0 million. The recognition of these deferred tax assets had no impact on our 1999 cash flows. Excluding the reversal of the valuation allowance, income tax expense would have been $33.9 million in 1999, an effective rate of 39.3%. The variation from the statutory rate was also principally due to tax credits for research and development expenditures and credits earned for orphan drug status of certain R&D expenditures, offset by the non-deductibility of certain merger related expenses.

Cumulative Effect of a Change in Accounting Principle

We recorded a non-cash charge to 2000 earnings of $33.8 million, net of tax, as the cumulative effect of a change in accounting principle for the implementation of SAB 101. The adjustment was applied to the first quarter of 2000 as required by the SAB and included amounts previously recognized as revenue related to up-front payments or milestone payments 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 are contractually obligated to perform additional research and development activities or other activities in future periods. Generally accepted accounting principles previously required us to record the revenue from the up-front and milestone payments as received, when the performance obligations associated with those payments had been fully met. However, following the adoption of the SAB, generally accepted accounting principles required that the revenue received in conjunction with up-front or milestone payments be recognized over the remaining performance period under the contract as those obligations are fulfilled.

Net Earnings

2000 net earnings, which included the cumulative effect of a change in accounting principle, were $111.2 million compared to 1999 net earnings of $93.4 million. Basic earnings per share in 2000 of $0.53 on 209.1 million shares compared to basic earnings of $0.49 in 1999 on 190.4 million shares. Diluted earnings per share in 2000 of $0.50 on 220.4 million shares compared to diluted earnings per share in 1999 of $0.44 on 212.3 million shares. Year 2000 earnings before the cumulative effect of a change in accounting principle were $145.0 million, or $0.69 basic and $0.66 diluted earnings per share. Pro forma net income, which assumed that SAB 101 had been applied retroactively to prior years, was $145.0 million in 2000, or $0.69 basic and $0.66 diluted earnings per share. Pro forma net income in 1999 was $93.7 million, or $0.49 basic and $0.44

diluted earnings per share. 1999 share and per share amounts have been restated to reflect the three-for-one stock split effected in June 2000.

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

Liquidity and Capital Resources

Cash and marketable securities were $787.7 million at December 31, 2001, an increase of 50% over 2000. Working capital was $429.9 million at December 31, 2001, versus $526.3 million at December 31, 2000. The decrease in working capital reflects our decision during 2001 to invest a portion of our cash in longer-term investments, which are not included in working capital.

Operating Activities

Net cash provided by operating activities increased to $250.9 million in 2001 as compared to $173.0 million in 2000, primarily as the result of higher earnings. Additionally, allowances for trade accounts receivable increased $9.6 million to adequately reserve for increased government rebates primarily affecting Synagis sales. Accounts payable and accrued expenses increased $25.5 million, primarily for increased amounts due to Abbott Laboratories for Synagis co-promotion expense, due to the increase in domestic Synagis sales, and $13.4 million for termination fees due to ALZA.

Investing Activities

Cash used for investing activities during 2001 amounted to $188.2 million, as compared to $199.3 million in 2000, excluding capitalized interest of $0.3 million. Cash used for investing activities in 2001 included net additions to our investment portfolio of $168.4 million, $10.0 million of which was an investment in convertible preferred equity securities of a strategic partner related to the in-licensing of the IL-9 asthma antibody technology; $18.3 million for capital expenditures, primarily for expansion of the Synagis manufacturing area at our Frederick manufacturing facility and updated manufacturing and accounting systems; and a $1.5 million investment in a strategic alliance for the research and development of a tumor-targeting particle.

Financing Activities

Financing activities generated $23.6 million in cash in 2001, as compared to $74.8 million in 2000. Approximately $24.3 million was received upon the exercise of employee stock options in 2001, as compared to $76.3 million received in 2000, reflecting the lower average price for our common shares during 2001. In 2001 and 2000, repayments on long-term debt were $0.7 million and $1.5 million, respectively.

We are obligated in 2002 to provide $27.9 million in funding for various clinical trials, research and development and license agreements with certain institutions. We have also agreed to make milestone payments in the future in the aggregate amount of $119.4 million, the timing of which is uncertain and dependent on the occurrence of certain events such as the granting by the FDA of a license for product marketing in the United States for some of the product candidates covered by the Company's agreements. We have firm commitments with BI for planned production through March 2004 for approximately 43.7 million Euros, payment for which is subject to manufacturing and delivery schedules. During March 2002, we paid approximately $13.4 million to acquire 25 acres of land in Gaithersburg, Maryland, which will serve as the site of our new corporate headquarters. We have contracted with a designer and general contractor for the construction of the new facility over the next several years, at a total estimated cost of $80 million. The construction project is expected to break ground in April 2002 and we expect to take occupancy of the first phase in the fall of 2003. The Company's existing funds, together with funds contemplated to be generated from product sales and investment income, are expected to provide sufficient liquidity to meet the anticipated needs of the business for the foreseeable future, absent the occurrence of any unforeseen events.

Consolidated Balance Sheets

(in thousands, except share data)	December 31, 2001	2000
Assets		
Cash and cash equivalents	$ 171,255	$ 84,974
Marketable securities	227,067	406,455
Trade receivables, net	108,902	115,635
Inventory, net	50,836	46,633
Deferred tax assets	27,280	22,319
Other current assets	9,063	11,796
Total current assets	594,403	687,812
Property and equipment, net	95,402	86,383
Deferred tax assets, net	136,361	194,761
Marketable securities	389,368	34,825
Other assets	3,852	2,794
Total assets	$1,219,386	$1,006,575
Liabilities and Shareholders' Equity		
Accounts payable, trade	$ 5,873	$ 3,090
Accrued expenses	94,965	72,159
Product royalties payable	47,720	40,553
Deferred revenue	13,839	33,966
Other current liabilities	2,149	1,697
Total current liabilities	164,546	151,465
Long-term debt	8,791	9,595
Other liabilities	1,776	1,933
Total liabilities	175,113	162,993
Commitments and Contingencies (Note 17)		
Shareholders' Equity		
Preferred stock, $.01 par value; authorized 5,524,525 shares; none issued or outstanding	—	—
Common stock, $.01 par value; authorized 320,000,000 shares; issued and outstanding 214,484,084 and 211,347,825 at December 31, 2001 and 2000, respectively	2,145	2,113
Paid-in capital	891,627	842,815
Accumulated earnings (deficit)	141,875	(7,085)
Accumulated other comprehensive income	8,626	5,739
Total shareholders' equity	1,044,273	843,582
Total liabilities and shareholders' equity	$1,219,386	$1,006,575

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,	2001	2000	1999
Revenues			
Product sales	$579,529	$495,803	$356,815
Other revenue	39,150	44,692	26,560
Total revenues	618,679	540,495	383,375
Costs and Expenses			
Cost of sales	138,707	127,320	90,193
Research and development	82,985	66,296	59,565
Selling, general and administrative	194,841	157,330	139,389
Other operating expenses	9,606	9,231	17,409
Total expenses	426,139	360,177	306,556
Operating income	192,540	180,318	76,819
Interest income	36,516	29,569	12,633
Interest expense	(590)	(474)	(3,176)
Earnings before income taxes and cumulative effect of a change in accounting principle	228,466	209,413	86,276
Provision (benefit) for income tax	79,506	64,436	(7,095)
Earnings before cumulative effect of a change in accounting principle	148,960	144,977	93,371
Cumulative effect of a change in accounting principle, net of tax benefit of $21,262	—	(33,821)	—
Net earnings	$148,960	$111,156	$ 93,371
Basic earnings per share:			
Earnings before cumulative effect of a change in accounting principle	$ 0.70	$ 0.69	$ 0.49
Cumulative effect of a change in accounting principle, net of tax	—	(0.16)	—
Net earnings	$ 0.70	$ 0.53	$ 0.49
Shares used in calculation of basic earnings per share	213,378	209,101	190,421
Diluted earnings per share:			
Earnings before cumulative effect of a change in accounting principle	$ 0.68	$ 0.66	$ 0.44
Cumulative effect of a change in accounting principle, net of tax	—	(0.16)	—
Net earnings	$ 0.68	$ 0.50	$ 0.44
Shares used in calculation of diluted earnings per share	220,101	220,428	212,310
Pro forma amounts assuming the change in accounting principle was applied retroactively:			
Net earnings		$144,977	$ 94,505
Basic earnings per share		$ 0.69	$ 0.50
Diluted earnings per share		$ 0.66	$ 0.45

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

Consolidated Statements of Cash Flows

(in thousands) For the year ended December 31,	2001	2000	1999
Cash Flows from Operating Activities			
Net earnings	$ 148,960	$ 111,156	$ 93,371
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Cumulative effect of a change in accounting principle, net of tax	—	33,821	—
Deferred taxes	76,398	68,024	(7,457)
Deferred revenue	(21,430)	(21,117)	—
Depreciation and amortization	9,124	7,322	5,001
Change in reserve for loss on disposal of fixed assets	(88)	1,635	—
Capitalized interest	—	(295)	(1,707)
Compensation element of stock options/grants	—	—	575
Amortization of discount on marketable securities	(2,024)	(2,798)	(78)
Increase (decrease) in allowances for sales discounts, returns, bad debts, chargebacks, and government rebates	9,599	(125)	(3,509)
Increase (decrease) in provision for inventory reserve	2,910	(1,018)	(1,668)
Other	(50)	526	1,481
Increase (decrease) in cash due to changes in assets and liabilities:			
Trade receivables	(2,866)	(28,616)	(49,974)
Inventory	(6,559)	(11,999)	(6,839)
Other assets	2,697	(2,833)	(600)
Accounts payable and accrued expenses	25,451	6,849	18,596
Product royalties payable	7,166	12,026	13,579
Other liabilities	1,627	410	(1,918)
Net cash provided by operating activities	250,915	172,968	58,853
Cash Flows from Investing Activities			
Investments in securities available for sale	(852,589)	(685,207)	(333,849)
Maturities of securities available for sale	312,954	430,845	201,044
Proceeds from sales of securities available for sale	371,230	63,375	30,642
Capital expenditures	(18,258)	(8,293)	(12,203)
Investment in strategic alliance	(1,499)	—	(6,350)
Net cash used in investing activities	(188,162)	(199,280)	(120,716)
Cash Flows from Financing Activities			
Proceeds from issuance of common stock and private placement of securities	24,339	76,286	69,843
Deferred costs from debt issuance	—	—	(2)
Repayments on long-term debt	(742)	(1,505)	(15,869)
Net cash provided by financing activities	23,597	74,781	53,972
Effect of exchange rate changes on cash	(69)	(65)	(269)
Net increase (decrease) in cash equivalents	86,281	48,404	(8,160)
Cash and cash equivalents at beginning of year	84,974	36,570	44,730
Cash and cash equivalents at end of year	$ 171,255	$ 84,974	$ 36,570

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

Consolidated Statements of Shareholders' Equity

(in thousands, except share data)	Common Stock, $.01 par Shares	Amount	Paid-in Capital	Accumulated Earnings (Deficit)	Treasury Stock	Accum. Other Comprehensive Income (Loss)	Total
Balance, December 31, 1998	174,927,966	$1,749	$459,005	$(211,612)	$(145)	$ (431)	$ 248,566
Net earnings	—	—	—	93,371	—	—	93,371
Foreign currency translation adjustment, net of tax	—	—	—	—	—	(633)	(633)
Unrealized loss on investments, net of tax	—	—	—	—	—	(539)	(539)
Comprehensive income							92,199
Common stock options exercised	9,152,823	92	43,780	—	—	—	43,872
Private placement of common stock, February 1999	1,209,027	12	19,957	—	—	—	19,969
Tax benefit associated with the exercise of stock options	—	—	67,149	—	—	—	67,149
Compensation related to stock options/grants	16,077	—	575	—	—	—	575
Conversion of debentures, net of unamortized expenses of $1,253	18,292,635	183	58,564	—	—	—	58,747
Exercise of warrants	241,806	2	6,000	—	—	—	6,002
Cancellation of treasury stock	—	—	(145)	—	145	—	—
Balance, December 31, 1999	203,840,334	2,038	654,885	(118,241)	—	(1,603)	537,079
Net earnings	—	—	—	111,156	—	—	111,156
Foreign currency translation adjustment, net of tax	—	—	—	—	—	(8)	(8)
Unrealized gain on investments, net of tax	—	—	—	—	—	7,350	7,350
Comprehensive income							118,498
Common stock options exercised	7,507,491	75	76,210	—	—	—	76,285
Tax benefit associated with the exercise of stock options	—	—	111,720	—	—	—	111,720
Balance, December 31, 2000	211,347,825	2,113	842,815	(7,085)	—	5,739	843,582
Net earnings	—	—	—	148,960	—	—	148,960
Foreign currency translation adjustment, net of tax	—	—	—	—	—	(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	3,092,283	31	22,818	—	—	—	22,849
Issuance of common stock under the employee stock purchase plan	43,976	1	1,489	—	—	—	1,490
Tax benefit associated with the exercise of stock options	—	—	24,505	—	—	—	24,505
Balance, December 31, 2001	214,484,084	$2,145	$891,627	$ 141,875	$ —	$ 8,626	$1,044,273

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

During January 2002, the Company completed the acquisition of Aviron, a biopharmaceutical company headquartered in Mountain View, California, through an exchange offer and merger transaction. The acquisition will be accounted for as a purchase, and the results of operations of Aviron will be included in the results of the Company effective January 10, 2002. See Note 21.

2. Summary of Significant Accounting Policies

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

Basis of Presentation

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

Cash and Cash Equivalents

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

Marketable Securities

Investments consist principally of commercial paper and debt securities of United States corporations, international bank certificates of deposit, and United States Government and Agency notes and bonds. Investments with original maturities of three to 24 months are considered current assets, while those with maturities in excess of two years are considered non-current assets. The securities are held for an unspecified period of time and may be sold to meet liquidity needs and therefore are classified as available-for-sale as defined by Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Accordingly, the Company records these investments at fair value, with unrealized gains and losses on investments reported, net of tax, as a component of other comprehensive income (loss). The Company also holds minority interests in companies having operations or technology in areas within its strategic focus, some of which are publicly traded and have highly volatile share prices. The Company records an investment impairment charge when it believes an investment has experienced a decline in value that is other-than-temporary.

Concentration of Credit Risk

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 five 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. The Company has not realized any significant losses on its investments.

The Company sells its products primarily to a limited number of pharmaceutical wholesalers and distributors without requiring collateral. The Company periodically assesses the financial strength of these customers and establishes allowances for anticipated losses when necessary.

The Company currently markets five products. Sales of Synagis, the Company's largest selling product, comprised approximately 89%, 86%, and 82% of total product sales for the years ended December 31, 2001, 2000, and 1999, 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. As of December 31, 2000, trade accounts receivable included three customers that each accounted for 32%, 22%, and 15% 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 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 our customers. In certain of the Company's international distribution agreements the total sales price received from the customer is 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 occur to this end-user market and records allowances at a level that management believes is sufficient to cover estimated requirements for rebates. 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, government rebates and bad debts, which are netted against accounts receivable, totaled $26.9 million and $17.3 million at December 31, 2001 and 2000, respectively. Product royalty expense is recognized concurrently with the recognition of product revenue. Royalty expense, included in cost of sales, was $86.3 million, $69.2 million, and $46.7 million for the years ended December 31, 2001, 2000 and 1999, respectively.

Contract Revenues

Contract revenues are recognized over the fixed term of the contract as the related expenses are incurred. Up-front 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 model for revenue recognition. 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. The amount of revenue recognized during each period is based on a percentage of completion model of actual costs incurred relative to the total projected costs. When the performance criteria for a non-refundable milestone payment are met, the cost of the effort that has been incurred to date is divided by the total projected costs under the development arrangement (i.e. ratio of performance), and revenue is recognized for that milestone to the extent of the ratio of performance to date. Recognized revenues are subject to revisions as the collaboration efforts progress and estimated costs to complete are revised.

Co-Promotion Expense

In connection with the agreement with Abbott Laboratories to co-promote Synagis in the United States, the Company is required to pay Abbott an increasing percentage of net domestic sales based on 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 respiratory syncytial virus ("RSV") season, which occurs primarily in the fourth and first quarters in the Northern Hemisphere. The Company estimates its net sales and resulting co-promotion expense for the entire contract year to determine a proportionate percentage of expense to apply across all Synagis sales during that contract year. 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 2001, 2000, and 1999, the adjustments were immaterial.

Property and Equipment

Property and equipment are stated at cost. Interest cost incurred during the period of construction of plant and equipment and prior to FDA licensure is capitalized. Depreciation and amortization 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, 2001, 2000, and 1999 was $9.1 million, $7.3 million, and $5.0 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 $3.3 million, $4.1 million, and $2.9 million for the years ended December 31, 2001, 2000, and 1999, respectively.

Long-Lived Assets

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

Forward Exchange Contracts

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

On January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 establishes new accounting and reporting standards for derivative financial instruments and hedging activities. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and if 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 probable of not occurring are recognized in the current period. In accordance with the transition provisions of SFAS 133, 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.

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, 2001 and 2000 due to the short maturities of these instruments.

Income Taxes

Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized and are reversed at such time that realization is believed to be more likely than not. Income tax expense is the tax payable for the period and the change during the period in deferred tax assets and liabilities, exclusive of amounts related to the exercise of stock options which benefit is recognized directly as an increase in shareholders' equity.

Earnings Per Share

Basic earnings per share is computed by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net

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

Comprehensive Income

Under SFAS No. 130 "Reporting Comprehensive Income," the Company is required to display comprehensive income and its components as part of the financial statements. Comprehensive income is comprised of net earnings and other comprehensive income (loss), which includes certain changes in equity that are excluded from net earnings. The Company includes foreign currency translation adjustments, unrealized holding gains and losses, net of tax, on available-for-sale securities, and unrealized gains and losses on foreign currency hedges in other comprehensive income (loss).

A significant portion of other comprehensive income (loss) for the year ended December 31, 2001 relates to unrealized holding gains and losses on available-for-sale marketable securities. The Company maintains an investment in a company with which it previously formed a strategic alliance, which is carried at its fair value. Due to market volatility associated with this investment, the value of the Company's investment has fluctuated significantly since the company's initial public offering, and may continue to do so in the future.

New Accounting Standards

The Company adopted SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140"), for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. SFAS 140 establishes accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. The adoption of SFAS 140 did not have a material impact on the Company's financial position, results of operations, or cash flows.

During June 2001, the Company adopted SFAS No. 141, "Business Combinations" ("SFAS 141"), which addresses financial accounting and reporting for business combinations and supersedes APB Opinion No. 16 and SFAS 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises." All business combinations under the scope of this statement consummated after June 30, 2001 are to be accounted for using one method, the purchase method. In accordance with the standard, the Company prospectively adopted SFAS 141 effective for business combinations consummated after June 30, 2001. The adoption did not have a material impact on the Company's financial position, results of operations, or cash flows for all periods presented. The Company's acquisition of Aviron during January 2002 will be accounted for using the purchase method, in accordance with SFAS 141.

SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), was issued in June 2001 and addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, "Intangible Assets." 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. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to adopt SFAS 142 effective January 1, 2002. The Company anticipates that SFAS 142 will not have a material impact on the Company's financial position, results of operations, or cash flows.

SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"), was issued in June 2001 and addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to all entities and legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, and normal operation of long-lived assets. SFAS 143 is effective for the Company's fiscal year beginning January 1, 2003. The Company anticipates that SFAS 143 will not have a material impact on the Company's financial position, results of operations, or cash flows.

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), was issued in August 2001 and addresses the financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS 144 is effective for the Company's fiscal year beginning January 1, 2002. The Company anticipates that SFAS 144 will not have a material impact on the Company's financial position, results of operations, or cash flows.

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 ("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 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 (loss).

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.

3. Accounting Change

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"). SAB 101 summarizes certain of the SEC's views in applying 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. Accounting principles generally accepted in the United States of America previously required the Company to record the revenue from the up-front and milestone payments as received, when the performance obligations associated with those payments had been fully met. However, following the adoption of the SAB, accounting principles generally accepted in the United States of America now require that the revenue received in conjunction with up-front or milestone payments be recognized over the remaining performance period under the contract as those obligations are fulfilled, using the contingency adjusted performance model for revenue recognition.

The Company implemented SAB 101 effective January 1, 2000. As of December 31, 2001 and 2000, the Company has recorded on the balance sheet current deferred revenue of $13.8 million and $34.0 million, respectively. The deferred revenue is being recognized over the period of fulfillment of the contractual obligations. 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, after tax charge of $33.8 million or $0.16 per diluted share) was a charge of $20.8 million, or $0.10 per share. If the Company had been required to account for transactions in accordance with SAB 101 in earlier periods, the Company would have reported additional other revenue and earnings before the cumulative effect of a change in accounting principle of $4.3 million and $2.6 million, respectively, in the fourth quarter of 1999. Both basic and diluted earnings per share would have increased by $0.01 for the fourth quarter of 1999.

4. Segment Information

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

The Company sells its products primarily to a limited number of pharmaceutical wholesalers and distributors. 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:

	2001	2000	1999
Company A	26%	27%	27%
Company B	18%	19%	22%
Company C	13%	16%	15%
Company D	12%	11%	11%
Total % of product sales	69%	73%	75%

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

	2001	2000	1999
United States	$531,483	$456,311	$335,161
All other	48,046	39,492	21,654
Total product sales	$579,529	$495,803	$356,815

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

	2001	2000
United States	$92,498	$83,094
All other	2,904	3,289
Total long-lived assets	$95,402	$86,383

Other revenue of $39.2 million, $44.7 million, and $26.6 million in 2001, 2000, and 1999, respectively, consists mainly of United States distribution, licensing, milestone revenues, corporate funding, and contract manufacturing revenues.

5. Investments

Investments are comprised of the following (in thousands):

	Principal Amount	Cost/ Amortized Cost	Fair Value at Balance Sheet Date	Gross Unrealized Gains	Gross Unrealized Losses
December 31, 2001:					
Equity Securities	$ —	$ 16,350	$ 21,167	$ 4,817	$ —
U.S. Government and Agencies	8,000	8,078	8,310	232	—
Corporate Debt Securities	530,357	546,943	556,494	9,900	(349)
Foreign Bank CD's	28,000	29,860	30,464	604	—
Total	$566,357	$601,231	$616,435	$15,553	$(349)
December 31, 2000:					
Equity Securities	$ —	$ 6,350	$ 15,478	$ 9,128	$ —
U.S. Government and Agencies	35,900	36,120	36,174	62	(8)
Corporate Debt Securities	357,002	361,534	362,832	1,636	(338)
Foreign Bank CD's	25,750	26,797	26,796	7	(8)
Total	$418,652	$430,801	$441,280	$10,833	$(354)

The amortized cost and fair market value of investments at December 31, 2001 and 2000, by contractual maturities are (in thousands):

	2001		2000	
	Cost/ Amortized Cost	Fair Value	Cost/ Amortized Cost	Fair Value
Equity Securities	$ 16,350	$ 21,167	$ 6,350	$ 15,478
Due in one year or less	37,805	37,899	105,594	105,670
Due after one year through two years	165,007	168,001	284,021	285,308
Due after two years through five years	382,069	389,368	34,836	34,824
Total	$601,231	$616,435	$430,801	$441,280

Gross gains recognized on sales of securities in 2001 and 2000 were $2.1 million and $1.6 million, respectively, as determined by specific identification. Gross losses were immaterial during both 2001 and 2000, as determined by specific identification. During 1999, there were no material gains or losses on sales of securities.

6. Inventory

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

	2001	2000
Raw materials	$16,805	$14,715
Work in process	13,731	21,091
Finished goods	22,155	13,159
	52,691	48,965
Less non-current	(1,855)	(2,332)
	$50,836	$46,633

Non-current inventory at December 31, 2001 and 2000 is comprised of some of the Company's raw plasma. Non-current inventory at December 31, 2001 also includes certain CytoGam production lots that are being tested for long-term stability which are not expected to be available for sale within the next 12 months.

Inventory balances are net of reserves for RespiGam inventory, for which minimal product sales are expected to result for the foreseeable future. RespiGam inventory and reserve

balances were $4.9 million and $5.9 million, and $4.2 and $4.7 million, at December 31, 2001 and 2000, respectively.

7. Property and Equipment

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

	2001	2000
Land and land improvements	$ 2,313	$ 2,186
Buildings and building improvements	54,291	50,936
Leasehold improvements	15,236	15,750
Laboratory, manufacturing and facilities equipment	33,114	32,152
Office furniture, computers, and equipment	14,953	12,267
Construction in progress	10,035	—
	129,942	113,291
Less accumulated depreciation and amortization	(34,540)	(26,908)
	$ 95,402	$ 86,383

As of December 31, 2001 and 2000, buildings includes costs associated with four facilities. They are: 1) the portion of the Company's Frederick manufacturing facility that was granted approval by the FDA for the production of Synagis in December 1999, and was placed in service on December 31, 1999; 2) the portion of the Company's Frederick manufacturing facility that was granted approval by the FDA for the production of CytoGam intermediate paste in December 2000, and was placed in service on December 31, 2000; 3) warehouse, laboratory and administrative space adjacent to the manufacturing facility in Frederick, Maryland; and 4) the Company's manufacturing facility in Nijmegen, the Netherlands. 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 Company's Frederick manufacturing facility, which will be placed in service upon FDA approval.

8. Accrued Expenses

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

	2001	2000
Accrued contracts	$12,634	$10,139
Accrued manufacturing	4,232	4,200
Accrued sales and marketing	55,204	46,608
Accrued contract termination fees (Note 15)	13,440	—
Accrued other	9,455	11,212
	$94,965	$72,159

9. 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, 2001, 2000, and 1999 was $2.2 million, $3.4 million, and $2.6 million, respectively.

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

Year ending December 31,	
2002	$1,901
2003	1,962
2004	2,025
2005	2,089
2006	1,780
Thereafter	—
	$9,757

10. Long-Term Debt

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

	2001	2000
4% notes due to Maryland Department of Business and Economic Development, due 2016	$5,731	$ 6,015
7.53% note due to Maryland Industrial Development Finance Authority, due 2007	3,564	3,987
Note due to Cooperative Rabobank, B.A., due 2009. Variable interest rate	249	300
	9,544	10,302
Less current portion included in other current liabilities	(753)	(707)
	$8,791	$ 9,595

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 notes, which is included in other assets. The notes are collateralized by the land, buildings and building fixtures of the Frederick manufacturing facility. The agreements include a provision for early retirement of the notes by the Company.

In May 1994, USB Pharma B.V. entered into a mortgage loan with Cooperative Rabobank B.A. in the amount of 1.2 million Dutch guilders collateralized by the land and buildings of its manufacturing facility in Nijmegen, the Netherlands and guaranteed by the Company. Proceeds from the loan were used to partially fund the purchase of additional equipment for the facility. The mortgage loan, for which principal payments began in March 1995, has a 15-year term and bears interest at a quarterly variable rate. The current interest rate is 6.05%.

Maturities of long-term debt for the next five years are as follows: 2002, $0.8 million; 2003, $0.8 million; 2004, $0.9 million; 2005, $0.9 million; and 2006, $1.0 million. Interest paid was $0.6 million, $0.5 million, and $5.2 million, for the years ended December 31, 2001, 2000, and 1999, respectively.

The estimated fair values of the Company's long-term debt at December 31, 2001 and 2000, respectively, based on quoted market prices or discounted cash flows based on currently available borrowing rates, was $10.0 million and $10.9 million compared to its carrying values of $9.5 million and $10.3 million.

11. Shareholders' Equity

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

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

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

In June 2001, the Company introduced an employee stock purchase plan under which 3,000,000 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 43,976 shares for $1.5 million during 2001 under this plan.

12. Earnings Per Share

The following is a reconciliation of the numerators and denominators of the diluted EPS computation for the years ended December 31, 2001, 2000, and 1999.

	2001	2000	1999
Numerator (in thousands):			
Net earnings	$148,960	$111,156	$93,371
Interest on 7% convertible notes, net of amounts capitalized and related taxes	—	—	720
Numerator for diluted EPS	$148,960	$111,156	$94,091
Denominator (in thousands):			
Weighted average shares outstanding	213,378	209,101	190,421
Effect of dilutive securities:			
Stock options	6,723	11,327	12,714
7% convertible notes	—	—	9,175
Denominator for diluted EPS	220,101	220,428	212,310

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

	Year ended Dec. 31, 2001	Year ended Dec. 31, 2000	Year ended Dec. 31, 1999
Price range of stock options:			
$40.50–$83.25	6,555,197		
$61.50–$83.25		886,425	
$28.33–$67.11			1,074,054

13. Common Stock Options

The Company currently grants stock options under certain of the following stock option plans:

Plan	Description	Shares Authorized for Option Grants
Old Plan	Provides option incentives to employees, consultants and advisors of the Company	1,500,000
1991 Plan	Provides option incentives to employees, consultants and advisors of the Company	33,000,000
Non-Employee Directors Plan	Provides option incentives to non-employee directors	1,500,000
1999 Plan	Provides option incentives to employees, consultants and advisors of the Company	19,250,000
Non-Executive Stock Option Plan	Provided option incentives to employees who are not officers or directors of USB, consultants and advisors of the Company	1,012,500
1992 Stock Option Plan	Provided option incentives to officers and directors of USB	1,282,500
1996 Non-Employee Directors Stock Option Plan	Provided option incentives to elected non-employee directors of USB	22,500
1999 Stock Option Plan	Provided option incentives to employees, consultants and advisors of USB	1,350,000
1991 Special Non-Statutory Plan	Provided option incentives to employees, consultants and advisors of USB	450,000
1987 Special Non-Statutory Plan	Provided option incentives to employees and non-employees of USB	225,000
1987 Non-Statutory Plan	Provided option incentives to employees and non-employee members of The Board of Directors of USB	450,000
1987 Incentive Stock Option Plan	Provided option incentives to employees, consultants, and advisors of USB	450,000

Options under all plans normally vest over a three to five year period and have a maximum term of 10 years. The Company has reserved a total of 31,077,759 shares of common stock for issuance under these plans as of December 31, 2001. Related stock option activity, is as follows:

	Options Granted Prior to Establishment of the 1991 Plan		1991 and 1999 Plans		Non-Employee Directors Plan		USB Plans	
	Shares	Wtd. Avg. Exercise Price Per Share	Shares	Wtd. Avg. Exercise Price Per Share	Shares	Wtd. Avg. Exercise Price Per Share	Shares	Wtd. Avg. Exercise Price Per Share
Balance, Dec. 31, 1998	915,612	$0.76	20,856,648	$ 4.79	675,000	$ 3.62	2,404,443	$21.23
Granted	—	—	6,473,100	22.35	120,000	24.04	235,341	22.33
Exercised	(882,012)	0.79	(7,117,674)	3.24	(165,000)	2.82	(1,019,685)	20.07
Canceled	—	—	(349,938)	12.04	—	—	(142,476)	22.08
Balance, Dec. 31, 1999	33,600	0.13	19,862,136	10.94	630,000	7.72	1,477,623	22.12
Granted	—	—	7,209,500	59.75	150,000	72.75	—	—
Exercised	(30,600)	0.13	(5,984,307)	7.76	(165,000)	5.33	(1,341,829)	21.77
Canceled	—	—	(745,292)	38.75	—	—	(1,125)	35.28
Balance, Dec. 31, 2000	3,000	0.13	20,342,037	28.15	615,000	24.23	134,669	25.52
Granted	—	—	4,731,980	38.14	150,000	47.20	—	—
Exercised	(3,000)	0.13	(3,014,418)	7.15	(22,500)	12.51	(60,196)	20.70
Canceled	—	—	(1,886,740)	43.87	—	—	(1,050)	21.96
Balance, Dec. 31, 2001	—	$ —	20,172,859	$32.17	742,500	$29.22	73,423	$29.52

Additional information related to the plans as of December 31, 2001 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options Outstanding	Wtd. Avg. Remaining Contractual Life (yrs)	Wtd. Avg. Exercise Price	Options Exercisable	Wtd. Avg. Exercise Price
$ 0.01–$ 20.00	8,773,259	6.0	$10.38	4,817,959	$ 7.95
$20.01–$ 40.00	5,568,143	8.7	$34.63	1,209,581	$33.08
$40.01–$ 60.00	2,008,095	8.8	$49.96	305,008	$52.99
$60.01–$ 80.00	4,613,685	8.2	$62.10	1,107,861	$62.01
$80.01–$100.00	25,600	8.6	$80.68	5,468	$80.70
	20,988,782	7.5	$32.06	7,445,877	$21.97

In May 2001, the Company's shareholders voted to increase the maximum number of shares of common stock reserved for issuance under the 1999 Plan from 14,250,000 to 19,250,000 shares.

There were 7,108,595 and 330,000 shares available for future option grants at December 31, 2001 under the 1999 Plan and the Non-Employee Directors Plan, respectively.

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

	2001	2000	1999
Net earnings—as reported	$148,960	$111,156	$93,371
Net earnings—pro forma	$ 69,143	$ 58,329	$70,492
Basic earnings per share—as reported	$ 0.70	$ 0.53	$ 0.49
Basic earnings per share—pro forma	$ 0.32	$ 0.28	$ 0.37
Diluted earnings per share—as reported	$ 0.68	$ 0.50	$ 0.44
Diluted earnings per share—pro forma	$ 0.31	$ 0.26	$ 0.33

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:

	2001	2000	1999
Risk-free interest rate	4.72%	6.20%	5.78%
Expected life of options—years	6	7	7
Expected stock price volatility	69%	69%	65%
Expected dividend yield	N/A	N/A	N/A

The weighted average fair value of options granted during 2001, 2000, and 1999 was $26.18, $44.03, and $18.19, respectively.

14. Income Taxes

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

Year ended December 31,	2001	2000	1999
Current:			
Federal	$ 3,306	$ —	$ —
State	—	—	—
Foreign	254	80	—
Total current expense	3,560	80	—
Deferred:			
Federal	71,072	60,505	(10,502)
State	4,874	3,851	3,407
Foreign	—	—	—
Total deferred expense (benefit)	75,946	64,356	(7,095)
Total tax expense (benefit)	$79,506	$64,436	$ (7,095)

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:

	2001	2000
Deferred tax assets:		
Net operating loss carryforwards	$107,054	$172,276
U.S. General business credit carryforwards	31,313	26,818
Accrued expenses not currently deductible	20,590	16,655
Accounts receivable allowances and reserves	8,697	6,410
Deferred revenue	4,638	13,143
Other	5,823	1,747
Total deferred tax assets	178,115	237,049
Valuation allowance	(14,474)	(19,969)
Net deferred tax assets	$163,641	$217,080

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,	2001	2000	1999
Tax at U.S. federal statutory rate	$79,964	$ 73,295	$ 30,197
State taxes, net of federal benefit	1,599	2,503	2,702
Change in valuation allowance	—	177	(48,525)
Change in valuation allowance reflected in equity	—	—	9,964
U.S. General business credits	(4,855)	(12,420)	(2,921)
Foreign taxes, net	—	—	94
Change in state statutory rate	2,413	—	—
Other	385	881	1,394
Total	$79,506	$ 64,436	$ (7,095)

At December 31, 2001 the Company had consolidated net operating loss carryforwards for federal tax reporting purposes of approximately $272.4 million expiring between 2009 to 2020. The Company also has general business credit carryforwards comprised of federal research and experimentation and orphan drug credit carryforwards of approximately $31.3 million at December 31, 2001 expiring through 2021. 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.

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 management is uncertain of the realization of the tax benefit associated with a portion of the deferred tax assets attributable to the state net operating losses, foreign net operating losses, and the general business credits which were generated by USB prior to its acquisition by the Company, a full valuation allowance remains for these deferred tax assets at December 31, 2001 and 2000.

15. Collaborative Arrangements

Abbott Laboratories

In December 1997, the Company signed two agreements with Abbott Laboratories ("Abbott"). The first agreement calls for Abbott to co-promote Synagis in the United States. The second agreement allows Abbott International, a division of Abbott, to exclusively distribute Synagis outside the United States. Under the terms of the United States co-promotion agreement, Abbott receives a percentage of net United States sales based on defined annual sales thresholds. Expenses associated with the co-promotion agreement are included in selling, general and administrative expenses on the accompanying statements of operations. Each company is responsible for its own selling expenses. Under the terms of the distribution agreement, the Company manufactures and sells Synagis to Abbott 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. The Company could receive up to an additional $15 million based on the achievement of certain milestones.

ALZA Corporation

In December 1995, U.S. Bioscience, Inc. entered into an exclusive marketing and distribution agreement with ALZA Corporation ("ALZA") for Ethyol in the United States. Under the terms of the agreement, ALZA had exclusive rights to market Ethyol in the United States 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 is 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 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 is 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 will pay ALZA a declining royalty for nine years, based on sales of Ethyol in the United States.

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

Schering-Plough Corporation

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

GlaxoSmithKline

In December 1997, the Company and GlaxoSmithKline ("GSK") entered into a strategic alliance to develop and commercialize human papillomavirus (HPV) vaccines for the prevention of cervical cancer and genital warts. In exchange for exclusive worldwide rights to the Company's HPV technology, GSK agreed to provide the Company with an up-front payment, future funding and potential developmental and sales milestones which together could total over $85 million, as well as royalties on any product sales. Under the terms of the agreement, the companies will collaborate on research and development activities. The Company conducts Phase 1 and Phase 2 clinical trials and manufactures clinical material for those studies. GSK is responsible for the final development of the product, as well as regulatory, manufacturing, and marketing activities. In January 1998, the Company received a $15 million payment from GSK upon commencement of the agreement. In accordance with SAB 101, a portion of this payment 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 $2.8 million, $7.8 million, and $6.2 million associated with the agreement has been included in other revenues for the years ended December 31, 2001, 2000, and 1999, 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.

Wyeth

On November 8, 1993, the Company signed a definitive agreement with American Cyanamid Company, which was later acquired by American Home Products which is now called Wyeth, to co-promote and share profits or losses on the Company's original RSV product, RespiGam, which was licensed for marketing by the FDA on January 18, 1996. Pursuant to an amendment to the agreement signed in December 1999, Wyeth's obligation to co-promote RespiGam in the United States was terminated. In addition, Wyeth no longer shares in any profits or losses of RespiGam in the United States. The Company recorded a credit of $6.8 million to selling, general and administrative expense in 1999 related to the signing of the amendment.

Other Agreements

The Company has entered into research, development and license agreements with various federal and academic laboratories and other institutions to further develop its products and technology and to perform clinical trials. Under these agreements, the Company is obligated to provide funding of approximately $27.9 million and $7.4 million in 2002 and 2003, respectively. The Company has also agreed to make milestone payments in the aggregate amount of $119.4 million on the occurrence of certain events such as the granting by the FDA of a license for product marketing in the United States for some of the product candidates covered by these agreements. In exchange for the licensing rights for commercial development of proprietary technology, the Company has agreed to pay royalties on sales using such licensed technologies.

16. Forward Exchange Contracts

The Company enters into foreign forward exchange contracts to hedge against foreign exchange rate fluctuations that may occur on certain of the Company's foreign currency denominated obligations. As of December 31, 2001 the Company had no outstanding forward contracts. As of December 31, 2000, the Company had outstanding forward Euro contracts in the amount of $11.1 million, all expiring within one year. Fair value of the outstanding contracts at December 31, 2000 was $0.5 million. Unrealized gains and losses on foreign forward exchange contracts that are designated and effective as hedges are deferred and recognized in the same period that the hedged obligation is recognized. During the year ended December 31, 2001, net unrealized gains on forward exchange contracts of $0.1 million, net of tax, were reclassified as earnings during the year as the related inventory was sold. As of December 31, 2001, deferred gains on forward exchange contracts included in accumulated other comprehensive income are immaterial. During the year ended December 31, 2001, the Company did not reclassify any material gains or losses relating to ineffective hedges to current period earnings. The notional principal amounts for off-balance sheet instruments provide one measure of the transaction volume outstanding as of year end, and does not represent the amount of the Company's exposure to credit or market loss. The Company's exposure to market risk will vary over time as a function of currency rates. As of January 1, 2001 the Company adopted SFAS 133 "Accounting for Derivatives and Similar Financial Instruments." See Note 2.

17. Commitments and Contingencies

Manufacturing, Supply and Purchase Agreements

The Company has entered into manufacturing, supply and purchase agreements in order to provide production capability for CytoGam and RespiGam, and to provide a supply of human plasma for production of both products. No assurance can be given that an adequate supply of plasma will be available from the Company's suppliers. Human plasma for CytoGam is converted to an intermediate raw material (Fraction II+III paste) at the Company's Frederick manufacturing facility. The intermediate material is then supplied to the manufacturer of the bulk product, the State Lab. Pursuant to the agreements with the State Lab, the Company paid $6.8 million in 2001, $8.7 million in 2000, and $8.3 million in 1999 for production and process development. The Company has an informal arrangement with the State Lab for planned production of CytoGam and RespiGam through June 2003 for $8.4 million and $0.6 million, respectively, subject to production level adjustments. If the State Lab, which holds the sole product and establishment licenses from the FDA for the manufacture of CytoGam and RespiGam, is unable to satisfy the Company's requirements for CytoGam on a timely basis or is prevented for any reason from manufacturing CytoGam, the Company may be unable to secure an alternative manufacturer

without undue and materially adverse operational disruption and increased cost. The Company also has an agreement with Aventis Pasteur to fill and package CytoGam through 2002.

In December 1997, the Company entered into an agreement with Boehringer Ingelheim Pharma KG ("BI"), to provide supplemental manufacturing of the Company's second generation RSV product, Synagis. The Company paid $14.3 million in 2001, $26.4 million in 2000, and $21.1 million in 1999 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 2004 for approximately 43.7 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.

18. Other Operating Expenses

Other operating expenses, which reflect other manufacturing related costs, include primarily manufacturing start-up costs incurred prior to FDA approval for the Company's Frederick Manufacturing Center ("FMC") as well as excess capacity related to the plasma production portion of the FMC. Expenses in 2001 also include a $1.3 million charge to reserve for non-current raw plasma inventory not eligible for processing at the FMC. Expenses in both 2000 and 1999 also include charges of $1.8 million and $1.4 million, respectively, for the write-off of certain equipment associated with the Company's plasma production activities. Other operating expenses are expected to continue until the plasma production portion of the FMC is fully utilized.

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. During 2001, 2000, and 1999 the Company contributed $1.1 million, $0.9 million, and $1.1 million, respectively, in cash to the plans. Prior to the merger with U.S. Bioscience, a deferred compensation program was provided for certain executives of U.S. Bioscience. The program was terminated in December 1999 and all vested balances were paid in full. Expense related to the deferred compensation plan was $0.1 million in 1999.

20. Legal Proceedings

In 1998, MediGene AG ("MediGene") initiated a legal action against Loyola University of Chicago ("Loyola") and the Company in the U.S. District Court for the Northern District of Illinois alleging, among other things, breach of contract and tortious interference by the Company with an alleged prospective business relationship between MediGene and Loyola. The claims relate to human papillomavirus vaccine technology allegedly covered by contracts between MediGene and the Company and by a license agreement from Loyola to the Company, under which the Company granted a sublicense to GlaxoSmithKline. MediGene seeks damages ranging from $31.3 million to $86.9 million based on the tortious interference claim, and/or damages ranging from $10.2 million to $31.3 million based on the the breach of contract claim. MediGene also seeks ownership of the patents in question, as well as recission of the Company's license agreement from Loyola or rights as a third party beneficiary thereof. On December 22, 2000 and March 15, 2001, the District Court granted summary judgment motions in favor of the Company on all claims. The District Court ordered entry of final judgment in favor of the Company on March 19, 2002. On March 27, 2002 MediGene filed a notice of appeal to the United States Court of Appeals for the Federal Circuit.

In October 2000, Celltech Chiroscience Limited ("Celltech") commenced a legal proceeding against the Company in the U.K. High Court of Justice, Chancery Division, Patents Court. Celltech alleges that the Company failed to pay royalties with respect to its sales of Synagis as required by a license agreement dated January 19, 1998. Under the agreement, the Company obtained from Celltech a worldwide license to make, use and/or sell product under a patent (and related applications) pertaining to humanized antibodies. In the proceeding, Celltech seeks payment of 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 has filed answering papers denying that any royalties are due on the basis that Celltech's U.S. 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 July 20, 2001, the High Court of Justice ordered a hearing, which is expected to take place in late 2002 or early 2003, on whether it will dismiss Celltech's case on this basis. 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. As of March 25, 2002, the Company had not made the royalty payments that were the subject of Celltech's letter, and Celltech had not initiated any legal proceeding against the Company based on its European patent.

On December 18, 2001, Genentech, Inc. ("Genentech") announced that it had been granted a patent relating to certain methods and compositions used to produce antibodies by recombinant DNA technology. Four years ago, in anticipation of any potential impact the issuance of Genentech's patent could have on the production of Synagis, the Company obtained a license to this patent. The Company has received from Genentech a letter, dated January 7, 2002, stating that Genentech expects to receive from the Company royalty payments pursuant to such license. The Company is in the process of evaluating whether any valid claim of Genentech's patent, as recently issued, covers production of Synagis. If so, the Company would pay royalties to Genentech on U.S. net sales of Synagis commencing December 18, 2001. Pending resolution of this issue, the Company has made certain royalty payments to Genentech under protest and with reservation of all of its rights. The Company is also evaluating whether any of its other antibody-based product candidates, if and when approved for marketing by the U.S. Food and Drug Administration, could require a license under the Genentech patent.

On February 28, 1996, Ichthyol Gesellschaft Cordes, Hermanni & Co. ("Ichthyol Gesellschaft") filed a complaint for refrain, information and damages with the Regional Court of Hamburg against MedImmune Oncology on the grounds of trademark infringement in respect of the use of the trademark "Ethyol" in Germany. No monetary amount is currently being sought in the litigation by Ichthyol. Ichthyol is seeking injunctive relief against the use of the trademark Ethyol in Germany. The suit was dismissed on January 29, 1997 by the Regional Court of Hamburg. Ichthyol Gesellschaft filed an appeal, and a judgment was rendered in favor of MedImmune Oncology in the appellate proceedings. In January 1999, Ichthyol Gesellschaft filed an appeal on points of law with the Federal Court of Justice, and in June 1999, Ichthyol Gesellschaft filed the grounds for the appeal on points of law. By judgment of May 3, 2001, the Federal Court of Justice reversed the judgment of the Higher Regional Court and remitted the case to that court for another hearing. By order of December 19, 2001, the Higher Regional Court ordered Ichthyol to make further submissions concerning the relevant facts and legal questions. Ichthyol recently filed its submissions. Another hearing will probably be held this summer.

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

21. Subsequent Events

During January 2002, the Company completed its acquisition of Aviron through an exchange offer and merger transaction pursuant to the definitive merger agreement between the two parties dated December 3, 2001. Aviron is a biopharmaceutical company headquartered in Mountain View, California, focused on prevention of disease through innovative vaccine technologies. Aviron's lead product candidate is FluMist, a live, attenuated virus vaccine delivered as a nasal mist for the prevention of influenza.

Under the terms of the agreement, the Company exchanged approximately 34.0 million of its common shares for approximately 31.6 million shares of Aviron common stock, and an additional 7.1 million shares are issuable upon the exercise of Aviron's outstanding options and warrants. In addition, holders of Aviron's $200 million of convertible notes will be able to convert the notes into a total of 3.4 million shares of the Company's common stock at a conversion price of $58.14 per share. The transaction was valued at approximately $1.6 billion, net of Aviron cash. Following the exchange, a wholly-owned subsidiary of the Company merged into Aviron, as a result of which Aviron has become a wholly-owned subsidiary of the Company. The acquisition will be accounted for as a purchase. Effective January 10, 2002, the results of operations of Aviron will be included in the results of the combined entity.

The purchase price allocation has not yet been finalized. The Company is currently performing a valuation of all tangible and intangible assets and liabilities, including the acquired in-process research and development and other intangible assets. The Company's preliminary estimate is that the purchase price will be allocated as $1,145 million of in-process research and development, $447 million of cash and marketable securities, and the remainder to other tangible and intangible assets and liabilities. The Company will not finalize the purchase accounting until it completes the valuation of all tangible and intangible assets and liabilities. Accordingly, the Company is not able to present a condensed balance sheet as of January 10, 2002.

During March 2002, the Company paid approximately $13.4 million to acquire 25 acres of land in Gaithersburg, Maryland, which will serve as the site of the Company's new corporate headquarters. The Company has contracted with a designer and general contractor for the construction of the new facility over the next several years, at a total estimated cost of $80 million. The construction project is expected to break ground in April 2002. The Company expects to take occupancy of the first phase, which will feature a complex totaling 218,000 square feet, in the fall of 2003.

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, 2001 and December 31, 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, 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.

PricewaterhouseCoopers LLP

January 24, 2002, except for Notes 20 and 21 as to which the date is March 27, 2002

McLean, Virginia

Corporate Information

Board of Directors

Wayne T. Hockmeyer, Ph.D. [1]
Chairman, MedImmune, Inc.

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

M. James Barrett, Ph.D. [1][2][3]
Chairman, Sensors for Medicine and Science, Inc.; General Partner of New Enterprise Associates; Former Chairman and Chief Executive Officer, Genetic Therapy, Inc.

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

James H. Cavanaugh, Ph.D. [1][3][4]
President, HealthCare Ventures L.L.C.; Past President, Smith, Kline & French Laboratories U.S., Inc.

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

Gordon S. Macklin [1][2][3][4]
Deputy Chairman, White Mountain Insurance Group; Former Chairman, White River Corporation

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

Elizabeth Wyatt [2]
Former Vice President, Corporate Licensing, Merck & Co.

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

Management

David M. Mott
Chief Executive Officer and Vice Chairman

Melvin D. Booth
President and Chief Operating Officer

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

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

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

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

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

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

Harry B. Greenberg, M.D.
Senior Vice President, Research, CA

Gregory S. Patrick
Senior Vice President and Chief Financial Officer

W. Ripley Ballou, M.D.
Vice President and Group Leader, Clinical Development

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

James Bruno
Vice President, International Marketing

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

Robert H. Earhart, Jr., M.D, Ph.D.
Vice President, Clinical Development

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

Jeffrey S. Hackman
Vice President, Marketing

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

Luc Hermans
Vice President, Manufacturing, UK

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

Kathy M. Kantor
Vice President and Controller

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

Paul M. Mendelman, M.D.
Vice President, Clinical Development, CA

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

Timothy R. Pearson
Vice President, Treasurer and Secretary

James M. Pluda, M.D.
Vice President and Group Leader, Clinical Development

R. Michael Smullen
Vice President, Sales

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

Randall M. Turner
Vice President, Engineering and Facilities

Corporate Information

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Fax: (301) 527-4200
Web site: www.medimmune.com

General Counsel
Dewey Ballantine LLP
New York, NY

Independent Auditors
PricewaterhouseCoopers LLP
McLean, VA

Annual Shareholders' Meeting
The next annual meeting of the shareholders will be held on May 23, 2002 10:00 a.m. at the Gaithersburg Marriott, 9751 Washingtonian Boulevard, Gaithersburg, MD 20878 (301) 590-0044.

SEC Form 10-K and Requests for Information
A copy of the Company's annual report to the Securities and Exchange Commission on Form 10-K is available without charge 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 Stock Market® under the symbol MEDI. At December 31, 2001, there were 214,484,084 shares of common stock outstanding held by over 138,000 stockholders. The following table shows the range of high and low closing prices and year-end closing prices for the common stock for the two most recent fiscal years.

	2001		2000	
	High	Low	High	Low
First Quarter	54.56	27.63	76.25	43.00
Second Quarter	48.05	29.19	80.69	42.00
Third Quarter	48.08	29.51	86.13	57.75
Fourth Quarter	48.95	33.47	72.63	44.63
Year End Close	46.35		47.69	

The statements in this annual report that are not descriptions of historical facts may be forward-looking statements. Those statements involve substantial risks and uncertainties. You can identify those statements by the fact that they contain words such as "anticipate," "believe," "estimate," "expect," "intend," "project" or other terms of similar meaning. Those statements reflect management's current beliefs, but are based on numerous assumptions which MedImmune cannot control and which may not develop as MedImmune expects. Consequently, actual results may differ materially from those projected in the forward-looking statements. Among the factors that could cause actual results to differ materially are: seasonal demand for and continued supply of the Company's principal product, Synagis; whether FluMist receives clearance by the Food and Drug Administration and, if it does, whether it will be successfully launched; availability of competitive products in the market; availability of third-party reimbursement for the cost of our products; effectiveness and safety of our products; exposure to product liability, intellectual property or other types of litigation; foreign currency exchange rate fluctuations; changes in generally accepted accounting principles; growth in costs and expenses; the impact of acquisitions, divestitures and other unusual items; and the risks, uncertainties and other matters discussed elsewhere in this annual report and in our periodic reports filed with the U.S. Securities and Exchange Commission. MedImmune cautions that RSV disease occurs primarily during the winter months; MedImmune believes its operating results will reflect that seasonality for the foreseeable future. MedImmune is also developing several products (including FluMist) 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, 2001. This annual report will not be updated as a result of new information or future events.

Directors, from left:
Barbara Hackman Franklin, James H. Cavanaugh, Ph.D., David M. Mott, Melvin D. Booth, Franklin H. Top, Jr., M.D., Wayne T. Hockmeyer, Ph.D., M. James Barrett, Ph.D., Elizabeth Wyatt, Gordon S. Macklin

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MedImmune, Inc.

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