MedImmune

MedImmune

Advancing Science for Better Health

Annual Report 2005

On the Cover

SCIENCE, TECHNOLOGY AND INNOVATION ARE AT THE HEART OF MEDIMMUNE'S RESEARCH AND DEVELOPMENT EFFORTS, HELPING TO PROVIDE THE ADVANCES IN MEDICINE NEEDED FOR PATIENTS. FROM LEFT TO RIGHT, SUSAN WILSON, *RESEARCH MANAGER I*, WENDY WHITE, *SENIOR SCIENTIST I*, FRAN PALMER-HILL, *RESEARCH MANAGER I*, AND JOANN SUZICH, *SENIOR DIRECTOR, MOLECULAR BIOLOGY AND BIOCHEMISTRY*, ARE MEMBERS OF THE ORIGINAL TEAM AT MEDIMMUNE WHO PIONEERED THE DEVELOPMENT OF VIRUS-LIKE PARTICLE TECHNOLOGY IN THE MID-1990s THAT IS NOW INCORPORATED INTO HUMAN PAPILLOMAVIRUS (HPV) VACCINES IN DEVELOPMENT AT GLAXOSMITHKLINE (GSK). THIS HPV VACCINE TECHNOLOGY IS AN EXAMPLE OF OUR CONTINUING PRODUCT DEVELOPMENT PROCESSES THAT, WE BELIEVE, MAY RESULT IN SCIENTIFIC ADVANCES IN OTHER AREAS, SUCH AS INFLUENZA VACCINES AND THE TREATMENT AND PREVENTION OF RESPIRATORY SYNCYTIAL VIRUS (RSV).

Financial Highlights

(in millions, except per share data)	**2005**[1,2]	**2004**[2]	**2003**	**2002**[3,4]	**2001**[4]
CONSOLIDATED STATEMENT OF OPERATIONS DATA					
Total Revenues	**$1,244**	$1,141	$1,054	$ 853	$ 621
Gross Profit	**884**	758	703	589	443
Research & Development	**385**	327	156	148	83
Net (Loss) Earnings	**(17)**	(4)	183	(1,098)	149
Diluted (Loss) Earnings Per Share	**(0.07)**	(0.02)	0.72	(4.40)	0.68
CONSOLIDATED BALANCE SHEET DATA					
Cash and Investments	**$1,472**	$1,706	$1,900	$ 1,423	$ 778
Total Assets	**2,780**	2,564	2,795	2,188	1,237
Long Term Debt, including current portion[5]	**506**	507	682	218	10
Total Shareholders' Equity	**1,571**	1,675	1,699	1,677	1,044

1 Includes charges for acquired in-process research and development (IPR&D) in connection with the Company's acquisition of Cellective on October 14, 2005.

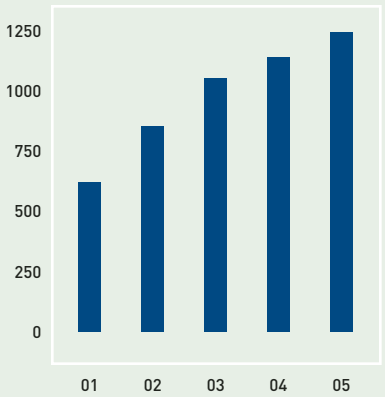
2 Includes charges related to the dissolution of the collaboration with Wyeth and reacquisition of full rights to the influenza vaccines franchise.

3 Includes a charge for IPR&D in connection with the Company's acquisition of Aviron on January 10, 2002.

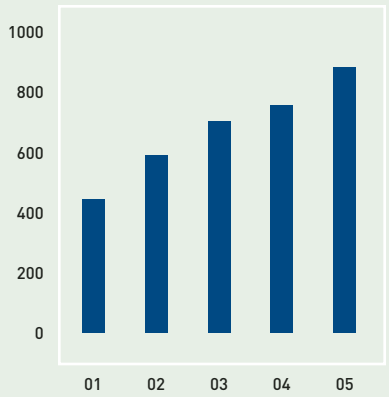
4 Certain prior year amounts have been reclassified to conform to the current year presentation.

5 The 1% convertible senior notes, which have an aggregate principal amount of $500 million, have been classified as current liabilities in our consolidated balance sheet as of December 31, 2005 as we anticipate that the holders will require us to redeem the notes on July 15, 2006, as provided for in the senior notes indenture.

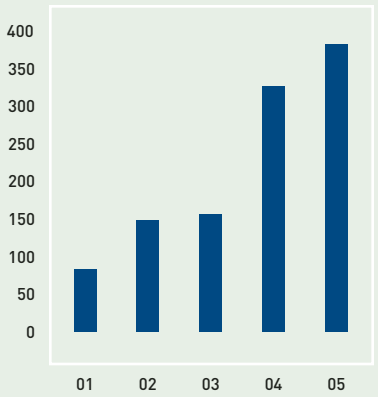
Total Revenues
($ in Millions)



Gross Profit
($ in Millions)



Research & Development
($ in Millions)



Financials

[Motivation | Innovation]

MEDIMMUNE IS A BIOTECHNOLOGY COMPANY COMMITTED TO ADVANCING SCIENCE TO DEVELOP BETTER MEDICINES THAT HELP PEOPLE LIVE HEALTHIER, LONGER AND MORE SATISFYING LIVES.

MEDIMMUNE IS MAKING SIGNIFICANT INVESTMENTS IN RESEARCH AND DEVELOPMENT TO PRODUCE ANTIBODIES AND VACCINES TO PREVENT SEVERAL IMPORTANT RESPIRATORY DISEASES THAT CAN SEVERELY IMPACT THE LIVES OF INFANTS AND CHILDREN.

JANE TIAN, *SCIENTIST I*, IS A CELLULAR IMMUNOLOGIST AND A MEMBER OF THE R&D INFLAMMATION AND AUTOIMMUNITY GROUP. JANE'S MAIN FOCUS IS THE HMGB-1 PROGRAM. SHE WORKS ON BOTH IN VIVO AND IN VITRO ASSAYS TO STUDY HMGB-1'S BIOLOGIC FUNCTIONS AND THE ANTI-HMGB-1 MONOCLONAL ANTIBODY'S (MAB'S) MECHANISM OF ACTION.

To accomplish our mission, we are motivated to understand the biological intricacies of the human body and how it is affected by disease. We want to know how the inherent immune system responds to the presence or invasion of viruses, bacteria, and other natural and man-made substances. We are focusing intensely on the potential consequences of these responses. For example, what happens when a virus moves in and causes an infection? In the case of HPV, it has the potential to create a lesion on the cervix of a woman that, if left untreated, may lead over time to cervical cancer and even death. What if the attacking virus is influenza or RSV? Would the lungs of a child fill with fluid, leading to pneumonia, hospitalization, and mechanical respiration? What happens when the immune system simply over-responds to an injury or an infection? Would a patient go into septic shock or develop rheumatoid arthritis, asthma, or lupus sometime later in life?

Our success as a company relies heavily on our ability to harness the power of innovation and technology to develop novel answers to problems caused by life-threatening and debilitating illnesses. By incorporating the latest tools and technologies into our efforts to understand biology, we might be able to prevent a disease from advancing or, better yet, prevent it from taking hold in the first place. For instance, what if our scientists could design a MAb that could, in effect, "block" the development of blood vessel growth in certain solid tumors? In so doing, would we be able to stop the tumor from getting the nutrients it needs to grow, and potentially stop the spread of cancer cells through the blood to other parts of the body? What if, by marrying our expertise in cell culture manufacturing to our knowledge of altering the genome of influenza viruses and our work in developing a more effective influenza vaccine, we could more efficiently and reliably produce an effective way to protect people against influenza pandemics?

As a "bio" + "technology" company, MedImmune is intensely curious about these types of questions as we seek to unlock the secrets behind disease and strive to improve human health.

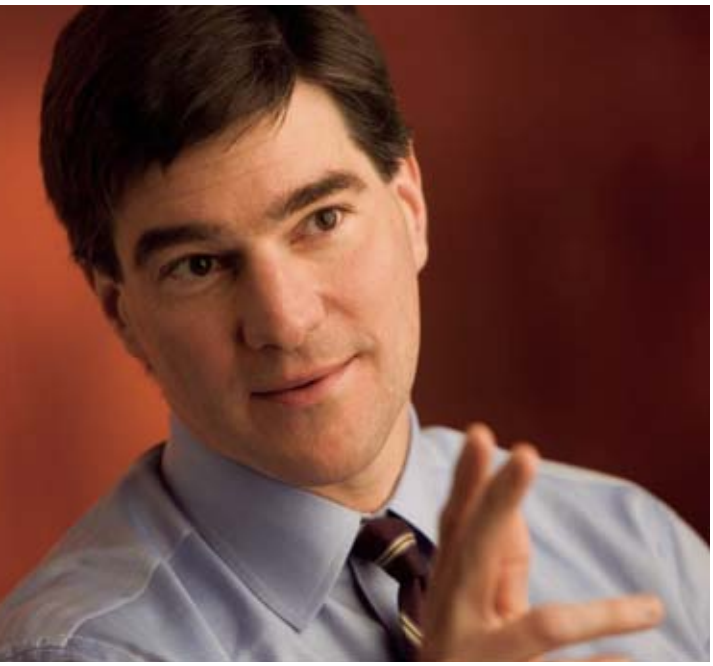
MICHELLE YINGLING, *CELL CULTURE PURIFICATION TECHNICIAN II*, APPLIES SEPARATION TECHNIQUES, SUCH AS COLUMN CHROMATOGRAPHY AND NANOFILTRATION, TO PURIFY SYNAGIS. DURING NOVEMBER 2005, MEDIMMUNE ANNOUNCED PLANS TO EXPAND ITS BIOLOGICS MANUFACTURING CAPACITY BY BUILDING A NEW FACILITY ADJACENT TO ITS CURRENT SITE IN FREDERICK, MARYLAND, WHERE SYNAGIS IS CURRENTLY PRODUCED WITHIN THE UNITED STATES. THE PROPOSED EXPANSION WILL INCREASE MEDIMMUNE'S PRODUCTION CAPACITY FOR SYNAGIS; ITS POTENTIAL NEXT-GENERATION PRODUCT, NUMAX; AND OTHER MABS IN THE COMPANY'S PIPELINE, PENDING THEIR APPROVAL BY THE FDA.

Our success thus far in fulfilling the promise of our mission puts us among the leaders in the industry. To date, we are the only company to have successfully developed two antibodies approved by the U.S. Food and Drug Administration (FDA) to prevent RSV in high-risk infants. The second of these, Synagis, is now the standard of care in helping to protect premature infants from this potentially devastating respiratory infection, and the ninth best-selling biotechnology product ever introduced to the marketplace as measured by annual sales. MedImmune also developed FluMist, the first innovation in influenza vaccine technology in more than 50 years. Three Phase 3 clinical trials involving nearly 13,000 patients have shown that this vaccine technology is substantially more effective in preventing influenza disease than the flu shot, particularly in children. Researchers at MedImmune also conducted the early development work for the new HPV vaccine that should be available soon to help prevent cervical cancer, which is the second most common form of cancer in women worldwide.

As we look to the future, we realize we have just begun to unleash the power of our broad and diversified pipeline. Over the next several years, we will continue to develop promising and novel solutions to prevent and/or treat debilitating and life-threatening infectious diseases, cancers, and inflammatory diseases.

Letter to Shareholders

> "MedImmune ended 2005 as the eighth largest biotech with more than $1 billion in revenues from four marketed products; more than 2,200 employees worldwide; 14 clinical programs, including three drugs in Phase 3 development; and a pre-clinical pipeline of more than a dozen drug candidates."



David M. Mott
Chief Executive Officer, President and Vice Chairman

David M. Mott and Wayne T. Hockmeyer, Ph.D., have worked together for nearly two decades to create a leading biotechnology company. Through their combined efforts, and the efforts of the ever-expanding MedImmune team, the company ended 2005 as the eighth largest biotech in the world with more than $1 billion in revenues from four marketed products; more than 2,200 employees worldwide; 14 clinical programs, including three drugs in Phase 3 development; and a preclinical pipeline of more than a dozen drug candidates. Below, Dr. Hockmeyer and Mr. Mott discuss several of the key opportunities facing the business as they work to bring MedImmune to the next level of growth.

What are the key strategic priorities of the long-range business plan you detailed for shareholders on March 1, 2004?

The first element of our five-year strategic plan was to continue to support our marketed products. Toward this goal, we are happy to report that in 2005, sales of Synagis surpassed the $1 billion mark for the first time on an annual basis. The revenues generated by our products allow us to invest in the other key strategic priorities described in our plan, that in turn, will hopefully become the drivers of our future revenue and earnings growth: developing FluMist as a better flu vaccine; developing Numax as a differentiated successor to Synagis; bringing two additional products to market by 2010; elevating science and evolving R&D governance; and continuing to develop our people and processes.

"The revenues generated by our current products allow us to invest in the other key strategic priorities described in our plan, that in turn, will hopefully become the drivers of our future revenue and earnings growth."

Wayne T. Hockmeyer, Ph.D.
Founder and Chairman of the Board; President, MedImmune Ventures, Inc.

Given that 2006 marks the half-way point for your five-year plan, what are the key milestones for MedImmune in 2006?

At the top of our "to do" list is the submission of our biological license application (BLA) to the FDA for CAIV-T, the refrigerator-stable formulation of FluMist. Our goal with this second-generation influenza vaccine is to gain an initial approval for its use in healthy individuals from 6 months to 49 years of age. At the center of our submission will be results from a large Phase 3 comparative efficacy trial showing that CAIV-T was 55 percent more effective than the flu shot in preventing influenza disease. Also key to our goal for this vaccine during 2006 is the approval of our supplemental BLA that we submitted in September 2005 with data from a Phase 3 bridging study that demonstrated equivalent immunogenicity between the frozen and liquid formulations. Other key milestones for 2006 include the submissions and approvals of both Merck's and GSK's HPV vaccines in the U.S. and in other key markets; the completion of the pivotal Phase 3 study for Numax and the Phase 2 study for Abegrin (formally known as Vitaxin) in prostate cancer patients; and the filing of several investigational new drug applications. On the manufacturing front, we anticipate that in 2006 we will begin making CAIV-T for the first time in our recently approved, state-of-the-art facility in Speke, England, for the 2007–2008 influenza season; complete construction on our new pilot lab in Gaithersburg, Maryland; and break ground in Frederick, Maryland to begin expanding our cell culture capabilities.

Now that CAIV-T has shown statistically greater efficacy against the flu shot in a large Phase 3 clinical trial in children less than 5 years of age, what are your commercialization plans for the vaccine?

At the outset of 2006, we initiated a comprehensive series of market research studies that will help us further gauge the needs and wants of the medical community, patients, and policy makers involved in the influenza discussion. Data collected from these marketing studies will help us to appropriately develop our commercialization plans for CAIV-T. To support these efforts, we will present and publish data from several studies at major medical meetings and in peer-reviewed journals throughout 2006. We will continue to use the promotion of frozen FluMist as a unique opportunity to build support and awareness about the benefits of a live, attenuated influenza vaccine. In addition, we plan to add approximately 125 new sales professionals to our pediatric sales organization in the first half of 2006 as we prepare to acquire full responsibility on June 30, 2006, for the promotion of Synagis in the United States. The expanded sales organization will further augment our commercial capabilities for the anticipated U.S. launch of CAIV-T in 2007. Outside the U.S., our commercial strategy for CAIV-T involves forging a collaborative agreement with an international partner who is savvy in the world of vaccines and infectious diseases. We are also actively pursuing government funding that may be available to U.S.-based manufacturers to develop cell culture-based manufacturing capabilities for influenza vaccines. With our demonstrated expertise in manufacturing Synagis using cell culture techniques, we believe that we are uniquely positioned to support our government's pandemic planning efforts.

MEDIMMUNE'S STATE-OF-THE-ART INFLUENZA VACCINE MANUFACTURING FACILITY IN SPEKE, ENGLAND HAS THE CAPACITY TO PRODUCE APPROXIMATELY 90 MILLION BULK DOSES PER INFLUENZA MANUFACTURING SEASON OF TRIVALENT, INTRANASAL INFLUENZA VACCINE. THIS NEWLY CONSTRUCTED BULK MANUFACTURING PLANT WAS APPROVED BY THE FDA IN DECEMBER 2005.

"The development of Numax will help maintain the company's leadership position in preventing RSV among the most fragile of babies as it has the potential to become an even more potent drug than Synagis in helping to prevent RSV disease."

What are you hoping to show from the Phase 3 study comparing Numax to Synagis, and how will that fit into the company's overall RSV strategy?

MedImmune is the undisputed leader in the RSV marketplace, having now successfully developed and marketed two antibodies that protect high-risk infants from RSV disease. The development of Numax will help maintain the company's leadership position in preventing RSV among the most fragile of babies as it has the potential to become an even more potent drug than Synagis in helping to prevent RSV disease. Preclinical studies have shown that Numax may be able to protect both the lower and upper respiratory tracts from infection with RSV, which could lead to improved medical outcomes by decreasing the incidence and severity of certain upper airway infections, such as otitis media. Further, blocking RSV from the upper airway may potentially reduce or prevent the development of asthma since children who contract RSV disease seem to be more susceptible to wheezing, which is believed to lead to asthma. In 2005, we made substantial progress in a number of key programs for Numax, including completing enrollment in our pivotal Phase 3 trial in which we are comparing Numax to Synagis. Other studies underway include a late-stage trial in patients with congenital heart disease, a Phase 2 re-dosing study in which children receive Numax for a second season, and a multi-year study in full-term Native American infants. We anticipate having data available from the pivotal comparative trial, as well as several other supportive studies, by the end of 2006 for submission to the FDA in 2007.

Was the impetus for your 2005 decision to buy out the U.S. co-promotion rights to Synagis from Abbott Laboratories to help assure MedImmune's future earnings growth whether or not Numax is developed successfully?

In short, yes; but this transaction has other strategic benefits for MedImmune. First, we believe that sales of Synagis will benefit from having one focused and fully committed sales force. We believe that at this stage of the product's life cycle, a single owner of all commercial and development decisions is a more efficient way to sell the product, service our customers and optimize patient care. Second, by using this opportunity to fund the expansion of our pediatric sales organization in 2006, we can more adequately prepare for the continued growth of our overall pediatric infectious disease business. Third, restructuring our co-promotion arrangement with Abbott helps us provide for a smoother transition and more positive ending of the strong collaboration we have had since 1998 with Abbott in the United States. Overall, the partnership has been a successful working arrangement, beneficial to both companies and to the product's ultimate success. Finally, the most obvious benefit of buying back our rights to Synagis is that we no longer will pay more than $200 million in annual co-promotion fees to Abbott after 2006. Previously, we needed Numax to succeed to eliminate this expense.

Did researchers at MedImmune conduct some of the critical early discovery and development work for the cervical cancer vaccines that are expected to reach the market soon, and if so, will the company receive compensation for that work once the vaccines are approved?

Yes, several of our current researchers, including the four women pictured on the cover of this year's annual report, were at the forefront of the work done to develop a vaccine to prevent cervical cancer caused by HPV. At the time this work was being done, we were a much smaller company, so we partnered with GSK for the completion of the clinical development and the commercialization of the vaccine. In early 2005, we amended the agreement with GSK to allow Merck, which has also been developing an HPV vaccine, to be granted a sublicense to our intellectual property. As a result, MedImmune will potentially receive milestone payments and royalties on HPV vaccines marketed by both pharmaceutical companies. We are excited about Merck's BLA submission to the FDA in 2005 for its HPV candidate as well as both Merck's and GSK's regulatory filings outside the United States. We look forward to GSK's BLA submission to the FDA in 2006, and expect these important new vaccines to soon begin to help protect people worldwide from HPV infections and the resulting cancer as well as other complications.

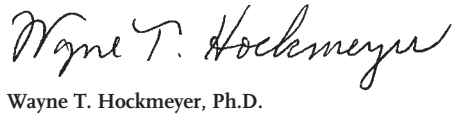
Do you anticipate continuing to aggressively advance and expand your R&D portfolio as you did in 2005 when you added 12 new targets to the pipeline?

By 2010, one of MedImmune's strategic priorities is to bring two new products to market—in addition to launching CAIV-T in 2007 and Numax in 2008. The company is also committed to building one of the best product portfolios in the biotechnology industry as we look well beyond the horizon of our current five-year plan. To accomplish current and future growth goals, MedImmune substantially increased its investment in R&D to advance the development programs already in the pipeline, as well as to expand the pipeline through in-licensing and acquisition opportunities. In fact, the nearly $700 million we invested in R&D activities in 2004 and 2005 (not including our investment in acquired in-process research and development) is roughly equivalent to what the company invested in R&D on a combined basis for the prior 11 years running from 1992 to 2003. In 2006, we anticipate maintaining our aggressive stance toward building our pipeline as we are geared up to invest approximately 30 percent of product sales in R&D during this year alone. We have also been building the critical human resources needed to manage our expanding pipeline. In 2005, we added more than 150 new employees to our R&D organization, bringing the total number of people dedicated to the discovery and development of novel antibodies, vaccines, and other technologies to approximately 1,000 individuals worldwide.

How do your culture and core values contribute to the achievement of MedImmune's strategic priorities?

Our ability to deliver on our corporate objectives depends largely on our employees caring as much about the company's future as we did when MedImmune was founded 18 years ago. MedImmune was built with a passion for excellence and with a sense of entrepreneurialism that still drives us today. Continuing to create an atmosphere where employees are excited to come to work, feel like their contributions matter, and know they will share in the future results of their commitment is critical for MedImmune's success. To maintain an atmosphere that fosters this work ethic and the drive to make a difference in human healthcare, we strive to make sure that employees embrace our core values, which are high integrity, an entrepreneurial spirit, a collaborative environment, and a strong work ethic. These values underscore that by acting as owners—balancing risk, opportunity, and responsibility—we will be able to deliver on our commitments to patients and our shareholders.

David M. Mott
Chief Executive Officer, President and Vice Chairman

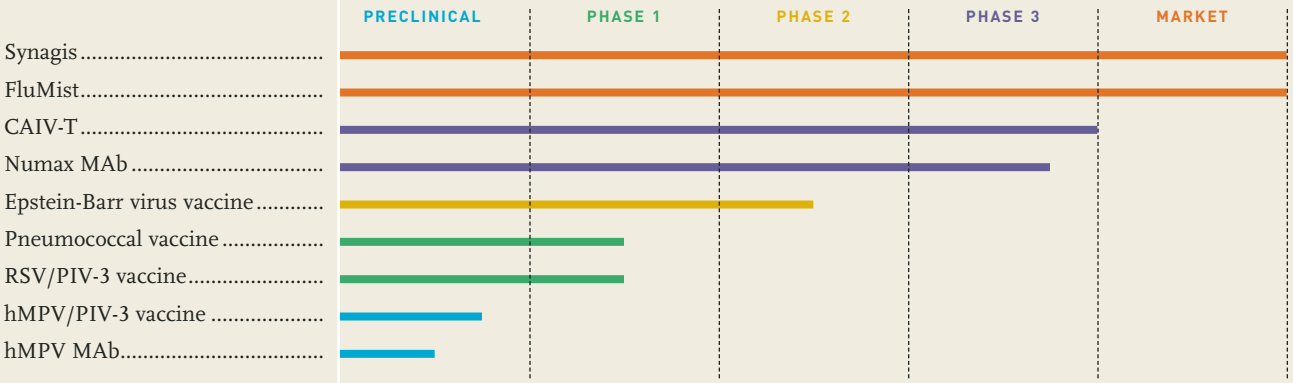


Wayne T. Hockmeyer, Ph.D.
Founder and Chairman of the Board;
President, MedImmune Ventures, Inc.

Vincent A. Haynes, M.D., FAAP, *director, medical sciences*, is one of MedImmune's medical science directors in infectious disease for the Western region. Vince works with all segments of the commercial organization, interacting with health plan advisors, state policy makers, healthcare providers and university physicians, in helping to facilitate both investigator-initiated studies and MedImmune Phase 4 trials.

[Protecting the Future]

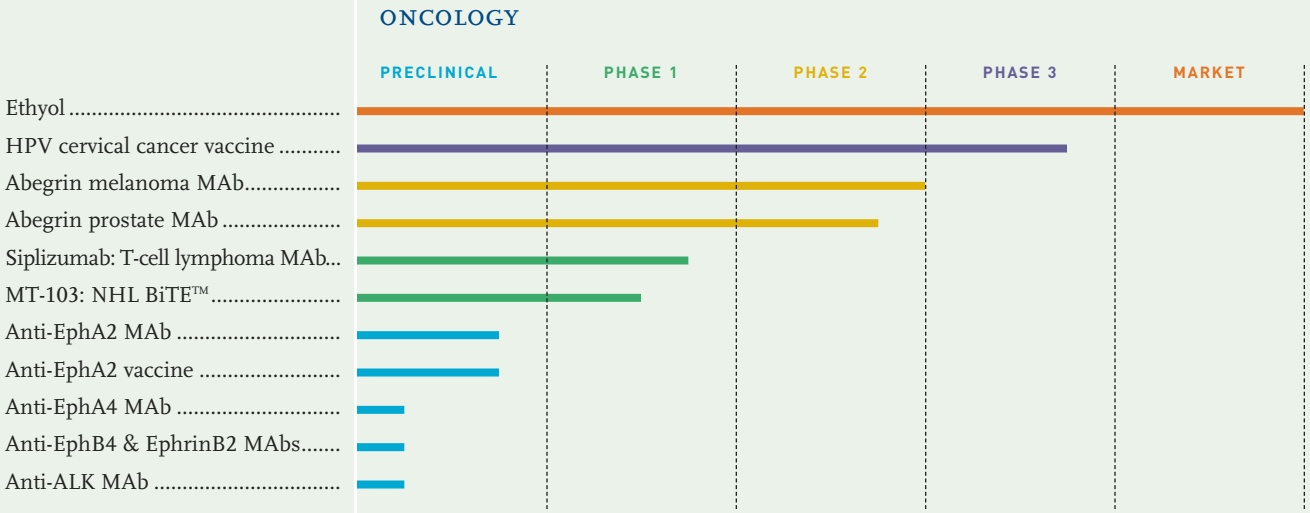
INFECTIOUS DISEASE



Since its founding 18 years ago, MedImmune has demonstrated leadership in the discovery and development of novel antibodies and vaccines against various infectious diseases, particularly those causing respiratory infections affecting young children. In fact, we developed the first MAb to be approved for an infectious disease, the first innovation in influenza vaccine technology in more than 50 years, and the technology behind the first vaccine to prevent cervical cancer. To maintain our standing as an innovative leader in the field of infectious disease, we are currently working on a number of programs that either build upon our expertise in respiratory ailments or expand into new, but affiliated areas that could be marketed through our current commercial organization. For instance, we are working to develop Numax as our third successful antibody to prevent RSV, and CAIV-T as our next-generation influenza vaccine that would have several potential advantages over the currently marketed FluMist. We have programs targeting the Epstein-Barr virus, the leading cause of infectious mononucleosis and suspected to be involved in the development of certain lymphomas. Additionally, we have other programs targeting several respiratory infectious diseases, such as parainfluenza virus type-3, human metapneumovirus, *Streptococcus pneumoniae*, and RSV.

BRINGING INFLUENZA VACCINE TO MARKET EACH SEASON REQUIRES A GLOBAL EFFORT. AS PART OF THE PROCESS AND MANUFACTURING SCIENCES DEPARTMENT, HALEH KHOSHNEVISAN, *CELL CULTURE PURIFICATION TECHNICIAN III*, SUPPORTS THE MANUFACTURING EFFORT AT THE COMPANY'S SANTA CLARA FACILITY.

Offering New Hope for Cancer Patients



MedImmune is expanding and advancing one of the most promising oncology portfolios in the biotechnology industry. From our first marketed oncology product, Ethyol, which helps to reduce the side effects of certain cancer treatments, to early-stage programs targeting proteins that play a role in uncontrolled tumor growth, we are committed to developing innovative medicines designed to extend and improve the lives of cancer patients. Toward that end, we now have more than a dozen programs underway in the field of oncology targeting a wide spectrum of cancers, including cervical, prostate, breast, colon, and lung, as well as melanoma and certain types of leukemias and lymphomas. We have built our oncology pipeline from both internal discovery research as well as in-licensing arrangements. More specifically, throughout 2005, we continued to create a wealth of expertise and opportunities in key scientific areas of focus, such as receptor tyrosine kinases, particularly the Eph family of proteins, and B-cell biology.

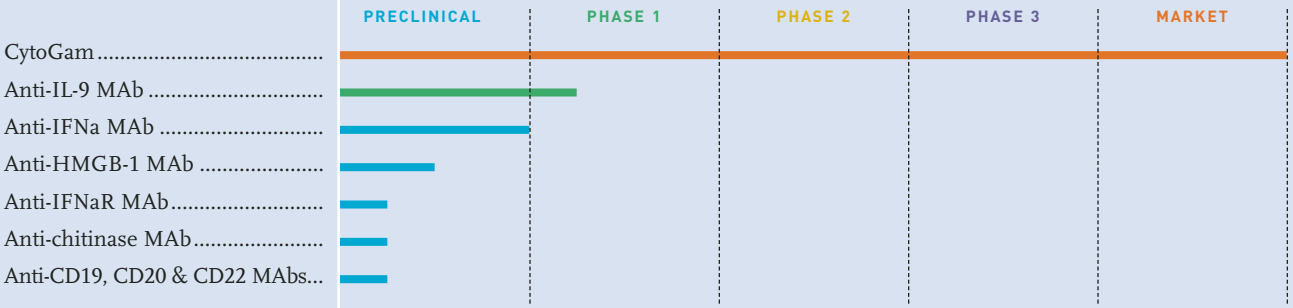
MARTIJN GLAUDEMANS, *PROJECT MANAGER*, AND MARC PETERS, *TECHNICAL MANAGER*, WORK AT MEDIMMUNE'S MANUFACTURING FACILITY IN NIJMEGEN, THE NETHERLANDS. MARTIJN MANAGES MEDIMMUNE'S SITE PROJECT MANAGEMENT GOVERNANCE PROCESS AT THE FACILITY. MARC IS RESPONSIBLE FOR ENGINEERING PROJECTS AND MAINTENANCE OF THE FACILITY AND ITS EQUIPMENT, SUCH AS THE COMPOUNDING SYSTEM THAT IS USED TO ADD AND MIX THE ACTIVE INGREDIENTS USED IN ETHYOL.

MedImmune has made tremendous strides in the area of translational medicine. To this end, Dirk Reitsma, M.D., *vice president, clinical development,* oncology, ensures that his group fully leverages the opportunity to interact with preclinical oncology researchers in order to ensure that MedImmune's clinical trials are based on the latest scientific insights. Dirk enjoys the productive collaborations between clinical development and the other line functions involved in drug development.

Anthony Coyle, Ph.D., *senior director, research and development*, is responsible for the inflammation and autoimmunity research group. Tony's group discovers new mechanisms underlying inflammatory disorders and identifies novel drug candidates for the treatment of rheumatoid arthritis and lupus, as well as respiratory diseases, including asthma.

Closing in on Scientific Breakthroughs

IMMUNOLOGY



MedImmune researchers are leveraging new technologies and techniques to bring us ever closer to scientific breakthroughs that aid in understanding immune diseases that affect millions of people worldwide. We are augmenting our expertise in key scientific areas of focus, such as interleukins, interferons, and cytokines, and continuing to build on our established role as leaders in antibody development.

In 2005, we filed an investigational new drug application with the FDA to begin clinical testing with a MAb targeting interferon-alpha, which is believed to play a role in systemic lupus erythematosus. We continued our early clinical safety testing with a MAb targeting interleukin-9, which is believed to be associated with symptoms of asthma. We continued our preclinical development efforts evaluating the role that a particular late-acting cytokine, known as HMGB-1 (high mobility group box chromosomal protein 1), plays in a range of inflammatory diseases, including rheumatoid arthritis and sepsis. In 2005, we also added three new preclinical stage programs to our pipeline focused on developing MAbs targeting the B-cell antigens, CD19, CD20 and CD22. Preclinical studies indicate that antibodies targeting these antigens may block B-cell activities associated with many tumors and autoimmune diseases.

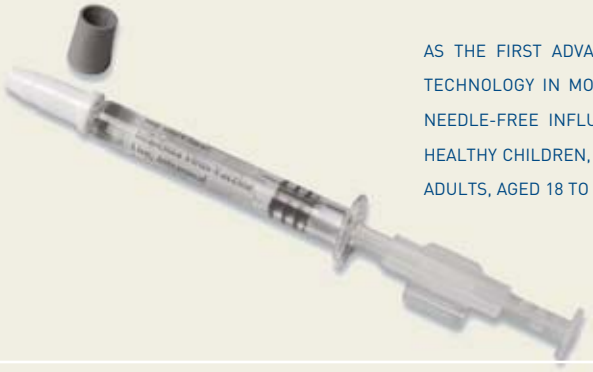
STEPHANIE SMITH, *CLINICAL TESTING LAB PROJECT MANAGER*, COORDINATES THE ACTIVITIES OF MEDIMMUNE'S CLINICAL TESTING LAB TEAM AS THEY RELATE TO CLINICAL AND PRECLINICAL STUDIES, ASSAY VALIDATIONS, ASSAY TRANSFERS TO CLINICAL RESEARCH ORGANIZATIONS, AND LABORATORY AUTOMATION PROJECTS.

[Striving for Healthier Tomorrows]

With nearly two decades of knowledge accumulated on the way to our current position as a top-ten biotechnology company, and the collective expertise of almost 1,000 scientists and researchers, MedImmune has successfully introduced medically important and novel products to the market. From our first marketed product, CytoGam, used to prevent cytomegalovirus disease associated with solid organ transplants to the introduction of FluMist, the first innovation in influenza vaccine technology in more than 50 years, MedImmune has been helping people live healthier, longer and more satisfying lives.

We take great pride in knowing that through our efforts, we are succeeding in protecting hundreds of thousands of children the world over with our antibody and vaccine products. It is very rewarding to hear stories of children benefiting from our research, such as that of the McCaughey septuplets, shown in the photograph on the adjacent page. In 1997, the McCaughey children were born around three pounds each, and as such were, by definition, at high risk of RSV disease and hospitalization. Fortunately, RespiGam, our first antibody approved to prevent RSV disease in high-risk infants, was launched in 1996 and was used to help protect the McCaugheys during the 1997–1998 RSV season. By the next season, the McCaugheys were still vulnerable to RSV infection. This time, however, Synagis was available, having been

SYNAGIS IS THE FIRST MAB APPROVED BY THE FDA TO HELP PREVENT AN INFECTIOUS DISEASE. TO DATE, SYNAGIS HAS HELPED PROTECT APPROXIMATELY 750,000 HIGH-RISK INFANTS AGAINST RSV, THE LEADING CAUSE OF HOSPITALIZATION IN THE UNITED STATES FOR CHILDREN UNDER THE AGE OF ONE.



AS THE FIRST ADVANCEMENT IN INFLUENZA VACCINE TECHNOLOGY IN MORE THAN 50 YEARS, FLUMIST IS A NEEDLE-FREE INFLUENZA IMMUNIZATION OPTION FOR HEALTHY CHILDREN, AGED 5 TO 17 YEARS, AND HEALTHY ADULTS, AGED 18 TO 49 YEARS.

approved in the summer of 1998 and providing substantial improvements and convenience to the children and their caregivers. Unlike RespiGam which was administered intravenously, Synagis is administered via intramuscular injection on a per weight basis (15mg/kg) each month while the virus is circulating in the community. Since its introduction, Synagis has become the standard of care in preventing RSV disease in vulnerable young children.

As you can see in their photograph, the McCaughey septuplets have since grown into lively eight year olds. Recently, we learned that they had once again been protected against a troubling respiratory virus—influenza—by receiving another one of our products: FluMist. We hope that as they continue to grow and prosper MedImmune can continue to introduce innovative products that will help them—and millions of others around the globe—lead healthier and more satisfying lives.

Born around three pounds each, the McCaughey septuplets are currently energetic eight year olds. These lively Iowa children have been protected from serious respiratory viruses via three of MedImmune's innovative products: RespiGam, Synagis, and FluMist. Bottom row, left to right: Nathan, Kelsey, and Kenny. Top row, left to right: Alexis, Natalie, Joel, and Brandon.

Helping our Community

At MedImmune, we are actively engaged with community-based organizations. It is more than simply providing financial assistance; we seek to establish true relationships with the organizations we support and to contribute meaningfully to the communities in which our employees work and live. We look for associations with causes that are aligned with our areas of therapeutic focus and with the goal of advancing health and science education. We initiate programs, engage our employees in volunteer activities, and share our expertise to drive initiatives on a personal level.

As part of its mission to advance science, MedImmune invests in future scientists. For example, we support Science Buddies, an online organization that assists students with science fair ideas. Several of our scientists have written "Starter Kits," which are project backgrounders that help capture students' scientific imaginations. We sponsor the "MedImmune Advancing Science for Better Health" award and present it to local high school students through regional science fairs, giving students an opportunity to explore science first-hand through internships at our sites. To help attract students from under-represented populations to the field of science, MedImmune sponsors the Minorities in Research Conference and, in partnership with the organization Women in Bio, hosts an interactive "Career Review" for middle school-aged girls. Through panel presentations and one-on-one interactions with MedImmune female employees, young students are encouraged to think about the possibilities of a career in the sciences.

DURING MEDIMMUNE'S 2005 NATIONAL SALES MEETING, MARKETING AND SALES TEAM MEMBERS HELPED RENOVATE THE DR. JOSE RAMOS LEBRON ELEMENTARY SCHOOL IN FAJARDO, PUERTO RICO.

MEDIMMUNE EMPLOYEES, FRIENDS AND FAMILY SUPPORTED THE LEUKEMIA & LYMPHOMA SOCIETY'S "LIGHT THE NIGHT" WALK IN SEVERAL CITIES IN 2005, INCLUDING THIS ONE IN PHILADELPHIA. PICTURED ALONG WITH TONI STIEFEL (SECOND FROM RIGHT), *DIRECTOR, INTERNAL COMMUNICATIONS AND COMMUNITY RELATIONS*, ARE, FROM LEFT TO RIGHT, BILL HUGHES, JEFF FRANCIS, BRIAN HACKER, RHONDA FERRE, AND MARY MAJLAK FROM MEDIMMUNE'S PHILADELPHIA MANUFACTURING FACILITY.

We support advocacy groups who work with patients directly on a national and local level, groups that can help us understand what patients are most concerned about and how we can help address those needs. We have a multi-year commitment to the March of Dimes to provide information through their Neonatal Intensive Care Unit Family Support Program and we regularly support the organization's Prematurity Awareness Day campaign. Through local events such as the March of Dimes' "WalkAmerica," and "Light The Night" for the Leukemia & Lymphoma Society, we engage our employees and foster community involvement. We encourage family and friends to participate in activities, building the spirit of community well beyond the corporation.

Our core value of cultivating a collaborative environment reminds us that teamwork and partnerships are essential to MedImmune's success. As an active and vital member of the communities in which our employees live and work, MedImmune drives this value beyond the walls of our labs, manufacturing facilities, and offices.

Controls and Procedures

CONCLUSION REGARDING THE EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

David M. Mott
Chief Executive Officer,
President and Vice Chairman

Lota S. Zoth
Senior Vice President and
Chief Financial Officer

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements regarding future events and our future results that are based on current expectations, estimates, forecasts, and the beliefs, assumptions and judgments of our management. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks and uncertainties that are difficult to predict. Readers are referred to the "Forward-Looking Statements" and "Risk Factors" sections in Part I, Item 1 and Part I, Item 1A, respectively, of our annual report on Form 10-K for the year ended December 31, 2005.

INTRODUCTION

MedImmune is committed to advancing science to develop better medicines that help people live healthier, longer and more satisfying lives. MedImmune currently focuses its efforts on using biotechnology to produce innovative products for prevention and treatment in the therapeutic areas of infectious disease, cancer and inflammatory disease. MedImmune's scientific expertise is primarily in the areas of monoclonal antibodies and vaccines. MedImmune markets four products, Synagis, FluMist, Ethyol and CytoGam and has a diverse pipeline of development-stage products.

OVERVIEW

Total revenues for 2005 were $1.2 billion, an increase of 9% over $1.1 billion in 2004, primarily reflecting 13% growth in sales of Synagis to $1.1 billion. We reported a net loss for 2005 of $17 million, or $0.07 per share, compared to a net loss of $4 million, or $0.02 per share, in 2004. Both periods included significant charges associated with the acquisition of research and development (R&D) assets that expanded our pipeline. The 2005 results reflect the impact of $48 million of charges for acquired in-process research and development ("IPR&D"), and 2004 results include acquired IPR&D and impairment charges totaling $102 million for the reacquisition of Wyeth's interest in the influenza vaccines franchise. We continued to invest aggressively in building our future with R&D expenditures excluding acquired IPR&D increasing to 31% of product sales in 2005, compared to 29% in 2004, as we successfully completed multiple Phase 3 trials, filed three Investigational New Drug applications, and added 11 new targets to our portfolio.

During 2005, we amended our distribution arrangement with Abbott International ("AI") to include Numax, which provides us with a larger portion of the economics from our respiratory syncytial virus ("RSV") franchise outside the U.S. and provides us with the opportunity in seven countries to participate directly in the commercialization of Numax outside the United States. We also amended our co-promotion agreement with Abbott Laboratories ("Abbott") to take full responsibility for the sales and marketing of Synagis in the U.S. starting in the 2006–2007 RSV season. This will provide us with strategic and operational advantages as we prepare for the continued growth of the pediatric infectious disease component of our business. During the fourth quarter 2005, we successfully transitioned to the liquid formulation of Synagis in the U.S. from the lyophilized (or freeze-dried) form. The liquid formulation is a product improvement over the freeze-dried formulation that we believe enhances the convenience for physicians in administering the drug and has the potential to reduce the waiting time for patients in doctors' offices and reduce their exposure to sick children. In October 2005, we received regulatory approval in Japan for the use of Synagis as a prevention in pediatric patients with hemodynamically significant congenital heart disease.

We also made substantial progress in our influenza vaccines franchise with the completion of our Phase 3 study to demonstrate clinical efficacy of CAIV-T over the flu shot. Preliminary data indicates that CAIV-T is 55% more effective than the flu shot in preventing influenza disease caused by any influenza strain in children under 5 years of age. We also completed the Phase 3 study to bridge refrigerator-stable CAIV-T to frozen FluMist, which successfully demonstrated equivalent immunogenicity, and filed a supplemental Biologics License Application with the U.S. Food and Drug Administration ("FDA") for approval to use CAIV-T in preventing influenza in healthy individuals 5 to 49 years of age. In addition, we received approval by the FDA of our new bulk vaccine manufacturing facility in the United Kingdom. We are also actively pursuing government funding that may be available to U.S. based manufacturers to develop the technology to manufacture influenza vaccines using cell-culture. Although we do not expect frozen FluMist to contribute meaningfully to our revenues until we introduce CAIV-T, we continue to focus on building awareness, support and usage of our live, attenuated intranasal influenza vaccine technology in anticipation of launching CAIV-T in 2007.

We continued to advance the development of our third-generation antibody product targeting RSV during 2005 with the completion of patient enrollment in two late-stage trials with Numax, in addition to several other supportive studies. We completed enrollment in our pivotal Phase 3 study in which we are comparing the safety and efficacy of Numax to Synagis in reducing RSV hospitalizations in high-risk infants. We expect to have results from this trial in the second half of 2006. We also completed enrollment in a separate, late-stage clinical safety study in the Northern Hemisphere in which Numax will be compared to Synagis for the first time in children with congenital heart disease.

Research and development activities during 2005 also included the completion of a Phase 2 melanoma study with Vitaxin and completion of patient enrollment in our Phase 2 prostate cancer study with Vitaxin. Data from both of these trials will be evaluated in 2006 as we continue to invest in this molecule as a potential cancer therapeutic. Additionally, we filed three Investigational New Drug applications to begin clinical studies with our antibody candidate targeting lupus; our combination RSV and parainfluenza virus type-3 ("PIV-3") vaccine candidate; and our H5N1 pandemic vaccine under our research agreement with the National Institutes of Health.

During the year, we expanded our pipeline of potential product candidates through the in-licensing and acquisition of new product candidates and technologies. We licensed worldwide rights from GlaxoSmithKline ("GSK") to develop certain anti-*Staphylococcal* monoclonal antibodies for the prevention of serious bloodstream infections caused by *Staphylococcus* in low-birthweight infants. We also expanded our oncology pipeline through new collaborations with VasGene Therapeutics, Inc. ("VasGene"), Seattle Genetics, Inc., and Avidia, Inc., in-licensing agreements with Georgetown University, BioWa, Inc, Xencor, Inc., and the Burnham Institute for Medical Research, and the acquisition of Cellective Therapeutics, Inc. ("Cellective"). We also amended our licensing agreement for cervical cancer vaccines with GSK to receive milestone payments and royalties for both GSK and Merck & Co, Inc. ("Merck") products. In addition, we entered into a collaboration with Avalon Pharmaceuticals, Inc. ("Avalon") to discover and develop small molecule therapeutic compounds in the area of inflammatory disease. We expanded our RSV research programs by entering into a license and collaboration agreement with Biota Holdings Limited ("Biota") to develop and commercialize small molecule compounds designed to prevent and treat RSV infection. We also acquired the exclusive worldwide rights to certain intellectual property owned by Mount Sinai School of Medicine of New York University for reverse genetics in the production of influenza vaccines; we now own or have exclusive licenses to all of the key intellectual property for this technology.

During June 2005, we settled the dispute with Celltech R&D Ltd. related to the Adair 927 Patent, resulting in the dismissal of all pending litigation related to the patent. Under the terms of the settlement, we have no royalty obligation for sales of Synagis before July 1, 2005, which was estimated to range up to $35 million under the original license terms. We agreed to pay Celltech a royalty (which is lower than the royalty rate called for in the original license agreement) based on Synagis sold or manufactured in the U.S. after July 1, 2005. Our overall royalty obligation with respect to sales of Synagis will not materially change as a result of the settlement due to the ability to offset the payments to Celltech against our royalty obligations to certain other licensors.

Our cash and marketable securities at December 31, 2005 totaled $1.5 billion as compared to $1.7 billion as of December 31, 2004, reflecting the upfront payment of $70 million to Abbott in conjunction with the reacquisition of full promotion rights for Synagis in the U.S., $44 million paid to acquire the outstanding equity interests in Cellective, net of cash acquired, as well as repurchases of approximately 4.0 million shares of our common stock at a total cost of $106 million.

As we look to the future, we intend to continue to focus on our long-term strategic objectives, including: supporting the continued growth of Synagis and Ethyol; developing FluMist into a better influenza vaccine; developing Numax as a differentiated successor to Synagis; developing our pipeline through our own internal discovery and development efforts and by gaining access to new technologies through acquisition and in-licensing arrangements, resulting in the introduction of two additional products by 2010; elevating science and evolving our R&D governance; and continuing to develop our people, processes and culture.

We have the following expectations for 2006:

Total Revenue

Total revenues for 2005 reflected the strong finish for Synagis for the 2004/2005 RSV season that was moderated by the slower than expected start for the 2005/2006 RSV season and the modest sales of frozen FluMist for the 2005/2006 influenza season. We plan to take actions to address and, to the extent possible, mitigate the underlying issues for the slower than expected start to the 2005/2006 RSV season. For 2006, we expect total revenues to grow by about 10 percent to approximately $1.4 billion. Synagis is expected to continue to comprise a majority of our product sales; accordingly, we believe our revenues and operating results will reflect the seasonality of that product's use to prevent RSV disease, which occurs primarily during the winter months. We do not expect FluMist to be a meaningful contributor to revenue growth before 2007, when we expect to launch CAIV-T, an improved formulation of this influenza vaccine with a label including a broader age indication, in the United States. Accordingly, our 2006 FluMist sales target is approximately three million doses and our marketing efforts are focused on building awareness, support and usage, particularly among pediatricians.

Gross Margin

We expect that our gross margins, excluding stock compensation expense, will be approximately 74 percent of product sales for the full-year 2006. We anticipate that FluMist will continue to exert downward pressure on gross margins until we successfully launch an improved formulation with a broader label. We expect that gross margins may vary significantly from quarter to quarter, based on the product mix and reflecting the seasonality of Synagis and FluMist.

Research and Development Expense

We expect research and development expenses, excluding stock compensation expense, to be approximately $400 million, or approximately 30 percent of product sales. We expect that slightly more than half of our current 2006 estimate will occur in the first half of the year.

Selling, General and Administrative Expense ("SG&A")

We expect SG&A, excluding stock compensation expense, as a percentage of product sales to decrease to approximately 38 percent of product sales. Co-promotion expenses will cease mid-year 2006 when we take full responsibility for sales of Synagis in the United States. The savings from reduced co-promotion expenses will be partially offset by approximately $25 million in annualized selling expense related to the addition of 125 new sales representatives to our pediatric sales organization, bringing the total to about 425 by the middle of this year. The additional sales representatives will help us prepare for the anticipated continued growth of the pediatric infectious disease component of our business. Key opportunities in this area include the potential launch of CAIV-T in the fall of 2007; the potential fall 2008 launch of Numax; and the future potential of the anti-*Staphylococcal* antibody program we licensed from GSK.

Stock-based Compensation Expense

On January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("SFAS 123R"), which requires us to begin recognizing expense associated with share-based compensation arrangements, including stock options. The compensation expense will be based on the fair value of the share-based compensation award at the date of grant and allocated over the period in which the employee is required to render service in order to vest in the award. The expense will be classified in cost of sales, research and development expense and SG&A expense in the same manner as wages are recorded. We anticipate that our pre-tax stock-based compensation expense will approximate $40 million in 2006. Stock compensation expense for certain stock options is not deductible until the employee exercises those options. This will cause our overall effective tax rate to be approximately 42.5%. For a further discussion of the impact of this standard, refer to the section entitled "New Accounting Standards" below and in Note 2, "Summary of Significant Accounting Policies," to our consolidated financial statements.

Liquidity

We believe that the holders of our 1% convertible senior notes will require us to redeem the notes on or about July 15, 2006, as provided for under the senior notes indenture. We anticipate using cash and investments on hand, a line of credit and/or another type of financing instrument to repay these notes.

AMENDMENT OF INTERNATIONAL DISTRIBUTION AGREEMENT WITH ABBOTT INTERNATIONAL

In February 2005, we amended our international distribution agreement with AI to include the exclusive distribution of Numax, our third-generation anti-RSV antibody that is currently in Phase 3 development, outside of the U.S., if and to the extent approved for marketing by the appropriate regulatory authorities. Under the amended terms of the agreement, AI pays us additional compensation as compared to the previous agreement, and such amounts in excess of estimated fair value for product sales of Synagis are recognized as other revenue in the consolidated statement of operations.

AMENDMENT OF CO-PROMOTION AGREEMENT WITH ABBOTT

In August 2005, we amended our co-promotion agreement with Abbott for sales of Synagis in the United States. Under the terms of the amended agreement, Abbott will continue to provide promotional activities with respect to Synagis until June 30, 2006, at which time we will take full responsibility for Synagis sales and marketing in the United States. We will continue to pay Abbott for their co-promotion services during the 2005/2006 RSV season as provided for under the original agreement. We have agreed to make certain incremental payments, as compared to the original agreement, to Abbott, including milestone-based payments and increased incentive payments contingent upon the achievement of certain sales thresholds during 2005 and 2006. In addition, if Numax is not approved by the FDA before September 1, 2008, we would pay Abbott a portion of the proceeds from the sales of Synagis in the U.S. for up to a two-year period beginning at such time. The present value of the incremental payments that we deem probable have been recorded as liabilities in the consolidated balance sheet and are as follows as of December 31, 2005: Other Current Liabilities, $236.7 million; Other Liabilities, $54.8 million.

In connection with this transaction, we recorded an intangible asset of $360.4 million which represents the estimated fair value of the exclusive promotion rights, determined as the aggregate present value of the probable incremental payments to be made as a result of the amended terms of the agreement in excess of the value of the co-promotion services to be rendered, as determined under the previous agreement. The intangible asset will be amortized ratably over future sales of Synagis over the expected period of active sales and marketing in the U.S., which are projected to continue through the first half of 2009, as we expect to launch Numax during the 2008/2009 RSV season.

ACQUISITION OF CELLECTIVE THERAPEUTICS, INC.

On October 14, 2005, we acquired the outstanding equity interests of Cellective, a privately-held development-stage biopharmaceutical company, for approximately $44.0 million in cash, net of cash acquired of approximately $8.9 million. Cellective has three preclinical stage programs developing monoclonal antibodies that target the B-cell antigens CD19, CD20 and CD22, which are believed to play important roles in regulating the immune system and offer potential treatments for cancer and autoimmune diseases. Under the terms of the agreement, we could pay Cellective's shareholders future contingent payments of up to approximately $105 million should the antibody programs achieve certain product development and sales milestones. Our wholly owned venture capital subsidiary, MedImmune Ventures, Inc., owned approximately 10% of the outstanding equity interests of Cellective prior to the acquisition. The transaction was accounted for as a purchase of assets, and the purchase price was allocated to the assets acquired and liabilities assumed based on their relative fair values. In connection with the transaction, we recorded a charge for acquired IPR&D of $43.7 million during the fourth quarter of 2005. The charge for acquired IPR&D is not deductible for tax purposes.

LICENSING AND COLLABORATIVE AGREEMENTS

In February 2005, we amended our agreement with GSK for the development of HPV vaccines. Under the amended agreement, we may, in addition to receiving milestone payments and royalties from GSK, also receive certain milestone payments and royalties on future development and sales of an investigational HPV vaccine now in Phase 3 development by Merck. The FDA is currently reviewing the Biologics License Application for Merck's HPV vaccine under priority review, with a review goal date of mid-2006. Merck has also submitted applications for regulatory approval in the European Union, Australia, Mexico, Brazil, Argentina, Taiwan and Singapore. GSK filed its application for regulatory approval for their HPV vaccine in the European Union in March 2006 and expects to file in the U.S. by the end of 2006.

In August 2005, we licensed worldwide rights from GSK to develop certain anti-*Staphylococcal* monoclonal antibodies. We will be responsible for future research and development and any resulting second-generation monoclonal antibodies as well as all future sales and marketing activities worldwide. Under the terms of the agreement, we agreed to an upfront fee, and potential milestone payments and royalties on any resulting marketed products. We are also obligated to make future milestone and royalty payments to Biosynexus, Inc., from which GSK originally licensed the BSYX-A110 antibody and related rights in 2002, on behalf of GSK. MedImmune and GSK have been sued by Biosynexus in connection with this transaction. See Note 18, "Legal Proceedings," to our consolidated financial statements for additional detail.

In September 2005, we entered into a collaborative agreement with VasGene to develop monoclonal antibodies targeting cancer. Under the terms of the agreement, we will be responsible for the clinical development and commercialization of any resulting products. VasGene received an upfront fee, and could receive development and regulatory milestone payments, as well as royalties on any resulting marketed products. Vasgene will provide research and development support.

In December 2005, we entered into a licensing and collaborative agreement with Biota to develop and commercialize Biota's small molecule compounds designed to prevent and treat RSV. Under the terms of the agreement, Biota received an upfront fee, and could receive clinical and regulatory milestone payments and royalties on any resulting marketed products.

Also in December 2005, we acquired the exclusive worldwide rights to certain intellectual property owned by Mount Sinai School of Medicine of New York University for the use of reverse genetics in the production of influenza vaccine; we now own or have exclusive licenses to all of the key intellectual property for this technology. Under the terms of the agreement, we paid Mount Sinai an upfront fee and agreed to potential milestone payments and royalties on any resulting future product sales.

We recorded charges totaling $54 million during 2005 and $19 million during 2004 associated with upfront fees and milestone payments under licensing agreements and research collaborations, which are included as a component of research and development expense in the consolidated statements of operations.

NEW ACCOUNTING STANDARDS

On January 1, 2006, we adopted SFAS 123R, which requires public companies to recognize expense associated with share-based compensation arrangements, including employee stock options, using a fair value-based option pricing model. Adoption of the expense provisions of the statement will have a material impact on our results of operations going forward. Using the modified prospective transition method of adoption, we will reflect compensation expense in our financial statements beginning January 1, 2006 with no restatement of prior periods. As such, compensation expense will be recognized for awards that are granted, modified, repurchased or cancelled on or after January 1, 2006 as well as for the portion of awards previously granted that have not vested as of January 1, 2006. Upon the adoption, we implemented the straight-line expense attribution method, whereas our previous expense attribution method was the graded-vesting method, an accelerated method, described by FIN 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans."

In December 2004, the FASB issued SFAS 151, "Inventory Costs—An Amendment of ARB No. 43, Chapter 4." SFAS 151 amends the guidance in ARB No. 43, Chapter 4 to require that idle facility expense, freight, handling costs and wasted material

(spoilage) be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, the Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. We adopted SFAS 151 for inventory costs on January 1, 2006, with an immaterial impact to our consolidated financial position and results of operations.

In December 2005, the SEC issued an interpretive release entitled "Commission Guidance Regarding Accounting for Sales of Vaccines and Bioterror Countermeasures to the Federal Government for Placement into the Pediatric Vaccine Stockpile or the Strategic National Stockpile." This release addresses the timing of revenue recognition for the sale of vaccines related to Federal governmental stockpile programs and allows revenue earned under these programs to be recognized when all of the revenue recognition criteria specified under accounting principles generally accepted in the United States ("GAAP") and SEC rules and regulations are met, with the exception of those criteria that require a fixed schedule for delivery of goods and that the ordered goods must be segregated from the seller's inventory. The alternative accounting method described in this release is effective on January 1, 2006. The new interpretive release does not have any impact on our consolidated financial position or results of operations as of and for the year ended December 31, 2005. However, the interpretive release may ease revenue recognition criteria for sales to the federal government under certain stockpile programs, and we may participate at a more significant level in such federal government stockpile programs in the future.

CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements requires management 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 consider an accounting estimate to be critical if the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and if changes in the estimate that are reasonably likely to occur from period to period, or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations. We believe the following critical accounting estimates have the greatest impact on the preparation of our consolidated financial statements. Management has discussed the development of and selection of these critical accounting estimates with the Audit Committee of our Board of Directors. In addition, there are other items within our financial statements that require estimation, but are not deemed critical as defined above. Changes in estimates used in these and other items could have a material impact on our financial statements.

In-Process Research and Development

When we enter into agreements to acquire early to late-stage technology or product candidates, we assign value to acquired in-process technologies by identifying those acquired specific in-process research and development projects that will be continued and for which, as of the acquisition date, technological feasibility has not been established, there is no alternative future use, and the fair value is estimable with reasonable reliability. During 2005, we recorded a charge of $43.7 million for acquired IPR&D in conjunction with the acquisition of the outstanding equity interests in Cellective. The charge represents the estimated relative fair value, as of the purchase date, of the acquired in-process technologies and certain IPR&D projects. Cellective has three preclinical stage programs developing monoclonal antibodies that target the B-cell antigens CD19, CD20 and CD22, which are believed to play important roles in regulating the immune system and offer potential treatments for cancer and autoimmune diseases. We have valued the three preclinical stage programs equally. Significant efforts will be required to complete the projects and we do not anticipate material cash inflows until 8 to 10 years from the acquisition date, if ever. The nature, timing and projected costs associated with the remaining efforts for completion are not reasonably estimable at this time.

As with all biotechnology products, the probability of commercial success for any one research and development project is highly uncertain. The risks and uncertainties associated with completing development within the projected completion dates and realization of the anticipated return on our investment include the inability to obtain and maintain access to intellectual property, failure in clinical trials, the inability to obtain required regulatory approvals, and the availability of competitive products. If we fail to successfully advance Cellective's antibody programs, we may not achieve the currently anticipated return on any investment we have made or will make.

During 2005 and 2004, we recorded charges of $4.7 million and $29.2 million, respectively, for acquired IPR&D in conjunction with our reacquisition of influenza vaccine franchise rights from Wyeth in May 2004. The charges represent the estimated relative fair value, as of the purchase date, of the acquired in-process technologies and certain IPR&D projects, primarily CAIV-T, calculated utilizing the sum of probability-adjusted commercial scenarios, or income approach. The valuation was based upon management's estimates of the probability of FDA and/or other regulatory body approval and commercial success, including the estimated impact of the size of the indicated population, price, volume, timing of regulatory approval and any potential failure to commercialize the product.

CAIV-T is not expected to have the logistical and distribution issues associated with the frozen formulation and is expected to have an expanded label. We did not believe that there will be

any alternative future use for the in-process technologies that were expensed as of the reacquisition date. In valuing the purchased in-process technologies, we estimated cash inflows based on extensive market research performed on the U.S. marketplace and cash outflows for product costs, milestones and royalties to be paid over a 10-year period assuming approval and U.S. launch in the 2007/2008 timeframe using probability-of-success-adjusted scenarios and a discount rate of 11.3%. Based on current information, management believes that the projections underlying the analysis are reasonable; however, the actual cash inflows or outflows cannot be predicted with certainty.

As with all biotechnology products, the probability of commercial success for any one research and development project is highly uncertain. If we fail to successfully complete the clinical trials or if CAIV-T is not approved by the FDA as a safe and effective vaccine for our targeted populations, the launch may be delayed or terminated, resulting in a diminished or no return on the purchase price and development costs incurred to date. In addition, as of December 31, 2005, CAIV-T has not been manufactured on a sustained commercial scale. There can be no assurance that commercial scale production could be achieved or sustained. If we fail to obtain FDA approval for the marketing and manufacture of CAIV-T, we will not achieve the currently anticipated return on any investment we have made or will make in CAIV-T.

Revenue Recognition

We recognize revenue from product sales when there is persuasive evidence that an arrangement exists, delivery has occurred, the price is fixed or determinable and collectibility is reasonably assured.

We receive royalties from licensees, based on third-party sales of licensed products or technologies. Royalties are recorded as earned in accordance with the contract terms when third-party results can be reliably measured and collectibility is reasonably assured.

Revenue from certain guaranteed payments where we continue involvement through a development collaboration or an obligation to supply product is recognized ratably over the development or supply period.

We may record deferred revenues related to milestone payments and other upfront payments. Deferred revenue for manufacturing obligations is recognized as product is delivered. Deferred revenue associated with performance milestones is recognized based upon the achievement of the milestones, as defined in the respective agreements, as long as the milestones are substantive and at risk. Revenue under research and development cost reimbursement contracts is recognized as the related costs are incurred.

Inventory

We capitalize inventory costs associated with certain products prior to regulatory approval and product launch, based on management's judgment of probable future commercial use and net realizable value. We could be required to permanently write down previously capitalized costs related to pre-approval or pre-launch inventory upon a change in such judgment, due to a denial or delay of approval by regulatory bodies, a delay in commercialization, or other potential factors. Conversely, our gross margins may be favorably impacted if some or all of the inventory previously written down becomes available and is used for commercial sale.

We capitalize inventory costs associated with marketed products based on management's judgment of probable future commercial use and net realizable value. We could be required to permanently write down previously capitalized costs related to commercial inventory due to quality issues or other potential factors. Conversely, our gross margins may be favorably impacted if some or all of the inventory previously written down is recovered through further processing or receipt of specification waiver from regulatory agencies, and becomes available and is used for commercial sale.

We are required to state all inventory at the lower of cost or market. In assessing the ultimate realization of inventories, we are required to make judgments as to multiple factors affecting our inventories and compare these with current or committed inventory levels. In the highly regulated industry in which we operate, raw materials, work-in-process and finished goods inventories have expiration dates that must be factored into our judgments about the recoverability of inventory costs. Additionally, if our estimate of a product's pricing is such that we may not fully recover the cost of inventory, we must consider that in our judgments as well. In order to reflect inventory at the lower of cost or market, we will record permanent inventory write-downs as soon as determined; such write-downs are permanent in nature and will not be reversed in future periods.

The valuation of FluMist inventories requires a significant amount of judgment for multiple reasons. Specifically, the manufacturing process is complex, in part due to the required annual update of the formulation for recommended influenza strains, and there can be no guarantee that we will be able to continue to successfully manufacture the product.

The annual FluMist production cycle begins in October of the year prior to the influenza season in which the product will be available for consumption. For example, the production cycle for the 2006/2007 season began in October 2005. The production cycle begins by preparing the master viral working seeds and preparing the manufacturing facilities for the bulk monovalent production. The next part of the process includes blending three monovalent strains into a trivalent vaccine,

filling into intranasal sprayers, packaging sprayers into multi-dose packs and distributing the frozen product. Our raw materials have expiration dates (dates by which they must be used in the production process) that range from 24 months to 60 months. Our semi-processed raw materials and work-in-process inventory have multiple components, each having different expiration dates that range from nine to 24 months. Raw materials, semi-processed raw materials, work-in-process inventory and semi-finished goods may be carried over to succeeding production seasons under certain conditions. Each season's finished FluMist product has an approved shelf life up to six months and therefore may not be sold in a subsequent season. Thus, if our actual sales fall below our projections, we will be required to write off any remaining inventory balance at the end of the flu season.

For all FluMist inventory components on hand as of December 31, 2005, we reviewed the following assumptions to determine the amount of any necessary reserves: expected production levels and estimated cost per dose; sales volume projections that are subject to variability; the expected price to be received for the product and anticipated distribution costs; utilization of semi-finished goods inventory for the succeeding production season; and current information about the influenza strains recommended by the Centers for Disease Control and Prevention for the upcoming season's vaccine. The methodology used to calculate adjustments required to value our FluMist inventories as of December 31, 2005 at net realizable value was consistent with the methodology used for the valuations since product approval in June 2003. The valuation of FluMist inventory as of December 31, 2005 is based on our sales volume estimate of approximately 3 million doses for the 2006/2007 season.

After completion of the fourth quarter of 2005, we determined that our FluMist sales for the 2005/2006 season would fall short of our previous projections by approximately 1.6 million doses. As such, we recorded additional reserves of approximately $19.1 million to reflect total finished goods inventories for the 2005/2006 season at estimated realizable value. Also during the fourth quarter of 2005, we recorded permanent inventory write-downs totaling $3.8 million to reflect certain semi-finished goods FluMist inventory at net realizable value that we believe will not be useable for the 2006/2007 production season.

The table below summarizes the activity within the components of FluMist inventories (in millions):

	Gross Inventory	Reserves	Net Inventory
FluMist Details			
As of December 31, 2004	$ 50.7	$(35.7)	$ 15.0
Raw materials, net	(4.6)	0.9	(3.7)
Cost of goods sold recognized on 2004/2005 inventory	(3.2)	3.1	(0.1)
Cost of goods sold recognized on 2005/2006 inventory	(22.9)	6.0	(16.9)
Production, net	60.0	(14.3)	45.7
Disposals and scrap	(23.6)	2.2	(21.4)
As of December 31, 2005	$ 56.4	$(37.8)	$ 18.6

For our other products, we periodically assess our inventory balances to determine whether estimated net realizable value is below recorded cost. Factors we consider include expected sales volume, production capacity, quality standards and expiration dates. During 2005, we recorded permanent inventory write-downs of $3.3 million for certain Synagis lots that were determined to be nonsaleable as they were outside of normal specifications and not recoverable. No other significant inventory adjustments were recorded during 2005.

Sales Allowances and Other Sales Related Estimates

Reductions to Gross Product Sales

We record allowances for discounts, returns, chargebacks and rebates to commercial entities as well as rebates due to government entities as reductions to gross product sales. The timing of actual discounts, returns, and chargebacks taken, and rebates paid can lag the sale of the product by a number of months. As such, a significant amount of judgment is required when estimating the impact of sales allowances on gross sales for a reporting period. The assumptions used in developing our estimates of sales allowances include the following key factors:

- historical trends for discounts, returns, rebate claims, or other claims;
- our contracts with customers and discount programs;
- actual performance of customers against contractual discounts tied to volume and compliance targets;
- proportion of gross sales ultimately used by Medicaid patients;
- state Medicaid policies and reimbursement practices; and
- accuracy of reporting by our customers of end-user product sales by state.

We update these factors for any material changes in facts or circumstances as soon as the changes are known.

We estimate the amount of rebates due to government entities quarterly based on historical experience, along with updates, and based on our best estimate of the proportion of sales that will be subject to this reimbursement, largely comprised of Medicaid payments to state governments. During the fourth quarter of 2005, we successfully transitioned to the liquid formulation of Synagis in the U.S. from the lyophilized form. The liquid formulation is treated as a new product for purposes of Medicaid rebates. Accordingly, we expect the unit rebate amount for liquid Synagis to be lower than the unit rebate amount for the lyophilized formulation, resulting in a reduction in allowances for government rebates and an increase in net realized price. During the fourth quarter of 2003, we became aware of efforts by several states to collect rebates for product administered in certain settings for which reimbursement was not sought in the past. After analyzing the situation, we determined that the new facts and circumstances warranted an increase in our estimate of rebates due to government purchasers. As such, we recorded additional reserves for past rebates due to government purchasers and increased our estimate of the proportion of current sales that will be subject to reimbursement, given the change in circumstance. Estimation of the probable amount that will be owed to such states requires considerable judgment, and it is possible that the amount ultimately paid could differ significantly from amounts accrued. As of December 31, 2005 and 2004, allowances for government rebates in those states for which reimbursement has not been sought in the past totaled $26.1 million and $20.3 million, respectively. The Company will continue to assess the probability of such rebate assessments, based upon current facts and circumstances.

For the years ended December 31, 2005, 2004 and 2003, allowances for discounts, returns, chargebacks and rebates due to government purchasers resulted in a net reduction to gross product sales of approximately 10%, 10%, and 9%, respectively. The increase in 2005 and 2004 is attributable to higher levels of Medicaid reporting compliance for reimbursement and increased discounting, as well as the impact of FluMist sales, which experience higher discount and return rates than our other products.

Allowances for discounts, returns, and chargebacks, which are netted against accounts receivable, totaled $20.6 million and $14.5 million at December 31, 2005 and 2004, respectively. Allowances for government reimbursements were $52.5 million as of December 31, 2005 and 2004 and are included in accrued expenses in the accompanying balance sheets.

If our historical trends are not indicative of the future, or our actual sales are materially different from the projected amounts, or if our assessments prove to be materially different than actual occurrence, our results could be affected. The estimation process for determining reserves for sales allowances inherently results in adjustments each year. Additionally, because of the varying lags and the seasonal nature of our largest product, Synagis, our sales discounts, returns, chargebacks and rebates fluctuate throughout the year. If our estimate of the percentage of gross sales to be recorded for sales allowances for Synagis were to increase by 1%, our net product sales for the 2004/2005 Synagis sales season (which runs from July 2004 to June 2005) would have been reduced by approximately $11 million. A decrease of 1% in the sales allowances for Synagis during the same period would have increased our revenues by approximately $11 million.

Selling, General and Administrative Expenses

We estimate our co-promotion expense and sales commissions by applying an estimated rate that is based upon an estimate of projected sales for the season to our actual sales for the period. As discussed earlier, in August 2005, we amended our co-promotion agreement with Abbott for sales of Synagis in the United States. The value of the co-promotion services to be rendered by Abbott through June 2006 (the remaining co-promotion period), as determined under the previous agreement, will be recorded as co-promotion expense within selling, general and administrative expense. The incremental payments to be made as a result of the amended terms of the agreement in excess of the value of the co-promotion services to be rendered have been recorded as an intangible asset.

We estimate the level of bad debts by applying a percentage to gross trade accounts receivable balances outstanding at the end of the period, based upon our assessment of the concentration of credit risk, the financial condition and environment of our customers, and any specifically identified doubtful accounts. Because of the seasonal nature of our largest product, Synagis, our accounts receivable balances fluctuate significantly. Accordingly, our allowance for doubtful accounts also fluctuates. Our accounts receivable balances tend to be highest at the end of December and March, while the September balances are somewhat lower as our selling season is just beginning, and the June balances are significantly lower, reflecting the close-out of the prior season. For the years ended December 31, 2004 and 2003, we recorded $2.0 million and $3.8 million, respectively, in reductions to the allowance, largely based on changes in our assessment of credit risk. No significant adjustments to the allowance were recorded during 2005. Bad debt expense is classified as selling, general and administrative expense in our consolidated statements of operations.

Income Taxes

We record valuation allowances to reduce our deferred tax assets to the amounts that are anticipated to be realized. We consider future taxable income and ongoing tax planning strategies in assessing the need for valuation allowances. In general, should we determine that we are able to realize more than the recorded amounts of net deferred tax assets in the future, our net income will increase in the period such determination was made. Likewise, should we determine that we would not be able to realize all or part of the net deferred tax asset in the future, our net income would decrease in the period such determination was made. Reversals of valuation allowance related to acquired deferred tax assets, however, would first be applied against goodwill and other intangibles before impacting net income. A tax reserve is recorded when we cannot assert that it is probable that a tax position claimed on a return will be sustained upon challenge by the tax authority. Any change in the balance of a tax reserve during the year is treated as an adjustment to current year tax expense.

The recognition of income by our U.K. subsidiary and certain prior year true-ups of deferred tax assets of this subsidiary enabled us to release valuation allowances in 2005 and 2004 of $6.5 million and $2.4 million, respectively, resulting in a favorable impact to the consolidated statement of operations. In addition, in 2005 and 2004 we increased valuation allowances by $4.9 million and $14.3 million, respectively, related predominantly to state net operating losses and state research and development credits generated during those periods, as management does not believe that it is more likely than not that we will generate sufficient taxable income in these jurisdictions to utilize the attributes.

During 2005, we established additional tax contingency reserves of $1.8 million related to various state matters resulting in additional tax expense. During 2004, we reached a state tax settlement that enabled us to release a tax contingency reserve of $1.5 million, resulting in a benefit to our consolidated statement of operations.

During the third and fourth quarters of 2005, we made corrections to the previous accounting for deferred tax assets, goodwill, paid -in-capital and tax expense. The corrections related to reporting periods dating back to the acquisition of Aviron, a California-based vaccine company, in January 2002 ("the Acquisition"). The corrections resulted in additional tax expense of approximately $3.2 million for the full year 2005.

Goodwill and Intangible Assets

We have recorded and valued significant acquired intangible assets. As of December 31, 2005, the unamortized carrying amount of our intangible assets is $323.5 million. We review intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

During 2005, we recorded an intangible asset in connection with our reacquisition of the co-promotion rights for Synagis in the United States. The value assigned to the intangible asset of $360.4 million represents the estimated fair value of the exclusive promotion rights, determined as the aggregate present value of the probable incremental payments to be made as a result of the amended terms of the agreement in excess of the value of the co-promotion services to be rendered, as determined under the previous agreement. The intangible asset will be amortized ratably over future sales of Synagis over the expected period of active sales and marketing in the U.S., which are projected to continue through the first half of 2009, as we expect to launch Numax during the 2008/2009 RSV season.

In connection with the Acquisition, we recorded $129.4 million of acquired intangible assets. We engaged independent valuation experts who reviewed our critical assumptions and assisted us in determining a value for the identifiable intangibles. Of the $129.4 million of acquired intangible assets, $90.0 million was assigned to the worldwide collaborative agreement with Wyeth for the development, manufacture, distribution, marketing, promotion, and sale of FluMist. We estimated the fair value of the Wyeth agreement using the sum of the probability-adjusted scenarios under the income approach. In applying this method, we relied on revenue assumptions, profitability assumptions and anticipated approval dates. The remaining $39.0 million was assigned to a contract manufacturing agreement with Evans Vaccines Limited. We estimated the fair value of the Evans agreement using the cost approach, which is based on the theory that a prudent investor would pay no more for an asset than the amount for which the asset could be replaced. In our analysis, we reduced replacement cost for such factors as physical deterioration and functional or economic obsolescence. As a result of the dissolution of the collaboration with Wyeth during 2004, we recorded a permanent impairment loss of $73.0 million that represented the remaining unamortized cost of the related intangible asset.

During 2005, we made adjustments to goodwill totaling $13.8 million, of which $10.0 million resulted from the correction to certain prior period purchase accounting adjustments related to the Acquisition, and $3.8 million resulted from current year purchase accounting adjustments, as discussed in the income tax section above and more fully detailed in Note 15, "Income Taxes," to our consolidated

financial statements. During 2004 and 2003, we made adjustments to goodwill recorded in the Acquisition of $11.2 million and ($2.4) million, respectively, reflecting adjustments to deferred tax assets relating to the resolution of income tax related uncertainties. We review goodwill for impairment at least annually (during the fourth quarter) and during interim periods if an event that could result in an impairment occurs. As of December 31, 2005, we have not identified any impairment of goodwill; $11.0 million of goodwill remains on the consolidated balance sheet.

Investments in Debt and Equity Securities
Our short-term and long-term investments are subject to adjustment for other-than-temporary impairments. Impairment charges are recognized in the consolidated statements of operations when a decline in the fair value of an investment falls below its cost value and is judged to be other than temporary. We consider various factors in determining whether an impairment charge is required, including: the length of time and extent to which the fair value has been less than the cost basis; the financial condition and near-term prospects of the issuer; fundamental changes to the business prospects of the issuer; share prices of subsequent offerings; and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. During 2005, 2004 and 2003, we recorded impairment losses of $8.6 million, $13.7 million and $1.7 million, respectively, based on the duration and magnitude of the declines in the fair value of certain of our investments, as well as the financial condition and near-term prospects of the investee companies.

RESULTS OF OPERATIONS

COMPARISON OF 2005 TO 2004

Revenues — Product Sales

(In Millions)	2005	2004	Growth
Synagis			
Domestic	**$ 905.2**	$ 833.6	9 %
International	**157.7**	108.7	45 %
	1,062.9	942.3	13 %
Ethyol			
Domestic	**89.6**	88.4	1 %
International	**5.4**	4.0	36 %
	95.0	92.4	3 %
FluMist	**21.3**	48.0	(56)%
Other Products	**41.8**	41.3	1 %
Total Product Sales	**$1,221.0**	$1,124.0	9 %

Synagis
Synagis accounted for approximately 87% and 84% of our product sales for 2005 and 2004, respectively. We achieved a 9% increase in domestic Synagis sales to $905.2 million for 2005, up from $833.6 million in 2004. The growth over the prior year period resulted from a 5.5% increase in the domestic sales price along with a 4% increase in unit sales volume. While sales of Synagis finished strong for the last half of the 2004/2005 RSV season, the 2005/2006 RSV season started slower than expected due primarily to changes in payer guidelines that led to delays of when many patients received their first dose of Synagis, the effects of Hurricanes Katrina and Rita on certain sales territories, and an early disruption in the product's distribution network caused by the departure of a large distributor prior to the 2005/2006 season. In addition, sales patterns in the fourth quarter of 2005 were affected by conversion of the U.S. supply from the lyophilized formulation to the new liquid formulation of Synagis, which primarily occurred during the month of November.

Our reported international sales of Synagis increased to $157.7 million in 2005 compared to $108.7 million in 2004, primarily due to continued demand growth in several key international markets and the timing of stocking patterns for the 2005/2006 season, partially offset by the unfavorable currency translation impact of a strengthened U.S. dollar. During 2005, the label for Synagis was expanded in Japan to include children with congenital heart disease.

Ethyol
Ethyol accounted for approximately 8% of our product sales for 2005 and 2004. Worldwide Ethyol sales increased slightly to $95.0 million in 2005, as compared to $92.4 million in 2004, primarily due to an increase in the domestic sales price along with modest growth in international sales volumes for 2005.

FluMist
FluMist accounted for approximately 2% and 4% of our product sales for 2005 and 2004, respectively. Sales of FluMist were $21.3 million in 2005, as compared to $48.0 million in 2004, a decrease primarily due to lower unit sales volumes and the timing of revenue recognition for product shipped during 2003. Our 2005 sales of FluMist are comprised of 0.3 million doses sold during the first quarter of 2005 as the 2004/2005 influenza season came to an end and 1.3 million doses sold during the second half of 2005 related to the 2005/2006 influenza season. Our 2004 sales of FluMist of $48.0 million consisted of product sales for the 2004/2005 flu season of $20.9 million, representing estimated net doses of approximately 1.7 million, as well as $27.1 million of transfer price for product shipped to Wyeth during 2003 for the 2003/2004 influenza season. At December 31, 2003, the variables

associated with FluMist product revenues were not determinable, largely due to low sales volume and the lack of returns history and comparable rebate redemption rates for the new product. As a result, product revenues associated with the doses that were shipped to Wyeth in 2003 were not recognized until the first quarter of 2004.

Other Products

Sales of other products include sales of CytoGam, NeuTrexin, and by-products that result from the CytoGam manufacturing process, as well as sales of RespiGam in 2004, and amounted to $41.8 million in 2005 as compared to $41.3 million for 2004. The increase is primarily due to a 3% increase in sales of CytoGam. We are in the process of transferring CytoGam manufacturing responsibilities to different contract manufacturers, a process which is expected to be completed during the second half of 2006. Until the transfer is complete and the new manufacturing sites are approved by the FDA, we expect supply to be limited and that sales will be adversely affected.

Revenues — Other Revenues

Other revenues increased to $22.9 million for 2005 compared to $17.1 million for 2004. Other revenues in 2005 include $17.1 million of revenue related to the amended terms of our international distribution agreement with AI, which represents amounts received in excess of the estimated fair value for product sales of Synagis, as explained in Note 16, "Collaborative Arrangements," to our consolidated financial statements. Other revenues in 2004 are largely comprised of contractual payments received from Wyeth prior to dissolution of our collaboration, including royalties related to the 2003/2004 influenza season and corporate funding for clinical development and sales and marketing programs. Other revenues in 2004 also include $7.5 million of milestone revenue recognized under our international distribution agreement with AI upon the achievement of end-user sales of Synagis outside the U.S. in excess of $150 million in a single RSV season.

Cost of Sales

Cost of sales for 2005 decreased 8% to $336.7 million from $366.4 million for 2004. Gross margins on product sales were 72% for 2005, up five percentage points from gross margins of 67% for 2004. Gross margins for all products, excluding FluMist, improved to 76% in 2005 from 75% in 2004, primarily due to manufacturing efficiencies and the $4.9 million recoupment of past royalty overpayments that was recognized as a reduction to cost of sales during the third quarter of 2005. The impact of FluMist reduced overall gross margins in 2005 and 2004 by four percentage points and eight percentage points, respectively. FluMist exerted less of a negative impact on gross margins for 2005 due primarily to focused efforts to gain manufacturing efficiencies and improved net revenue estimates for the 2006/2007 influenza season (see further discussion of inventory in the Critical Accounting Estimates section of this Management's Discussion and Analysis).

Research and Development Expenses

Research and development expenses of $384.6 million in 2005 increased 18% from $327.3 million in 2004. Research and development expenses, as reported in the accompanying statements of operations, included both our ongoing expenses of drug discovery and development efforts, as well as costs related to the technology transfer and transition activities associated with reacquisition of the influenza vaccines franchise from Wyeth during 2004. The increase is due largely to direct costs associated with ongoing and additional clinical and preclinical trials for product candidates, increases in headcount and related expenses in support of increased research and development activities and upfront licensing fees and milestone payments related to in-licensing agreements and research collaborations. Upfront fees and milestones incurred in connection with research collaborations and in-licensing agreements were $54 million in 2005 versus $19 million in 2004. Also included in research and development expenses in 2005 and 2004 are $2.0 million and $27.8 million, respectively, in costs for technology transfer and transition activities associated with our assumption of research and development activities related to the influenza vaccines franchise. Research and development expenses in 2005 were 31% of product sales versus 29% of product sales in 2004, reflecting the continuing investment to bring new products to market as part of our long-range plan.

We have several programs in clinical and pre clinical development, and a summary of our more significant current internal research and development efforts is as follows:

Product Candidates	Description	Stage of Development
CAIV-T	Refrigerator-stable version of intranasal influenza vaccine, live	Phase 3
Numax	Second-generation monoclonal antibody for prevention of RSV	Phase 3
Abegrin	Monoclonal antibody for the treatment of melanoma and prostate cancer	Phase 2
Ethyol	Subcutaneous administration in non-small cell lung cancer patients-reduction of esophogitis and pneumonitis	Phase 2

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") expenses increased 25% to $498.4 million in 2005 compared to $400.2 million in 2004. The increase is largely attributable to increased co-promotion expense, corresponding to the increase in domestic Synagis sales, and the continued expansion of the pediatric commercial organization. Co-promotion expense was $192.2 million in 2005 and $168.3 million in 2004. Also included in SG&A expense in 2005 is amortization expense of $41.3 million associated with the intangible asset for U.S. co-promotion rights for Synagis that was acquired and recorded during the third quarter of 2005. As a percentage of product sales, SG&A expense increased to 41% of product sales for 2005 compared to 36% of product sales in 2004.

Impairment of Intangible Asset

As a result of entering into agreements to dissolve the collaboration with Wyeth during April 2004, we recorded a permanent impairment loss of $73.0 million that represented the remaining unamortized cost originally recorded for the collaboration with Wyeth.

Acquired IPR&D

We recorded charges for acquired IPR&D of $43.7 million in 2005 in conjunction with the acquisition of the outstanding equity interests in Cellective. The transaction was accounted for as a purchase of assets, and the purchase price was allocated to the assets acquired and liabilities assumed based on their relative fair values, with a portion allocated to the estimated value of acquired IPR&D.

During 2005 and 2004, we also recorded charges for acquired IPR&D of $4.7 million and $29.2 million, respectively, in conjunction with our reacquisition of the influenza vaccines franchise from Wyeth. The charges represent the estimated relative fair value of purchased in-process technologies and research and development projects, primarily CAIV-T at the acquisition date, including the impact of subsequent milestone payments, calculated utilizing the income approach. See further discussion of IPR&D in the Critical Accounting Estimates section of this Management's Discussion and Analysis.

Loss on Investment Activities

We recorded a net loss on investment activities of $8.6 million during 2005, compared to a net loss of $2.7 million during 2004. The 2005 net loss consists primarily of impairment write-downs due to the decline in fair value of certain of our investments in private companies below their cost basis that were determined to be other-than-temporary. The 2004 net loss consists of impairment write-downs of $13.7 million which are partially offset by realized gains on sales of common stock and other investments totaling $11.0 million.

Income Taxes

We recorded income tax expense of $24.1 million for 2005 compared to an income tax benefit of $5.4 million for 2004. Income tax expense in 2005 was affected by the non-deductible acquired IPR&D charge of $43.7 million related to the acquisition of Cellective as well as by $3.2 million relating to corrections made in the second half of 2005 to the prior accounting for income taxes, as more fully discussed in Note 15, "Income Taxes," to our consolidated financial statements. The corrections were comprised of amounts related to reporting periods dating back to the acquisition of Aviron in January 2002. Excluding both the acquired IPR&D charge and the effect of the corrections, the effective tax rate for 2005 was approximately 41%. Comparatively, the effective tax rate for 2004 was 33%, excluding the impact of the termination of the Wyeth agreements, including approximately $6.9 million of non-deductible charges for acquired IPR&D incurred during the second quarter of 2004. The increase in the effective rate, excluding non-deductible charges, in 2005 is attributed to the lower level of pre-tax book income that amplifies the impact of certain nondeductible items, a decrease in the R&D tax credits available and higher state taxes.

Net Earnings

We reported a net loss for 2005 of $16.6 million, or $0.07 per share compared to a net loss for 2004 of $3.8 million, or $0.02 per share. Shares used in computing losses per share for 2005 and 2004 were 246.9 million and 248.6 million, respectively.

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

COMPARISON OF 2004 TO 2003

Revenues — Product Sales

(In Millions)	2004	2003	Change
Synagis			
Domestic	$ 833.6	$777.1	7 %
International	108.7	72.2	51 %
	942.3	849.3	11 %
Ethyol			
Domestic	88.4	94.4	(6)%
International	4.0	5.8	(30)%
	92.4	100.2	(8)%
FluMist	48.0	—	N/A
Other Products	41.3	43.1	(4)%
Total Product Sales	$1,124.0	$992.6	13 %

During 2004, product sales grew 13% to $1.1 billion as compared to $1.0 billion during 2003, primarily due to an 11% increase in sales of Synagis to $942.3 million. Of the overall 13% increase in product sales, approximately five percentage points were due to the recognition of FluMist product sales for the first time in 2004. Domestic price increases accounted for five growth points, and an additional two percentage points were due to increases in domestic sales volume, but were largely negated by higher sales allowances that reduced sales by two percentage points. International sales added three points of growth.

Synagis

Synagis accounted for approximately 84% and 86% of our product sales for 2004 and 2003, respectively. We achieved a 7% increase in domestic Synagis sales to $833.6 million for 2004, up from $777.1 million in 2003. Of the 7% growth year over year, five percentage points resulted from price increases and four percentage points were due to higher sales volumes, which were partially offset by higher sales allowances that caused a reduction of two percentage points. Our reported international sales of Synagis increased to $108.7 million in 2004 compared to $72.2 million in 2003, largely due to a 33% increase in units sold to Abbott International ("AI"), our exclusive distributor of Synagis outside of the United States. We believe this growth was primarily due to increased product demand by our end users, including physicians, hospitals, and pharmacies. Also contributing to international sales growth was an increase in the sales price caused by a change in the mix of countries to which we sell Synagis internationally that favorably impacted the average sales price, and the favorable currency translation impact of a weakened U.S. dollar.

Ethyol

Ethyol accounted for approximately 8% and 10% of our product sales for 2004 and 2003, respectively. Worldwide Ethyol sales declined 8% to $92.4 million in 2004, as compared to $100.2 million in 2003. Domestic sales of Ethyol declined 6% from prior year, driven by an eight percentage point decline due to volume and an additional four points due to an increase in sales allowances, offset by six growth points due to price increases. We believe that the lower domestic sales volumes for 2004 were largely due to the depletion of wholesaler inventories from December 31, 2003 levels to accommodate end-user demand and the impact, which we believe was temporary, of the adoption of a relatively new form of radiation treatment in the head and neck cancer market. International sales of Ethyol declined over the prior year, primarily due to a 58% decrease in unit volume to our international distribution partner, Schering.

FluMist

Our 2004 product sales of FluMist amounted to $48.0 million, including product sales for the 2004/2005 flu season of $20.9 million, representing estimated net doses of approximately 1.7 million. 2004 sales also included transfer price revenues of $27.1 million for product shipped to Wyeth, our former partner, during 2003 related to the 2003/2004 season. At December 31, 2003, we concluded that the variables associated with FluMist product revenues were not determinable, largely due to low sales volume and the lack of returns history and comparable rebate redemption rates for the new product. As a result, no product revenues were recognized during 2003 associated with the 4.1 million doses that were shipped to Wyeth during 2003.

Other Products

Sales of other products included sales of CytoGam, RespiGam, NeuTrexin and by-products that result from the CytoGam manufacturing process and amounted to $41.3 million in 2004 as compared to $43.1 million in 2003. The slight decrease was primarily due to the decline in sales of RespiGam, which has been replaced in the marketplace by our second-generation RSV product, Synagis, and is no longer manufactured.

Revenues — Other Revenues

Other revenues of $17.1 million for 2004 were lower than 2003 other revenues of $61.8 million largely due to decreased revenues under collaborative agreements. During 2004, we recognized $7.5 million of milestone revenue under our international distribution agreement with AI upon the achievement of end- user sales of Synagis outside the U.S. in excess of $150 million in a single RSV season. Other revenues in 2004 also included contractual payments received from Wyeth prior to dissolution of our collaboration, including royalties related to the 2003/2004 influenza season, supply goal payments, and corporate funding for clinical development and sales and marketing programs. During 2003, we recognized $45.9 million of revenues under the collaboration with Wyeth related to milestone payments, supply goal payments, and funding for clinical development and marketing programs. Also during 2003, we recognized $7.5 million of milestone revenue for achieving in excess of $100 million in end-user sales of Synagis outside the U.S. during a single RSV season.

Cost of Sales

Cost of sales for 2004 increased 26% to $366.4 million from $289.8 million for 2003. Gross margins on product sales were 67% for 2004, down four percentage points from gross margins of 71% for 2003. Gross margins for all products, excluding FluMist, aggregated to 75% of product sales for both 2004 and 2003. The negative impact of FluMist on gross margins was less in 2003 than 2004 largely due to the shift in costs of

FluMist manufacturing that were included in inventory and cost of goods sold during 2004, but were expensed as other operating costs during the first quarter of 2003, prior to FDA approval of the product.

Research and Development Expenses

Total research and development expenses more than doubled during 2004 to $327.3 million from $156.3 million in 2003. Research and development expenses, as reported in the accompanying statements of operations, included both our ongoing expenses of drug discovery and development efforts, as well as costs related to the technology transfer and transition activities associated with reacquisition of the influenza vaccines franchise from Wyeth during 2004. The technology transfer and transition costs, totaling approximately $27.8 million, were largely amounts paid to Wyeth for collection and analysis of data from five late-stage CAIV-T studies conducted by Wyeth over the last several years, including assistance in documenting study reports, closing and locking databases for clinical trials, and transition of clinical study results to our clinical databases. The costs also included payments for the maintenance of the CAIV-T development facility and production of CAIV-T clinical trial material, as well as assistance with internal technology transfer of manufacturing operations for CAIV-T.

The increase in our ongoing expenses of drug discovery and development efforts was related to a large number of new and ongoing clinical and preclinical studies, particularly for Numax, CAIV-T and Vitaxin, as well as costs associated with the expansion of infrastructure to support these studies. During November 2004, we advanced the Numax program into Phase 3 clinical trials, with a pivotal head-to-head trial with Synagis, and a second trial designed to assess whether Numax can reduce the incidence of RSV hospitalization in Native American infants. We were also completing a Phase 1/2 trial with Numax. During October, we initiated a Phase 3 trial to compare CAIV-T to the traditional injectible flu vaccine in children from 6 months to 59 months of age, and a Phase 3 bridging study designed to compare CAIV-T with frozen FluMist. We also progressed with two ongoing Phase 2 trials for Vitaxin targeting melanoma and prostate cancer, while we discontinued two trials for Vitaxin targeting rheumatoid arthritis and psoriasis based on preliminary data suggesting lack of clinical benefit in these inflammatory diseases. Also during 2004, we began a Phase 1 clinical trial with an anti-interleukin-9 (IL-9) monoclonal antibody to evaluate the molecule as a potential treatment for symptomatic, moderate to severe persistent asthma. During 2004, we also made a $15.0 million payment to Medarex, Inc. as part of a new collaboration to co- develop antibodies targeting interferon-alpha and the type 1 interferon receptor for the treatment of autoimmune diseases.

Selling, General and Administrative Expenses

SG&A expenses increased 17% to $400.2 million in 2004 compared to $340.9 million in 2003. The increase was largely attributable to costs associated with expanding the pediatric commercial organization, increased co-promotion expense, and increased marketing activities and professional services. Co-promotion expense was $168.3 million in 2004 and $155.1 million in 2003. Excluding the amounts incurred during 2004 for Wyeth-related transition activities and the favorable impact in both years of adjustments to the bad debt provision based upon changes in our assessment of credit risk, SG&A expense as a percentage of product sales was 36% and 35% in 2004 and 2003, respectively.

Other Operating Expenses

Other operating expenses, which reflect manufacturing start-up costs and other manufacturing related costs, decreased to $8.6 million in 2004 from $26.1 million in 2003. The decrease was due to the shift in the costs of FluMist manufacturing that were in inventory and cost of goods sold in 2004, but were expensed as other operating costs in 2003 prior to the June 2003 approval of FluMist. Other operating expenses in both periods also included excess capacity charges associated with the plasma production portion of the Frederick Manufacturing Center.

Impairment of Intangible Asset

As a result of entering into agreements to dissolve the collaboration with Wyeth during April 2004, we recorded a permanent impairment loss of $73.0 million that represented the remaining unamortized cost originally recorded for the original collaboration with Wyeth.

Acquired IPR&D

We recorded a charge of $29.2 million for acquired IPR&D for 2004 in conjunction with our reacquisition of the influenza vaccines franchise from Wyeth. The charge represented the relative fair value of purchased in-process technologies at the acquisition date, calculated utilizing the income approach, of certain IPR&D projects, primarily CAIV-T. See further discussion of IPR&D in the Critical Accounting Estimates section of this Management's Discussion and Analysis.

Interest Income and Expense

We earned interest income of $65.5 million for 2004, compared to $56.8 million in 2003, reflecting higher average investment balances and higher average rates. Interest expense for 2004, net of amounts capitalized, was $8.4 million, down from $10.3 million in 2003. The decline was due to the retirement of the 5¼% convertible subordinated notes in March 2004, partially offset by a decrease in the amount of interest cost capitalized in 2004 versus the prior period, due to the completion of several large construction projects in 2004, including the new R&D facility and corporate headquarters in Maryland.

Gain (Loss) on Investment Activities

We incurred a $2.7 million loss on investment activities for 2004, compared to a gain of $3.4 million in 2003. The 2004 loss consisted of impairment write-downs of $13.7 million due to the decline in fair value of certain of our investments in private companies below their cost basis that were determined to be other-than-temporary, partially offset by net realized gains on sales of common stock and other investments totaling $11.0 million. During 2003, we recognized gains on the sale of common stock and other investments of $5.9 million, partially offset by impairment write-downs and charges to record our portion of our minority investees' operating results as required by the equity method of accounting.

Income Taxes

We recorded an income tax benefit of $5.4 million for 2004, resulting in an effective tax rate of 59%. Comparatively, we recorded income tax expense of $108.0 million for 2003, which resulted in an effective tax rate of 37%.

The year-over-year change in our estimated effective tax rate was due in part to $6.9 million of non-deductible charges for acquired IPR&D during the second quarter of 2004. Our effective tax rate in 2004 was also favorably impacted by the increase in credits available for research and development activities, including credits earned for orphan drug status of certain research and experimentation activities, corresponding to the overall growth in research and experimentation activity over 2003. These credits will vary from year to year depending on our activities and the enactment of tax legislation. Also during 2004, we reached a state tax settlement and our U.K. subsidiary recognized income for U.K. tax purposes, enabling us to release valuation allowance and tax contingency reserves, resulting in a favorable impact to the consolidated statement of operations.

Net Earnings (Loss)

We reported a net loss for 2004 of $3.8 million, or $0.02 per share compared to net earnings for 2003 of $183.2 million or $0.72 per diluted share.

Shares used in computing loss per share for 2004 were 248.6 million, while shares used for computing basic and diluted earnings per share for 2003 were 250.1 million and 257.2 million, respectively. The decrease in the share count was primarily attributable to our stock repurchase program that we implemented in July 2003.

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

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

Our capital requirements have been funded from cash provided by operations, cash and investments on hand, proceeds from the issuance of common stock and the issuance of convertible debt. Cash and marketable securities were $1.5 billion at December 31, 2005 as compared to $1.7 billion at December 31, 2004, a decrease of $234.2 million. This decrease in cash and marketable securities is primarily due to the payment made to acquire the outstanding equity interests in Cellective, payments made to Abbott in conjunction with the reacquisition of the co-promotion rights for Synagis in the U.S., upfront fees and milestone payments under licensing agreements and research collaborations as well as share repurchases. Working capital decreased to $(111.2) million at December 31, 2005 from $330.0 million at December 31, 2004, primarily due to the reclassification of our convertible senior notes to current liabilities, as the holders may require us to purchase the notes for cash in July 2006, as provided for in the indenture. As of December 31, 2005, our accounts receivable balance was approximately 38% higher than the prior year primarily due to timing of the conversion from the lyophilized formulation of Synagis to the new liquid formulation.

Operating Activities

Net cash provided by operating activities decreased to $110.7 million during 2005 as compared to $144.7 million in 2004, primarily the result of the decrease in 2005 in net earnings, excluding the charges for acquired IPR&D and the impairment of an intangible asset, reflecting higher levels of spending for research and development and selling, general and administrative expenses in 2005 versus 2004.

Investing Activities

Cash used for investing activities during 2005 was $59.9 million, as compared to $300.9 million in 2004. Cash used for investing activities in 2005 included net reductions to our investment portfolio of $165.1 million; the payment of $44.0 million to acquire the outstanding equity interests in Cellective, net of cash acquired; incremental payments to Abbott of $70.0 million in conjunction with the amendment of the U.S. co-promotion agreement for Synagis; capital expenditures totaling $91.5 million, primarily for the construction of our new pilot lab in Gaithersburg, Maryland, and the expansion of our influenza

vaccine manufacturing facilities in the United Kingdom; and minority interest investments in portfolio companies totaling $14.5 million through our venture capital subsidiary.

Financing Activities

Financing activities in 2005 used $68.8 million in cash, as compared to $187.9 million in 2004. During 2005, we used $105.9 million to repurchase shares of our common stock as authorized under our share repurchase program compared to $30.0 million in 2004 and $229.8 million in 2003. Approximately $41.9 million was received upon the issuance of common stock relating primarily to the exercise of employee stock options in 2005 compared to $19.5 million received in 2004 and $44.4 million received in 2003. During 2004, we used $172.7 million in cash to repurchase and retire the balance of the 51/4% Notes. During 2003, we received net cash proceeds of $489.4 million in connection with the issuance of the 1% Notes.

Our primary source of liquidity is operating cash flow. Management believes that such internally generated cash flow as well as existing funds and financing available to us will be adequate to service our existing debt and other cash requirements. We expend cash to finance our research and development and clinical trial programs; to obtain access to new technologies through collaborative research and development agreements with strategic partners, through our venture capital subsidiary, or through other means; to fund capital projects; and to finance the production of inventories. We currently anticipate that the holders of our 1% convertible senior notes will require us to redeem the notes for cash in July 2006 as provided for under the indenture. We believe that our cash and marketable securities on hand will be adequate to service the cash requirements. However, we anticipate using a line of credit or other type of credit instrument to repay at least a portion of these notes. The BBB rating on our outstanding indebtedness, considered to be investment grade, will contribute to our ability to access capital markets, should we desire or need to do so. In February 2005, our Board of Directors approved an additional $100 million in funding for our venture capital subsidiary, bringing the total amount allocated to $200 million. We may raise additional capital in the future to take advantage of favorable conditions in the market or in connection with our development activities.

During the second quarter of 2005, we recouped approximately $12.1 million from licensors related to overpayments under various royalty agreements. During the third quarter of 2005, we recognized $4.9 million of this royalty recoupment as a reduction to cost of goods sold after determining that related contingencies had been resolved. The remaining amount of $7.2 million has been deferred until fully realizable and therefore is recorded in Other Current Liabilities within the consolidated balance sheet.

Our Board of Directors has authorized the repurchase of up to $500 million of our common stock during the period from July 2003 through June 2006 in the open market or in privately negotiated transactions, pursuant to terms management deems appropriate and at such times it may designate. During 2005, we repurchased 4.0 million shares of our common stock under the stock repurchase program at a total cost of $105.9 million, or an average cost of $26.18 per share. During 2004, we repurchased 1.2 million shares at a total cost of $30.0 million, or an average cost of $24.33 per share. As of February 28, 2006, approximately $134.3 million remained available under the authorization for additional repurchases of stock. We are holding repurchased shares as treasury shares and are using them for general corporate purposes, including but not limited to acquisition-related transactions and for issuance upon exercise of outstanding stock options.

In 2006, we will continue construction of the pilot plant located at the headquarters site in Gaithersburg, Maryland, which is expected to be fully operational by November 2006, as well as additional administrative offices, which are expected to be completed in September 2006. We also expect to break ground on a new cell culture manufacturing facility in March 2006, located adjacent to our existing biologics facility in Frederick, Maryland, which we plan to use as a manufacturing site for potential new monoclonal antibody products that emerge from our pipeline, including Numax. We expect our capital expenditures to approximate $175 million in 2006. We anticipate these projects will be funded from cash generated from operations, investments on hand, and the proceeds from a line of credit or other type of credit instrument.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations and commitments as of December 31, 2005 that we anticipate will require significant cash outlays in the future (in millions):

	Total	2006	2007	2008	2009	2010	Beyond
Contractual Obligations							
Long-term debt[1]	$ 506.2	$501.0	$ 1.1	$ 0.6	$ 0.4	$ 0.4	$ 2.7
Facilities leases	48.6	7.8	6.2	3.9	2.6	2.6	25.5
Purchase obligations[2]	159.9	37.9	24.6	25.5	26.7	15.1	30.1
Obligations to Abbott[3]	291.5	236.7	54.8	—	—	—	—
Obligations to Evans[4]	18.4	18.4	—	—	—	—	—
Total contractual obligations	$1,024.6	$801.8	$86.7	$30.0	$29.7	$18.1	$58.3
Other Commercial Commitments							
Standby letters of credit[5]	$ 1.7	$ 1.7	$ —	$ —	$ —	$ —	$ —
Other contractual commitments[6]	31.6	14.2	8.9	2.6	2.0	0.2	3.7
Total other commercial commitments	$ 33.3	$ 15.9	$ 8.9	$ 2.6	$ 2.0	$ 0.2	$ 3.7

[1] *We currently anticipate that the holders of our 1% convertible senior notes will require us to redeem the notes for cash in July 2006 as provided for under the indenture. Accordingly, the notes have been classified as current liabilities in our consolidated balance sheet.*

[2] *The Company is contingently committed to Precision Pharma Services for fractionation services and bulk production through 2009, pending FDA approval of the manufacture of bulk product by Precision Pharma. The amounts exclude this contingent commitment of approximately $11.0 million.*

[3] *Represents the present value of the probable incremental payments to be made to Abbott as a result of the amended terms of the co-promotion agreement in excess of the value of the co-promotion services to be rendered, as determined under the original agreement.*

[4] *Represents amounts due to Evans Vaccines Limited pursuant to a manufacturing arrangement.*

[5] *We have guaranteed performance under certain agreements related to our construction projects. The undiscounted maximum potential amount of future payments that we could be required to make under such guarantees, in the aggregate, is approximately $1.7 million.*

[6] *We have entered into a number of research and development collaborations, in-licensing agreements and other contractual arrangements to gain access to new product candidates and technologies, to further develop our products and technology, and to perform clinical trials. The amounts indicated as commitments under these agreements represent committed funding obligations under these agreements. The amounts exclude contingent commitments for development milestone payments as well as sales-related milestone payments and royalties relating to potential future product sales under these agreements. These potential payments have been excluded since the amount, timing and likelihood of these payments is unknown as they are dependent on the occurrence of future events that may or may not occur, such as the granting by the FDA of a license for product marketing in the United States. If all contractual development milestones were to be achieved under these agreements, which we do not consider probable, the total development milestone payments would approximate $1.1 billion.*

Off-Balance Sheet Arrangements

We have not entered into any transactions, agreements or other contractual arrangements that meet the definition of off-balance sheet arrangements.

Quantitative and Qualitative Disclosures About Market Risk

The following discussion about our risk-management activities includes "forward-looking statements" that involve risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements.

Our primary market risks as of December 31, 2005 are our exposures to loss resulting from changes in interest rates, equity prices and foreign currency exchange rates.

Marketable securities

As of December 31, 2005, our excess cash balances are primarily invested in marketable debt securities with investment grade credit ratings. Substantially all of our cash and cash equivalents and short-term and long-term investments are held in custody by three major U.S. financial institutions. 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. Our investments consist principally of U.S. government and agency securities and corporate notes and bonds. The maturities range from one month to seven years. Our investment guidelines are intended to limit the amount of investment exposure as to issuer, maturity, and investment type. The fair value of these investments is sensitive to changes in interest rates. Further, interest income earned on variable rate debt securities is exposed to changes in the general level of interest rates.

The following table presents principal cash flows and weighted average interest rates by expected maturity dates for each class of debt security with similar characteristics (in millions):

	2006	2007	2008	2009	2010	2011	2012	Total	Fair Value
U.S. Gov't and Agencies	$181.7	$ 15.0	$ 26.9	$ 35.5	$15.0	$30.0	$ —	$304.1	$302.0
Interest Rate	3.7%	4.8%	4.5%	4.3%	4.3%	4.5%	—%		
Corp. Notes and Bonds	$166.8	$177.1	$274.9	$215.4	$19.8	$49.1	$2.0	$905.1	$923.1
Interest Rate	5.8%	5.7%	3.9%	5.5%	4.9%	5.7%	6.6%		

Minority interest investments

We are exposed to equity price risks and risk of impairment related to our minority interest investments. MedImmune Ventures, Inc., our wholly owned venture capital subsidiary, manages our current portfolio of minority interest investments and endeavors to make investments in public or private biotechnology companies focused on discovering and developing human therapeutics. Our Board of Directors has approved funding to MedImmune Ventures for up to $200 million in investments, of which $95 million has been invested as of February 25, 2006. MedImmune Ventures will invest primarily in areas of strategic interest to MedImmune, including infectious disease, immunology and oncology. The cost basis of MedImmune Ventures' investment holdings, net of impairment writedowns, was $70.5 million as of December 31, 2005.

Our minority interest investments are subject to adjustment for other-than-temporary impairments. We recognize impairment charges in the consolidated statements of operations when a decline in the fair value of an investment falls below its cost value and is judged to be other than temporary. We consider various factors in determining whether we should recognize an impairment charge, including: the length of time and extent to which the fair value has been less than our cost basis; the financial condition and near-term prospects of the issuer; fundamental changes to the business prospects of the investee; share prices of subsequent offerings; and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. During 2005, 2004 and 2003, we recorded impairment losses of $8.6 million, $13.7 million and $1.7 million, respectively, based on the duration and magnitude of the declines in fair value, as well as the financial condition and near-term prospects of the investee companies. We expect the volatility in the fair value of our minority investments to continue and, thus, the value assigned to the investments could change significantly from period to period.

As of December 31, 2005, MedImmune Ventures' portfolio included approximately 5.9 million shares of common stock of two publicly traded companies with a cost basis of $36.0 million and fair value of $42.0 million. The remainder of MedImmune Ventures' portfolio as of December 31, 2005 consists primarily of minority interest investments in privately-held biotechnology companies. The investments are maintained on the cost or equity method of accounting, according to the facts and circumstances of the individual investment. For investments carried on the equity method, we record our proportionate share of the investees' gains or losses on a quarterly basis, which was immaterial during 2005, 2004 and 2003. As of December 31, 2005, the investments in privately-held companies had a cost basis of $34.5 million, net of permanent writedowns.

Long-term Debt

In July 2003, we issued $500 million of convertible notes due 2023. These notes bear interest at 1.0% per annum payable semi-annually in arrears. Beginning with the six-month interest period commencing July 15, 2006, if the average trading price of these notes during specified periods equals or exceeds 120% of the principal amount of such notes, we will pay contingent interest equal to 0.175% per six-month period of the average trading price per $1,000 of the principal amount during such periods. As a result, if the market value of these notes appreciates significantly in the future, we could be obligated to pay amounts of contingent interest beginning in 2006. The note indenture contains a provision that would allow the holders to require us to redeem the notes for cash in July 2006 and we anticipate that the holders will elect to exercise this option. The estimated fair value of the notes at December 31, 2005, based on quoted market prices, was $488.9 million.

Our outstanding indebtedness of $506.2 million at December 31, 2005 is in the form of notes that bear interest primarily at fixed rates. The estimated fair value of the remaining long-term debt at December 31, 2005, based on quoted market prices or discounted cash flows at currently available borrowing rates, was $6.2 million. Maturities for all long-term debt for the next five years are as follows: 2006, $501.0 million; 2007, $1.1 million; 2008, $0.6 million; 2009, $0.4 million; and 2010, $0.4 million.

Foreign Currency

Expenditures relating to our manufacturing operations in the U.K. and the Netherlands are paid in local currency. We have not hedged our expenditures relating to these manufacturing operations; therefore, foreign currency exchange rate fluctuations may result in increases or decreases in the amount of expenditures recorded. Additionally, certain of our distribution agreements outside the U.S. provide for us to be paid based upon sales in local currency. As a result, changes in foreign currency exchange rates could affect the amount we expect to collect under these agreements.

We have entered into a Euro-denominated supplemental manufacturing contract with Boehringer Ingelheim Pharma GmbH & Co. KG ("BI") for the supplemental manufacturing of Synagis. Fluctuations in the Euro to U.S. Dollar exchange rate may lead to changes in our U.S. Dollar cost of manufacturing. To reduce the risk of unpredictable changes in these costs, we may, from time to time, enter into forward foreign exchange contracts. As of December 31, 2005, we did not have any open foreign exchange forward contracts. Currently, we have firm commitments with BI for planned production and fill/finish through 2012 for approximately 99 million Euros ($117.3 million as of December 31, 2005).

Report of Independent Registered Public Accounting Firm

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

We have completed integrated audits of MedImmune Inc.'s 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of MedImmune, Inc. and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

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

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

PricewaterhouseCoopers LLP
McLean, Virginia
March 9, 2006

Financial Statements and Supplementary Data

Consolidated Balance Sheets

(in millions)	December 31, 2005	December 31, 2004
ASSETS:		
Cash and cash equivalents	**$ 153.4**	$ 171.3
Marketable securities	**457.1**	172.6
Trade receivables, net	**281.0**	203.3
Inventory, net	**69.4**	64.1
Deferred tax assets, net	**58.0**	50.6
Other current assets	**18.4**	31.9
Total Current Assets	**1,037.3**	693.8
Marketable securities	**861.4**	1362.2
Property and equipment, net	**381.4**	310.9
Deferred tax assets, net	**128.6**	127.3
Intangible assets, net	**323.5**	13.1
Other assets	**47.8**	57.1
Total Assets	**$2,780.0**	$2,564.4
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Accounts payable	**$ 37.0**	$ 34.7
Accrued expenses	**242.1**	231.8
Product royalties payable	**93.0**	85.9
Convertible senior notes	**500.0**	—
Other current liabilities	**276.4**	11.4
Total Current Liabilities	**1,148.5**	363.8
Convertible senior notes	**—**	500.0
Other liabilities	**61.0**	26.0
Total Liabilities	**1,209.5**	889.8
Commitments and Contingencies		
SHAREHOLDERS' EQUITY:		
Preferred stock, $.01 par value; 5.5 million shares authorized; none issued or outstanding	**—**	—
Common stock, $.01 par value; 420.0 million shares authorized; 255.5 million shares issued at December 31, 2005 and 255.4 million shares issued at December 31, 2004	**2.6**	2.6
Paid-in capital	**2,688.5**	2,690.0
Deferred compensation	**—**	(0.1)
Accumulated deficit	**(842.5)**	(788.5)
Accumulated other comprehensive income	**(11.0)**	11.1
	1,837.6	1,915.1
Less: Treasury stock at cost; 8.5 million shares as of December 31, 2005 and 6.9 million shares at December 31, 2004	**(267.1)**	(240.5)
Total Shareholders' Equity	**1,570.5**	1,674.6
Total Liabilities and Shareholders' Equity	**$2,780.0**	$2,564.4

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

Consolidated Statements of Operations

(in millions, except per share data)	For the year ended December 31, 2005	2004	2003
REVENUES:			
Product sales	**$1,221.0**	$1,124.0	$ 992.6
Other revenue	**22.9**	17.1	61.8
Total revenues	**1,243.9**	1,141.1	1,054.4
COSTS AND EXPENSES:			
Cost of sales	**336.7**	366.4	289.8
Research and development	**384.6**	327.3	156.3
Selling, general, and administrative	**498.4**	400.2	340.9
Other operating expenses	**12.5**	8.6	26.1
Impairment of intangible asset	**—**	73.0	—
Acquired in-process research and development	**48.4**	29.2	—
Total expenses	**1,280.6**	1,204.7	813.1
Operating income (loss)	**(36.7)**	(63.6)	241.3
Interest income	**62.0**	65.5	56.8
Interest expense	**(9.2)**	(8.4)	(10.3)
Gain (loss) on investment activities	**(8.6)**	(2.7)	3.4
Earnings (loss) before income taxes	**7.5**	(9.2)	291.2
Income tax provision (benefit)	**24.1**	(5.4)	108.0
NET EARNINGS (LOSS)	**$ (16.6)**	$ (3.8)	$ 183.2
BASIC EARNINGS (LOSS) PER SHARE	**$ (0.07)**	$ (0.02)	$ 0.73
SHARES USED IN CALCULATION OF BASIC EARNINGS (LOSS) PER SHARE	**246.9**	248.6	250.1
DILUTED EARNINGS (LOSS) PER SHARE	**$ (0.07)**	$ (0.02)	$ 0.72
SHARES USED IN CALCULATION OF DILUTED EARNINGS (LOSS) PER SHARE	**246.9**	248.6	257.2

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

Consolidated Statements of Cash Flows

(In millions)	For the year ended December 31, 2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings (loss)	**$ (16.6)**	$ (3.8)	$ 183.2
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Impairment of intangible asset	**—**	73.0	—
Charges for acquired in-process research and development	**48.4**	29.2	—
Deferred taxes	**17.7**	9.6	87.0
Depreciation and amortization	**78.6**	41.1	37.7
Deferred revenue	**(0.4)**	(0.4)	(6.0)
Advances from Wyeth	**—**	(51.9)	51.9
Amortization of premium on marketable securities	**14.8**	14.2	14.8
Amortization of deferred compensation	**0.1**	1.1	4.0
Realized (gain) loss on investments	**8.6**	2.7	(3.4)
Increase in sales allowances	**6.2**	13.5	10.9
Losses on write-downs of inventory	**41.9**	70.9	59.0
Other	**5.1**	1.3	(0.1)
Increase (decrease) in cash due to changes in assets and liabilities:			
Trade receivables	**(84.8)**	(45.6)	(36.7)
Inventory	**(44.7)**	(43.1)	(86.6)
Other assets	**16.7**	(2.9)	(14.7)
Accounts payable and accrued expenses	**(1.9)**	33.3	45.3
Product royalties payable	**7.2**	4.1	7.8
Other liabilities	**13.8**	(1.6)	3.4
Net cash provided by operating activities	**110.7**	144.7	357.5
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments in securities available for sale	**(218.5)**	(652.9)	(659.9)
Maturities of securities available for sale	**160.0**	182.9	345.6
Proceeds from sales of securities available for sale	**223.6**	308.0	219.3
Capital expenditures	**(91.5)**	(79.8)	(112.9)
Purchase of assets from Cellective, net of cash acquired	**(44.0)**	—	—
Purchase of promotion rights from Abbott	**(70.0)**	—	—
Purchase of assets from Wyeth	**(5.0)**	(34.8)	—
Minority interest investments	**(14.5)**	(24.3)	(30.4)
Net cash used in investing activities	**(59.9)**	(300.9)	(238.3)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock	**41.9**	19.5	44.4
Share repurchases	**(105.9)**	(30.0)	(229.8)
Proceeds of 1% Notes, net of issuance costs	**—**	—	489.4
Debt prepayments	**—**	(172.7)	(33.1)
Repayments on long-term obligations	**(4.8)**	(4.7)	(4.7)
Net cash provided by (used in) financing activities	**(68.8)**	(187.9)	266.2
Effect of exchange rate changes on cash	**0.1**	(0.1)	—
Net increase (decrease) in cash and cash equivalents	**(17.9)**	(344.2)	385.4
Cash and cash equivalents at beginning of year	**171.3**	515.5	130.1
Cash and cash equivalents at end of year	**$ 153.4**	$ 171.3	$ 515.5
SUPPLEMENTAL CASH FLOW DATA			
Cash paid during the year for interest, net of amounts capitalized	**$ 4.2**	$ 9.7	$ 8.4
Cash paid (received) during the year for income tax payments (refunds)	**$ (3.5)**	$ 3.1	$ 32.7

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES

In August 2005, the Company amended its co-promotion agreement with Abbott Laboratories ("Abbott") for sales of Synagis in the U.S. to, among other things, assume full selling and marketing responsibilities for Synagis beginning in July 2006. In connection with this transaction, the Company recorded an intangible asset of $360.4 million which represents the estimated fair value of the exclusive promotion rights, determined as the aggregate value of the incremental payments to be made to Abbott as a result of the amended terms of the agreement in excess of the value of the co-promotion services to be rendered, as determined under the previous agreement. Of the $360.4 million recorded as an intangible asset, $70.0 million represents cash payments made during the third quarter of 2005 and the remaining balance of $290.4 million represents the present value as of the acquisition date of the future incremental payments that the Company deems probable, which were recorded as liabilities in the consolidated balance sheet (see Note 16).

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

Consolidated Statements of Shareholders' Equity

(in millions)	Common Stock, $.01 par Shares	Amount	Paid-in Capital	Deferred Compen-sation	Accumu-lated Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Shares	Amount	Total
BALANCE, DECEMBER 31, 2002	251.3	$2.5	$2,613.0	$ (6.8)	$(956.1)	$ 24.6	—	$ —	$1,677.2
Net earnings	—	—	—	—	183.2	—	—	—	183.2
Change in foreign currency translation adjustment	—	—	—	—	—	1.6	—	—	1.6
Change in unrealized gain/loss on investments, net of tax of $3.0 million	—	—	—	—	—	3.7	—	—	3.7
Change in unrealized gain/loss on cash flow hedges, net of tax of $1.4 million	—	—	—	—	—	(2.2)	—	—	(2.2)
Comprehensive income									186.3
Common stock options exercised	2.8	—	39.9	—	—	—	—	—	39.9
Issuance of common stock under the employee stock purchase plan	0.2	—	4.8	—	—	—	—	—	4.8
Repurchases of common stock	—	—	—	—	—	—	(6.2)	(229.8)	(229.8)
Tax benefit associated with the exercise of stock options	—	—	16.1	—	—	—	—	—	16.1
Amortization of deferred compensation for the vesting of stock options	—	—	—	4.7	—	—	—	—	4.7
Reversal of deferred compensation for cancellation of stock options	—	—	(0.7)	0.7	—	—	—	—	—
BALANCE, DECEMBER 31, 2003	254.3	2.5	$2,673.1	$ (1.4)	$(772.9)	$ 27.7	(6.2)	$(229.8)	$1,699.2
Net loss—	—	—	—	—	(3.8)	—	—	—	(3.8)
Change in foreign currency translation adjustment	—	—	—	—	—	0.5	—	—	0.5
Change in unrealized gain/loss on investments, net of tax of $9.9 million	—	—	—	—	—	(19.2)	—	—	(19.2)
Change in unrealized gain/loss on cash flow hedges, net of tax of $1.4 million	—	—	—	—	—	(2.1)	—	—	(2.1)
Comprehensive loss									(20.4)
Common stock options and warrants exercised	0.9	0.1	7.3	—	(11.8)	—	0.5	19.3	14.9
Issuance of common stock under the employee stock purchase plan	0.2	—	4.6	—	—	—	—	—	4.6
Repurchases of common stock	—	—	—	—	—	—	(1.2)	(30.0)	(30.0)
Tax benefit associated with the exercise of stock options	—	—	5.2	—	—	—	—	—	5.2
Amortization of deferred compensation for the vesting of stock options	—	—	—	1.1	—	—	—	—	1.1
Reversal of deferred compensation for cancellation of stock options	—	—	(0.2)	0.2	—	—	—	—	—
BALANCE, DECEMBER 31, 2004	255.4	$2.6	$2,690.0	$ (0.1)	$(788.5)	$ 11.1	(6.9)	$(240.5)	$1,674.6
Net loss—	—	—	—	—	(16.6)	—	—	—	(16.6)
Change in foreign currency translation adjustment	—	—	—	—	—	(1.0)	—	—	(1.0)
Change in unrealized gain/loss on investments, net of tax of $12.0 million	—	—	—	—	—	(21.1)	—	—	(21.1)
Comprehensive loss									(38.7)
Common stock options and warrants exercised	0.1	—	—	—	(34.6)	—	2.1	70.9	36.3
Issuance of common stock under the employee stock purchase plan	—	—	—	—	(2.8)	—	0.3	8.4	5.6
Repurchases of common stock	—	—	—	—	—	—	(4.0)	(105.9)	(105.9)
Tax benefit associated with the exercise of stock options	—	—	7.6	—	—	—	—	—	7.6
Amortization of deferred compensation for the vesting of stock options	—	—	—	0.1	—	—	—	—	0.1
Tax reversal of paid-in capital related to the expiration of Aviron stock options	—	—	(9.1)	—	—	—	—	—	(9.1)
BALANCE, DECEMBER, 31 2005	255.5	$2.6	$2,688.5	$ —	$(842.5)	$(11.0)	(8.5)	$(267.1)	$1,570.5

The accompanying notes are an integral part of these 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 is committed to advancing science to develop better medicines that help people live healthier, longer and more satisfying lives. The Company currently focuses its efforts on using biotechnology to produce innovative products for prevention and treatment in the therapeutic areas of infectious disease, cancer and inflammatory disease. The Company's scientific expertise is largely in the areas of monoclonal antibodies and vaccines. The Company markets four products, Synagis, FluMist, Ethyol and CytoGam, and has a diverse pipeline of development-stage products.

[2] SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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

Seasonality

The Company's largest revenue-generating product, Synagis, is used to prevent RSV disease in high-risk infants. RSV is most prevalent in the winter months in the Northern Hemisphere. Because of the seasonal nature of RSV, limited sales, if any, of Synagis are expected during the second and third quarters of any calendar year, causing results to vary significantly from quarter to quarter. Sales of Synagis comprised approximately 87%, 84% and 86% of total product sales for the years ended December 31, 2005, 2004 and 2003, respectively.

FluMist is a nasally delivered live, attenuated vaccine used to help prevent influenza in healthy individuals age 5 to 49, which is most prevalent in the fall and winter months in the Northern Hemisphere. The majority of FluMist sales are expected to occur during the second half of any calendar year because of the seasonal nature of influenza, causing results to vary significantly from quarter to quarter.

Cash, Cash Equivalents and Marketable Securities

The Company considers all highly liquid instruments purchased with a maturity of three months or less at date of purchase to be cash equivalents. The majority of the Company's cash equivalents consist of money market mutual funds, commercial paper, and U.S. government and agency securities. Investments in marketable securities consist principally of U.S. government and agency securities and corporate notes and bonds. Investments with maturities of three to twelve months from the balance sheet date are considered current assets, while those with maturities in excess of one year are considered non-current assets. The securities are held for an unspecified period of time and may be sold to meet liquidity needs and, therefore, are classified as available-for-sale. Accordingly, the Company records these investments at fair value, with unrealized gains and losses on investments reported as a component of other comprehensive income, net of tax.

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. 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 issuer, maturity, and investment type. Maturities generally range from one month to seven years. The fair values of these investments are sensitive to changes in interest rates and the credit-worthiness of the security issuers. Further, interest income earned on variable rate debt securities is exposed to changes in the general level of interest rates.

The Company's short-term and long-term investments are subject to adjustment for other-than-temporary impairments. Impairment charges are recognized in the consolidated statements of operations when a decline in the fair value of an investment falls below its cost value and is judged to be other than temporary. Various factors are considered in determining whether an impairment charge is required, including: the length of time and extent to which the fair value has been less than the cost basis; the financial condition and near-term prospects of the issuer; fundamental changes to the business prospects of the issuer; share prices of subsequent offerings; and the Company's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value.

Minority Interest Investments

The Company's wholly owned venture capital subsidiary, MedImmune Ventures, Inc., manages the Company's portfolio of minority interest investments and makes investments in public or private biotechnology companies focused on discovering and developing human therapeutics. The Company's minority interest investments are accounted for under the risk and rewards model or the voting interest model, depending on the facts and circumstances of the individual investments. Currently, the Company does not have investments that are subject to consolidation under the risks and rewards model.

The Company's minority interest investments in publicly traded companies are categorized as available-for-sale securities. Due to the highly volatile share prices of these investments, the investments are subject to unrealized holding gains or losses. The Company's minority interest investments in private companies are maintained on the cost or equity method of accounting, depending upon the facts and circumstances of the

individual investments. For investments carried on the equity method, the Company's proportionate share of the investees' gains or losses is recorded on a quarterly basis.

The Company's minority interest investments are subject to adjustment for other-than-temporary impairments.

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, 2005 and 2004 due to the short maturities of these instruments.

Concentration of Credit Risk

The Company sells its products primarily to a limited number of pharmaceutical wholesalers and distributors without requiring collateral. The Company periodically assesses the financial strength of these customers and establishes allowances for anticipated losses when necessary. As of December 31, 2005, trade accounts receivable included four customers that each accounted for 39%, 15%, 12% and 10% of gross trade accounts receivable, respectively. As of December 31, 2004, trade accounts receivable included four customers that each accounted for 23%, 18%, 13% and 13% of gross trade accounts receivable, respectively.

Inventory

Inventories are stated at the lower of cost or market, determined using the first-in, first-out method. The Company evaluates inventories available for commercial sale separately from inventories related to product candidates ("pre-approval inventories") that have not yet been approved.

The Company currently outsources the manufacturing of certain of its marketed products for select territories under manufacturing and supply agreements. The products manufactured under these agreements are included in inventory when the Company obtains title to the product and assumes the risk of loss.

In the lower of cost or market evaluation for inventories available for commercial sale, market value is defined as the lower of replacement cost or estimated net realizable value, based upon management's estimates about future demand and market conditions. When the Company determines that inventories for commercial sale have expired, exist in excessive quantities, do not meet required quality standards, or will not generate sufficient revenues to cover costs of production and distribution, the Company measures the amount of the permanent write down as the difference between the historical cost of the inventory and its estimated market value.

The Company may capitalize pre-approval inventories if management believes that 1) commercial approval by the FDA is probable, such as would be evidenced by a favorable recommendation for approval regarding the safety and efficacy of the product candidate by the FDA or one of its advisory bodies (or other regulatory body with authority to grant marketing approval for drugs and biological products for international sale), and 2) it is probable that its manufacturing facilities will be approved by the FDA (or other regulatory body) for the production of inventory as determined by the nature and scope of any unresolved issues and the remediation required.

In the lower of cost or market evaluation for pre-approval inventories, market value is defined as the lower of replacement cost or estimated net realizable value, based upon management's estimates about future demand and market conditions, including probability of market acceptance of the product. When the Company determines that pre-approval inventories will not have a sufficient shelf life to be sold commercially, or if sold, will not generate sufficient revenues to cover costs of production and distribution, the Company measures the amount of permanent write down as the difference between the historical cost and its estimated probable future market value.

As of December 31, 2005 and 2004, the Company did not have pre-approval inventories on the consolidated balance sheets.

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 shipment of product or receipt of product by customers, depending on the contractual terms of the arrangement.

In certain of the Company's international distribution agreements, a portion of the compensation received by the Company from its partner is variable based, in part, on the end-user sales price. When all of the other revenue criteria have been met, the Company recognizes revenue to the extent that the customer has an obligation to pay, 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.

Sales Allowances

Product sales are recorded net of allowances for estimated chargebacks, returns, discounts, and government rebates. Both in the U.S. and elsewhere, sales of pharmaceutical products depend on the availability of reimbursement to the consumer from third-party payers, such as government and private insurance plans. The Company estimates the portion of its sales that will be covered by government insurance and records allowances at a level that management believes is sufficient to cover estimated requirements for reimbursements. Allowances for discounts, returns, and chargebacks, which are netted against accounts receivable, totaled $20.6 million and $14.5 million at December 31, 2005 and 2004, respectively. Allowances for government reimbursements were $52.5 million as of December 31, 2005 and 2004 and are included in accrued expenses in the accompanying balance sheets.

Other Revenues

Contract Revenues

The Company uses the milestone payment method of accounting for contract revenues, recognizing revenue when all milestones to be received under contractual arrangements are determined to be substantive, at-risk and the culmination of an earnings process. Substantive milestones are payments that are

conditioned upon an event requiring substantive effort, when the amount of the milestone is reasonable relative to the time, effort and risk involved in achieving the milestone and when the milestones are reasonable relative to each other and the amount of any upfront payment. If all of these criteria are not met, then the Company will use the contingency-adjusted performance model.

Incremental revenue recognized under the amended terms of the Company's international distribution agreement with Abbott International ("AI"), which represents amounts received in excess of the estimated fair value for product sales of Synagis, are recorded as other revenues in the Company's consolidated statement of operations.

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

Royalty Expense
Product royalty expense is recognized as a cost of sales concurrently with the recognition of product revenue, net of allowances for estimated chargebacks, returns, discounts, and government rebates, based on a contractually stipulated royalty percentage. Any adjustments to royalty expense that result from adjustments to contractually defined net sales are recorded as an adjustment to expense in the quarter they become known. During 2005, the Company recouped approximately $12.1 million from licensors related to overpayments under various royalty agreements. The Company recognized $4.9 million of this royalty recoupment as a reduction to cost of goods sold during 2005 after determining that related contingencies had been resolved. The remaining amount of $7.2 million has been deferred until fully realizable and is recorded in Other Current Liabilities.

Research and Development Expenses
Research and development expenses include salaries, benefits and other headcount related costs for personnel performing research and development activities, clinical trial and related clinical materials manufacturing costs, contract and other outside service fees, and facilities and overhead costs.

Licensing Fees
In the normal course of business, the Company enters into collaborative research and development and in-licensing agreements to acquire access to technology. These collaborative agreements usually require the Company to pay upfront fees and milestone payments, some of which are significant. Upfront payments and milestones related to early stage technology are expensed as incurred. Milestone payments are accrued when it is deemed probable that the milestone event will be achieved. The agreements may also require that the Company provide funding to its partners for research programs; such costs are expensed as incurred.

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

Selling, General and Administrative Expenses

Co-promotion Expenses
Co-promotion expense in connection with the Company's agreement, as amended, with the Ross Products Division of Abbott to co-promote Synagis in the U.S. is recognized as general and administrative expense concurrently with the recognition of product revenue and is calculated based on a contractual co-promotion percentage.

Allowances for Doubtful Accounts
The Company recognizes bad debt expense as a component of selling, general, and administrative expense. The Company estimates the allowances for doubtful accounts based on specific identification of estimated uncollectible amounts and a percentage of other gross trade accounts receivable balances outstanding at the end of the period, based upon an assessment of the concentration of credit risk and the financial condition and environment of its customers. Because of the seasonal nature of the Company's largest product, Synagis, the accounts receivable balances fluctuate significantly. Accordingly, the allowance for doubtful accounts also fluctuates. Allowances for doubtful accounts, which are netted against accounts receivable, totaled $2.9 million and $1.8 million at December 31, 2005 and 2004, respectively.

Advertising Expense
The Company expenses production costs of advertising as incurred. Advertising costs for television time and space in publications are deferred until the first advertisement occurs. Advertising expense for the years ended December 31, 2005, 2004 and 2003 was $11.0 million, $8.0 million and $8.1 million, respectively.

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

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

Amortization of leasehold improvements is computed on the straight-line method based on the shorter of the estimated useful life of the improvement or the term of the lease. Upon the disposition of assets, the costs and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the statements of operations. Repairs and maintenance costs are expensed as incurred and were $9.2 million, $8.5 million and $6.8 million for the years ended December 31, 2005, 2004 and 2003, respectively.

FDA validation costs are capitalized as part of the effort required to acquire and construct long-lived assets, including readying them for their initial intended use, and are amortized over the estimated useful life of the asset.

The Company evaluates property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 both the fair value and the sum of the expected future cash flows are less than the assets' carrying value.

Intangible Assets

The Company's intangible assets are definite-lived assets stated at amortized cost. Amortization of the intangible assets reflects the pattern in which the assets' economic benefits are consumed or otherwise used up, unless such a pattern cannot be reasonably determined, in which case the straight-line method of amortization is used. The Company reviews its intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and continually evaluates the reasonableness of the remaining useful lives of these assets.

Goodwill

Goodwill represents the excess cost of the acquisition of Aviron, a California-based vaccine company, which occurred during 2002 (the "Acquisition"), over the net of the amounts assigned to assets acquired and liabilities assumed. Goodwill is not amortized, but is evaluated for impairment annually or whenever events or changes in circumstances suggest that the carrying amount may not be recoverable. As of December 31, 2005 and 2004, goodwill totaled $11.0 million and $24.8 million, respectively, and is included in other long-term assets on the accompanying consolidated balance sheets.

During 2005, the Company recorded net adjustments to reduce goodwill by $13.8 million, of which $10.0 million resulted from the correction to certain prior period purchase accounting adjustments related to the Acquisition, and $3.8 million resulted from current year purchase accounting adjustments (see Note 15). During 2004 and 2003, the Company recorded adjustments to goodwill totaling $11.2 million and ($2.4) million, respectively, reflecting adjustments to deferred tax assets relating to the resolution of income tax related uncertainties.

Derivative Instruments

Derivative instruments are recorded on the balance sheet at fair value. Changes in fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if so, depending on the type of hedge transaction. For foreign currency cash-flow hedge transactions in which the Company is hedging the variability of cash flows related to inventory purchases, changes in the fair value of the derivative instruments are reported in other comprehensive income. The gains and losses on these derivatives that are reported in other comprehensive income are reclassified as earnings or losses in the periods in which the related inventory is sold. The ineffective portion, if any, of all hedges or gains or losses on cash-flow hedges related to inventory transactions that subsequently become not probable of occurring are recognized in the current period.

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. As of December 31, 2005 and December 31, 2004, the Company had no outstanding forward contracts.

During 2003, the Company made plans to liquidate its holdings in certain equity securities in its portfolio, over a period of approximately one year. To hedge the risk of market fluctuations, the Company entered into equity derivative contracts which were designated as cash flow hedges. These contracts were settled during 2004, and the Company recognized a net gain of $9.7 million on the sale of the equity securities, which is included in gain on investment activities in the accompanying statement of operations.

Income Taxes

The Company accounts for income taxes in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." Under SFAS No. 109, deferred income taxes are recognized for tax attributes and for 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 to reduce net deferred tax assets to the amount management determines is more likely than not to be realized. Future reversals of valuation allowances related to deferred tax assets established in acquisition purchase accounting will first be applied against goodwill and other intangibles when appropriate before recognition of a benefit in the consolidated statement of operations. Tax contingency reserves are established for income tax and contingent interest where the potential for loss is probable and reasonably estimable in accordance with SFAS No. 5, "Accounting for Contingencies."

Income tax expense includes the taxes payable for the period and changes during the period in deferred tax assets and liabilities. Income tax expense excludes the tax effects of (1) the exercise of stock options for which benefit is recognized directly as an increase in shareholders' equity, (2) adjustments related to purchase accounting which are recorded to goodwill, and (3) adjustments recorded to accumulated other comprehensive income.

Earnings Per Share

Basic earnings per share is computed based on the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed based on the weighted average shares outstanding adjusted for all dilutive potential common shares. The dilutive impact, if any, of common stock equivalents outstanding during the period, including outstanding stock options and warrants, is measured by the treasury stock method. The dilutive impact, if any, of the Company's 1% convertible senior notes is measured using the if-converted method, regardless of whether the market price trigger has been met. Potential common shares are not included in the computation of diluted earnings per share if they are dilutive.

Comprehensive Income

Comprehensive income is comprised of net earnings and other comprehensive income, which includes certain changes in equity that are excluded from net earnings, such as translation adjustments, unrealized holding gains and losses on available-for-sale marketable securities, and unrealized gains and losses on hedging instruments. Reclassification adjustments occur when we realize gains or losses on sales of investments. During 2004 and 2003, reclassification adjustments for realized gains on available-for-sale marketable securities, net of tax, were $6.7 million and $3.6 million, respectively. Reclassification adjustments during 2005 were immaterial.

Stock-based Compensation

Compensation costs attributable to stock option and similar plans have been recognized based on any excess of the quoted market price of the stock on the date of grant over the amount the employee is required to pay to acquire the stock, in accordance with the intrinsic-value method under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Such amount, if any, was recognized over the related vesting period.

The Company adopted SFAS 123R, "Share-Based Payment" ("SFAS 123R") on January 1, 2006, and will recognize the expense associated with its stock option and similar plans using a fair value-based method beginning on January 1, 2006 (see discussion of *New Accounting Standards* below).

The following table illustrates the effect on net earnings (loss) and earnings (loss) per share if the Company had applied the fair value recognition provisions to stock-based employee compensation (in millions, except per share data):

	2005	2004[1]	2003[1]
Net earnings (loss), as reported	**$(16.6)**	$(3.8)	$183.2
Add: Stock-based employee compensation expense included in historical results for the vesting of stock options assumed in conjunction with the Aviron acquisition, calculated in accordance with FIN 44, "Accounting for Certain Transactions Involving Stock Compensation-an Interpretation of APB 25," net of related tax effect	**0.1**	0.7	2.5
Deduct: Stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effect	**(43.3)**	(55.3)	(71.1)
Pro forma net earnings (loss)	**$(59.8)**	$(58.4)	$114.6
Basic earnings (loss) per share, as reported	**$(0.07)**	$(0.02)	$0.73
Basic earnings (loss) per share, pro forma	**$(0.24)**	$(0.24)	$0.46
Diluted earnings (loss) per share, as reported	**$(0.07)**	$(0.02)	$0.72
Diluted earnings (loss) per share, pro forma	**$(0.24)**	$(0.24)	$0.45

[1] *The pro forma net earnings (loss) for 2004 and 2003 of $(58.4) million and $114.6 million, respectively, have been recomputed from the pro forma net earnings (loss) previously disclosed of $(66.2) million and $98.2 million, respectively, to reflect a revised estimated tax effect and to properly reflect the Company's accounting policy for amortization of compensation costs using the graded-vesting method, an accelerated method described by FASB Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans" ("FIN 28") (see discussion of* New Accounting Standards *below).*

As of December 31, 2005, there was approximately $34 million of total unrecognized pro forma compensation cost, net of tax, related to nonvested stock option awards. Approximately 66% of this unrecognized compensation cost will be amortized during 2006.

Effective January 1, 2005, the Company has estimated the fair value of stock compensation expense associated with employee stock options using the binomial model approach. The Company believes that the binomial approach provides a better measure of fair value of employee stock options because it incorporates assumptions about patterns of employee exercises in relation to such considerations as stock price appreciation, post-vesting employment termination behavior, the contractual term of the option and other factors. Before 2005, the Company estimated the fair value of employee stock options using the Black-Scholes option pricing model, which does not incorporate such correlation assumptions.

Based on an analysis of economic data that marketplace participants would likely use in determining an exchange price for an option, the Company's weighted-average estimate of expected volatility for 2005 was 32%, reflecting the implied volatility determined from the market prices of traded call options on the Company's stock. During 2004 and 2003, the weighted-average estimate of expected volatility using monthly observations was 49% and 51%, respectively, based on the historical volatility over the expected term.

The following disclosure provides a description of the significant assumptions used during 2005, 2004 and 2003 to estimate the fair value of the Company's employee stock option awards.

2005

The fair value of employee stock options granted during 2005 was estimated using a binomial model that uses the weighted-average assumptions shown in the table below. The Company uses historical data to estimate option exercise and employee termination within the binomial model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected life of an option is derived from the output of the binomial model and represents the period of time that options granted are expected to be outstanding; the range given below results from certain groups of employees exhibiting different exercise patterns. The risk-free interest rate is based on the rate currently available for zero-coupon U.S. government issues with a term equal to the contractual life of the option.

	2005
Option pricing model	Binomial
Expected stock price volatility	32%
Expected dividend yield	0%
Expected life of option-years	4.3 to 5.4
Risk-free interest rate	4.3%
Weighted average fair value of options granted	$8.94

2004 and 2003

The fair value of employee stock options granted during 2004 and 2003 was estimated using a Black-Scholes model that uses the weighted-average assumptions shown in the table below. The expected life of an option was derived from historical stock option exercise experience. The risk-free interest rate was based on the rate currently available for zero-coupon U.S. government issues with a term equal to the expected life of the option.

	2004	2003
Option pricing model	Black-Scholes	Black-Scholes
Expected stock price volatility	49%	51%
Expected dividend yield	0%	0%
Expected life of option-years	5.0	5.0
Risk-free interest rate	3.4%	3.3%
Weighted average fair value of options granted	$11.20	$16.55

Defined Contribution Plans

The Company sponsors a defined contribution plan under Section 401(k) of the Internal Revenue Code covering substantially all full-time U.S. employees. Employee contributions are voluntary and are determined on an individual basis subject to the maximum allowable under federal tax regulations. Participants are always fully vested in their contributions. The Company also makes employer contributions, which primarily vest pro ratably over three years of service. During 2005, 2004 and 2003, the Company contributed approximately $3.9 million, $3.2 million and $2.4 million, respectively, in cash to the plan. The Company also sponsors various defined contribution savings plans covering its full-time non-U.S. employees.

Reclassifications

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 ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the financial statement date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Standards

On January 1, 2006, the Company adopted SFAS 123R, which requires public companies to recognize expense associated with share-based compensation arrangements, including employee stock options, using a fair value-based option pricing model. Adoption of the expense provisions of the statement will have a material impact on the Company's results of operations going forward. The Company estimates that its pre-tax stock based

compensation expense will approximate $40 million in 2006. Using the modified prospective transition method of adoption, the Company will reflect compensation expense in its financial statements beginning January 1, 2006 with no restatement of prior periods. As such, compensation expense will be recognized for awards that are granted, modified, repurchased or cancelled on or after January 1, 2006 as well as for the portion of awards previously granted that have not vested as of January 1, 2006. Upon the adoption, the Company implemented the straight-line expense attribution method, whereas its previous expense attribution method was the graded-vesting method, an accelerated method, described by FIN 28.

In December 2004, the FASB issued SFAS 151, "Inventory Costs—An Amendment of ARB No. 43, Chapter 4." SFAS 151 amends the guidance in ARB No. 43, Chapter 4 to require that idle facility expense, freight, handling costs and wasted material (spoilage) be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, the Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The Company adopted SFAS 151 for inventory costs on January 1, 2006, without impact to its consolidated financial position and results of operations.

In December 2005, the SEC issued an interpretive release entitled "Commission Guidance Regarding Accounting for Sales of Vaccines and Bioterror Countermeasures to the Federal Government for Placement into the Pediatric Vaccine Stockpile or the Strategic National Stockpile." This release addresses the timing of revenue recognition for the sale of vaccines related to Federal governmental stockpile programs and allows revenue earned under these programs to be recognized when all of the revenue recognition criteria specified under GAAP and Commission rules and regulations are met, with the exception of those criteria that require a fixed schedule for delivery of goods and that the ordered goods must be segregated from the seller's inventory. The alternative accounting method described in this release is effective on January 1, 2006. The new interpretive release does not have any impact on the Company's consolidated financial position or results of operations as of and for the year ended December 31, 2005. However, the interpretive release may ease revenue recognition criteria for sales to the federal government under certain stockpile programs, in which the Company may participate in the future.

[3] ACQUISITION OF CELLECTIVE THERAPEUTICS, INC.

On October 14, 2005, the Company acquired the outstanding equity interests of Cellective Therapeutics, Inc. ("Cellective"), a privately-held development-stage biopharmaceutical company, for approximately $44.0 million in cash, net of cash acquired of approximately $8.9 million. The transaction was accounted for as a purchase of assets with the purchase price allocated to assets acquired and liabilities assumed based on their relative fair values. Cellective has three preclinical stage programs developing monoclonal antibodies that target the B-cell antigens CD19, CD20 and CD22, which are believed to play important roles in regulating the immune system and offer potential treatments for patients battling cancer and autoimmune diseases. Under the terms of the agreement, the Company has also agreed to pay Cellective's shareholders future contingent payments of up to approximately $105 million should the antibody programs achieve certain product development and sales milestones. The Company's wholly owned venture capital subsidiary, MedImmune Ventures, Inc., owned approximately 10% of the outstanding equity interests of Cellective prior to the acquisition. In connection with the transaction, the Company recorded a charge for acquired in-process research and development ("IPR&D") of approximately $43.7 million during the fourth quarter of 2005. The charge for acquired IPR&D is not deductible for tax purposes. Significant efforts will be required to complete the projects and the Company does not anticipate material cash inflows until 8 to 10 years from the acquisition date, if ever. The nature, timing and projected costs associated with the remaining efforts for completion are not reasonably estimable at this time.

[4] SEGMENT, GEOGRAPHIC AND PRODUCT INFORMATION

The Company is organized along functional lines of responsibility as opposed to a product, divisional or regional organizational structure. The Company's chief operating decision makers make decisions and assess the Company's performance on a consolidated level. As such, the operations of the Company comprise one operating segment.

The Company sells its products primarily to a limited number of pharmaceutical wholesalers and distributors. Synagis is distributed domestically by about a dozen U.S. specialty distributors and wholesalers. The Company has contractual agreements with Abbott International, an affiliate of Abbott, for distribution of Synagis outside of the U.S., and with affiliates of Schering Plough Corporation ("Schering") for international distribution of Ethyol. Customers individually accounting for at least ten percent of the Company's product sales during the past three years are as follows:

	2005	2004	2003
Amerisource-Bergen Corp	**35%**	25%	29%
McKesson HBOC, Inc	**14%**	18%	12%
Cardinal Health, Inc	**13%**	15%	18%
Abbott International	**12%**	9%	6%
Caremark Rx, Inc.[1]	**0%**	6%	10%
Total % of product sales	**74%**	73%	75%

[1] *Caremark Rx, Inc. ceased being a direct customer, purchasing through one of the Company's wholesalers during 2004.*

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

	2005	2004	2003
United States	**$1,055.6**	$1,008.7	$ 911.3
International	**165.4**	115.3	81.3
Total product sales	**1,221.0**	1,124.0	992.6
Other revenue	**22.9**	17.1	61.8
Total revenues	**$1,243.9**	$1,141.1	$1,054.4

Other revenue includes $17.1 million, $7.5 million and $10.2 million, respectively, of revenue recognized under the Company's international distribution agreement with Abbott International in 2005, 2004, and 2003 (see Note 16). The remaining other revenues in 2005, 2004 and 2003 consist mainly of U.S. distribution, licensing and milestone revenues, corporate funding, and contract manufacturing revenues.

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

	2005	2004	2003
United States	**$324.3**	$253.1	$222.5
Europe	**57.1**	57.8	51.1
Total long-lived assets	**$381.4**	$310.9	$273.6

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

	2005	2004	2003
Synagis	**$1,062.9**	$942.3	$849.3
Ethyol	**95.0**	92.4	100.2
FluMist	**21.3**	48.0	—
Other Products	**41.8**	41.3	43.1
Total Product Sales	**$1,221.0**	$1,124.0	$992.6

[5] CASH, CASH EQUIVALENTS AND INVESTMENTS IN DEBT AND EQUITY SECURITIES

Investments in cash, cash equivalents and marketable securities are comprised of the following (in millions):

					Fair Value at Balance Sheet Date		
	Principal Amount	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
December 31, 2005:							
Cash and Money Market Mutual Funds	$ 42.9	$ 42.9	$ —	$ —	$ 42.9	$ —	$ —
Commercial Paper	163.2	161.9	—	—	110.5	51.4	—
U.S. Government and Agencies	304.1	306.3	—	(4.3)	—	181.0	121.0
Corporate Notes and Bonds	905.1	942.5	0.7	(20.1)	—	182.7	740.4
Equity Securities	36.0	36.0	6.0	—	—	42.0	—
Total	$1,451.3	$1,489.6	$6.7	$(24.4)	$153.4	$457.1	$ 861.4
December 31, 2004:							
Cash and Money Market Mutual Funds	$ 38.6	$ 38.6	$ —	$ —	$ 38.6	$ —	$ —
Commercial Paper	62.0	61.9	—	—	61.9	—	—
U.S. Government and Agencies	384.8	389.7	1.3	(2.8)	67.8	—	320.4
Corporate Notes and Bonds	1,126.8	1,180.3	11.6	(7.4)	3.0	139.7	1,041.8
Equity Securities	20.0	20.0	12.9	—	—	32.9	—
Total	$1,632.2	$1,690.5	$25.8	$(10.2)	$171.3	$172.6	$1,362.2

The amortized cost and fair market value of the Company's investments in cash, cash equivalents and marketable securities at December 31, 2005, by contractual maturities are (in millions):

	Cost/ Amortized Cost	Fair Value
Equity securities	$ 36.0	$ 42.0
Due in one year or less	571.1	568.5
Due after one year through two years	197.6	193.9
Due after two years through five years	599.9	585.3
Due after five years through seven years	85.0	82.2
Total	$1,489.6	$1,471.9

Proceeds from sales of marketable securities totaled $223.6 million, $308.0 million and $219.3 million in 2005, 2004 and 2003, respectively. Gross gains recognized on sales of securities in 2005, 2004 and 2003 were $1.1 million, $11.2 million and $5.9 million, respectively, as determined by specific identification. Gross losses recognized on sales of securities were $1.0 million during 2005 and immaterial during 2004 and 2003, as determined by specific identification.

The following table shows the gross unrealized losses and fair value of the Company's investments in marketable securities with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2005 (in millions):

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and Agencies	$180.8	$1.9	$113.0	$ 2.4	$ 293.8	$ 4.3
Corporate Notes and Bonds	100.1	0.9	697.9	19.2	798.0	20.1
Total	$280.9	$2.8	$810.9	$21.6	$1,091.8	$24.4

The Company reviewed these investments for potential other-than-temporary impairment. Based on the credit worthiness of the issuers and the Company's ability and intent to hold the investments until maturity, the Company determined that the unrealized losses are not other-than-temporary.

The cost basis of the Company's minority interest investments in privately-held companies was $34.5 million and $27.9 million as of December 31, 2005 and 2004, respectively, and is included in other assets in the accompanying consolidated balance sheets. The fair value of these investments is not readily determinable, and the cost basis was not adjusted because there were no identified events or changes in circumstances that would have a significant adverse effect on the fair value of the investments.

During 2005, 2004 and 2003, the Company recorded impairment losses of $8.6 million, $13.7 million and $1.7 million, respectively, based on the duration and magnitude of the declines in fair value, as well as the financial condition and near-term prospects of the investee companies.

[6] INVENTORY

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

	2005	2004
Raw materials	**$11.1**	$16.5
Work in process	**42.4**	38.3
Finished goods	**15.9**	9.3
	$69.4	$64.1

The Company recorded permanent inventory write-downs totaling $14.3 million, $45.8 million and $17.7 million during 2005, 2004 and 2003, respectively, to cost of sales to reflect total FluMist inventories at net realizable value. The Company recorded permanent inventory write-downs totaling $19.6 million to other operating expenses to reflect FluMist inventories at net realizable value during 2003. The Company recorded permanent inventory write-downs for unsold seasonal FluMist product of $19.1 million, $4.3 million and $20.3 million during 2005, 2004, and 2003, respectively.

The Company recorded permanent inventory write-downs of $3.3 million during 2005 for certain Synagis lots that were determined to be nonsaleable as they are outside of normal specifications and not recoverable. In connection with the Company's plans to replace the lyophilized formulation of Synagis with the liquid formulation, the Company recorded a permanent inventory write-down at December 31, 2004 for excess inventories of $5.5 million in cost of goods sold. The write-down was based on an analysis of inventory quantities, including pending future commitments, and projected sales levels of the lyophilized formulation of Synagis.

The Company recorded other permanent inventory write-downs totaling $5.2 million, $15.3 million and $1.4 million in cost of goods sold during 2005, 2004, and 2003, respectively.

[7] PROPERTY AND EQUIPMENT

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

	2005	2004
Land and land improvements	**$ 30.4**	$ 30.2
Buildings and building improvements	**123.8**	123.1
Leasehold improvements	**55.7**	55.5
Laboratory, manufacturing and facilities equipment	**81.6**	70.7
Office furniture, computers and equipment	**62.2**	52.4
Construction in progress	**161.6**	83.7
	515.3	415.6
Less accumulated depreciation and amortization	**(133.9)**	(104.7)
	$381.4	$310.9

As of December 31, 2005, construction in progress includes $81.3 million of engineering, construction and equipment costs and other professional fees related to the pilot plant facility and administrative offices located in Gaithersburg, Maryland, as well as $65.7 million of engineering, construction and equipment costs related to the Company's manufacturing facilities in Pennsylvania and the United Kingdom. The Company's bulk vaccine manufacturing in the U.K. was approved by the FDA in December 2005, and is awaiting final regulatory approval in the U.K. prior to being ready for its intended use. As of December 31, 2004, construction in progress includes $15.9 million of engineering and construction costs and other professional fees related to the pilot plant facility located in Gaithersburg, Maryland, and $62.0 million of engineering, construction and equipment costs related to the Company's manufacturing facilities in Pennsylvania and the United Kingdom.

Depreciation and amortization expense for the years ended December 31, 2005, 2004 and 2003 was $30.5 million, $30.4 million and $24.0 million, respectively.

Interest costs capitalized in connection with the Company's construction activities totaled $1.1 million, $1.6 million and $2.9 million in 2005, 2004 and 2003, respectively.

[8] INTANGIBLE ASSETS

Intangible assets are comprised of the following at December 31, (in millions):

	2005		2004	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Promotion rights acquired from Abbott	**$360.4**	**$(41.3)**	$ —	$ —
Manufacturing know-how acquired from Evans	**39.0**	**(34.6)**	39.0	(25.9)
Other intangible assets	**0.4**	**(0.4)**	0.4	(0.4)
Total	**$399.8**	**$(76.3)**	$39.4	$(26.3)

As discussed in Note 16, the Company recorded an intangible asset of $360.4 million during 2005 in conjunction with the reacquisition of the co-promotion rights for Synagis in the U.S. from Abbott. Amortization is computed based on future sales of Synagis over the expected period of active sales and marketing efforts in the U.S., which is projected to continue through the first half of 2009, as the Company expects to launch Numax during the 2008/2009 RSV season. The Company's remaining intangible assets are amortized using the straight-line method based on the estimated useful lives of the assets.

Amortization for the Company's intangible assets for the years ended December 31, 2005, 2004 and 2003 was $50.0 million, $10.6 million and $16.6 million, respectively. The estimated aggregate amortization for the remaining life of the assets is as follows (in millions):

For the year ended December 31, 2006	$102.1
For the year ended December 31, 2007	106.1
For the year ended December 31, 2008	85.2
For the year ended December 31, 2009	30.1
	$323.5

[9] ACCRUED EXPENSES

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

	2005	2004
Co-promotion expenses	**$ 90.6**	$ 85.6
Rebates due to government purchasers	**52.5**	52.5
Research and development expenses	**12.0**	6.7
Sales and marketing costs	**16.0**	22.8
Bonuses	**17.3**	13.3
Clinical trial costs	**33.9**	30.0
Other	**19.8**	20.9
	$242.1	$231.8

[10] FACILITIES LEASES

The Company leases warehouse, laboratory and administrative space under numerous operating leases. Under the leases, the Company is obligated to pay a basic monthly rent as well as utilities and its proportionate share of taxes, assessments, insurance and maintenance costs. Rent expense for the years ended December 31, 2005, 2004 and 2003 was $8.8 million, $9.2 million and $9.3 million, respectively.

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

Year Ending December 31,	
2006	$ 7.8
2007	6.2
2008	3.9
2009	2.6
2010	2.6
Thereafter	25.5
	$48.6

[11] LONG-TERM DEBT

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

	2005	2004
1% Convertible Senior Notes, due 2023	**$ 500.0**	$500.0
4% notes due to Maryland Department of Business and Economic Development, due 2016	**4.5**	4.8
7.53% note due to Maryland Industrial Development Finance Authority, due 2007 (collectively with the 4% notes referred to as the "Maryland Notes")	**1.5**	2.1
Note due to Cooperative Rabobank, B.A., due 2009, variable interest rate	**0.2**	0.2
	506.2	507.1
Less current portion included in other current liabilities	**(501.0)**	(0.9)
	$ 5.2	$506.2

Maturities of the Company's long-term debt for the next five years are as follows: 2006—$501.0 million; 2007—$1.1 million; 2008—$0.6 million; 2009—$0.4 million; 2010—$0.4 million. As discussed below, the holders of the Company's 1% convertible senior notes may require the Company to redeem the notes on July 15, 2006 for cash. As such, the aggregate principal amount of the notes of $500 million has been reclassified to current liabilities within the consolidated balance sheet as of December 31, 2005 and is presented as due in 2005 representing the earliest possible redemption date.

1% Convertible Senior Notes

During July 2003, the Company issued $500 million aggregate principal amount of convertible senior notes due 2023 in a private placement. These notes bear interest at 1% per annum payable semi-annually in arrears on January 15 and July 15 of each year. Beginning July 2006, the Company will pay contingent interest on these notes during a six-month interest period if the average trading price of these notes equals or exceeds 120% of the principal amount of the notes. Under certain circumstances, these notes will be convertible into the Company's common stock at an initial conversion price of approximately $68.18 per share. On or after July 15, 2006, the Company may at its option redeem all or a portion of these notes for cash at a redemption price equal to 100% of the principal amount of the 1% Notes to be redeemed, plus any accrued and unpaid interest; contingent interest, if any; and liquidated damages, if any. In addition, on each of July 15, 2006, July 15, 2009, July 15, 2013 and July 15, 2019, holders may require the Company to purchase all or a portion of their 1% Notes for cash at 100% of the principal amount of the 1% Notes to be purchased, plus any accrued and unpaid interest; contingent interest, if any; and liquidated damages, if any. The estimated fair value of the 1% Notes as of December 31, 2005 and 2004 was $488.9 million and $481.1 million, respectively, based on quoted market prices.

Collateralized Loans

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

The mortgage loan with Cooperative Rabobank B.A. is held by the Company's subsidiary, MedImmune Pharma B.V., and is collateralized by the land and buildings of its manufacturing facility in Nijmegen, the Netherlands and guaranteed by the Company. Proceeds from the loan were used to partially fund the purchase of additional equipment for the facility. The mortgage loan, for which principal payments began in March 1995, has a 15-year term and bears interest at a quarterly variable rate. The interest rate as of December 31, 2005 and December 31, 2004 was 4.95% and 5.05%, respectively.

The estimated fair values of the Company's collateralized loans at December 31, 2005 and 2004 based on quoted market prices or discounted cash flows using currently available borrowing rates, were $6.2 million and $7.5 million, respectively, compared to the carrying values of $6.2 million and $7.1 million, respectively.

[12] SHAREHOLDERS' EQUITY

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

In May 2003, the Company's shareholders approved an amendment to the Company's Restated Certificate of Incorporation to increase the authorized number of shares of common stock from 320.0 million to 420.0 million.

The Company's Board of Directors has authorized the repurchase of up to $500 million of the Company's common stock during the period from July 2003 through June 2006 on the open market or in privately negotiated transactions, pursuant to terms management deems appropriate and at such times it may designate. During 2005, the Company repurchased approximately 4.0 million shares at a cost of $105.9 million, or an average cost of $26.18 per share. In 2004, the Company repurchased approximately 1.2 million shares at a cost of $30.0 million, or an average cost of $24.33 per share. In 2003, the Company repurchased approximately 6.2 million shares at a cost of $229.8 million, or an average cost of $36.83 per share. The Company will hold repurchased shares as treasury shares and intends to use them for general corporate purposes, including but not limited to acquisition-related transactions and for issuance upon exercise of outstanding stock options. During 2005 and 2004, the Company reissued 2.4 million and 0.5 million shares, respectively, from treasury.

[13] EARNINGS PER SHARE

The following is a reconciliation of the numerators and denominators of the diluted EPS computation for the years ended December 31, 2005, 2004 and 2003:

Numerator *(in millions)*	**2005**	**2004**	**2003**
Net income (loss) for basic EPS	**$(16.6)**	$ (3.8)	$183.2
Adjustments for interest expense on 1% Convertible Senior Notes, net of tax	**—**	—	2.1
Earnings (loss) for diluted EPS	**$(16.6)**	$ (3.8)	$185.3

Denominator *(in millions)*	**2005**	**2004**	**2003**
Weighted average shares for basic EPS	**246.9**	248.6	250.1
Effect of dilutive securities:			
Stock options and warrants	**—**	—	3.7
1% Convertible Senior Notes	**—**	—	3.4
Weighted average shares for diluted EPS	**246.9**	248.6	257.2
Basic earnings (loss) per share	**$(0.07)**	$(0.02)	$ 0.73
Diluted earnings (loss) per share	**$(0.07)**	$(0.02)	$ 0.72

The Company incurred a net loss for 2005 and 2004 and, accordingly, did not assume exercise or conversion of any of the Company's outstanding stock options, warrants, or convertible notes during the periods because to do so would be anti-dilutive. As a result, options and warrants to purchase 31.1 million and 30.9 million shares of common stock were outstanding at December 31, 2005 and 2004, respectively, but were excluded from the calculation of diluted earnings per share. The Company's 1% Notes, which were issued during 2003 and represent 7.3 million potential shares of common stock issuable upon conversion, were excluded from the diluted earnings per share calculation in 2005 and 2004 because they were anti-dilutive.

If option exercise prices are greater than the average market price of the Company's common stock for the period presented, the effect of including such options in the earnings per share calculation is anti-dilutive. Options to purchase 14.8 million shares of common stock at prices ranging from $32.38 to $83.25 per share were outstanding at December 31, 2003 but were not included in the computation of diluted earnings per share because the exercise price of the options exceeded the average market price.

[14] COMMON STOCK EQUIVALENTS

The Company grants stock incentive awards under certain of the following plans. At the Company's annual meeting in May 2004, the Company's shareholders approved the establishment of the 2004 Stock Incentive Plan, (the "2004 Plan") to be used as the primary plan for employee awards. A total of 21,000,000 shares of common stock have been reserved for issuance under the 2004 Plan. Of this amount, a total of 8,000,000 shares were previously approved by the stockholders for issuance under the 1999 Plan and were effectively transferred into the 2004 Plan.

Plan	**Description**	**Shares Authorized for Option Grants** *(in millions)*
1991 Plan	Provides option incentives to employees, consultants and advisors of the Company	33.0
1999 Plan	Provides option incentives to employees, consultants and advisors of the Company	23.3
2003 Non-Employee Directors Plan	Provides option incentives to non- employee directors	0.8
2004 Plan	Provides option, stock appreciation rights, restricted stock, stock units and/or stock incentive awards to employees, non-employee directors, consultants and advisors of the Company	21.0

The following compensation plans, for which there are options outstanding but no future grants will be made, were acquired by the Company in connection with its acquisitions of U.S. Bioscience, Inc. and Aviron ("Acquired Plans"):

Plan	**Description**
Non-Executive Plan	Provided option incentives to employees who were not officers or directors of U.S. Bioscience, Inc., consultants and advisors of the company
Non-Employee Directors Plan	Provided option incentives to elected non-employee directors of U.S. Bioscience, Inc.
1996 Equity Incentive Plan	Provided incentive and nonstatutory stock options to employees and consultants of Aviron
1999 Non-Officer Equity Incentive Plan	Provided nonstatutory stock options, stock bonuses, rights to purchase restricted stock, and stock appreciation rights to consultants and employees who were not officers or directors of Aviron

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 17.9 million shares of common stock for issuance under these plans as of December 31, 2005. Related stock option activity is as follows (shares in millions):

	1991, 1999 and 2004 Plans		Non-Employee Directors Plans		Acquired Plans	
	Shares	Price per share[1]	Shares	Price per share[1]	Shares	Price per share[1]
Outstanding, Dec. 31, 2002	24.1	$33.45	0.9	$29.53	3.6	$28.17
Granted	5.4	30.18	0.2	35.87	—	—
Exercised	(2.0)	11.61	(0.1)	2.02	(0.7)	21.30
Canceled	(1.4)	41.33	—	—	(0.3)	33.98
Outstanding, Dec. 31, 2003	26.1	34.00	1.0	30.52	2.6	29.82
Granted	4.9	23.93	0.2	23.17	—	—
Exercised	(1.0)	9.21	(0.2)	1.31	(0.2)	20.86
Canceled	(2.5)	35.51	—	—	(0.3)	32.63
Outstanding, Dec. 31, 2004	27.5	33.12	1.0	33.12	2.1	30.48
Granted	5.0	25.78	0.2	26.71	—	—
Exercised	(1.6)	17.16	—	—	(0.4)	21.32
Canceled	(2.4)	33.31	—	—	(0.3)	36.78
Outstanding, Dec. 31, 2005	28.5	$32.58	1.2	$31.88	1.4	$32.06

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

Additional information related to the plans as of December 31, 2005 is as follows (shares in millions):

	Options Outstanding			Options Exercisable	
Range of exercise prices	Options outstanding	Wtd Avg remaining contractual life (yrs)	Wtd Avg Ex. Price	Options Exercisable	Wtd Avg Ex. Price
$ 0.01—$10.00	1.7	1.7	$ 6.26	1.7	$ 6.26
$10.01—$20.00	2.2	2.7	$18.25	2.2	$18.25
$20.01—$30.00	14.0	7.4	$25.65	6.8	$26.28
$30.01—$40.00	5.6	5.6	$36.18	4.4	$36.91
$40.01—$50.00	3.6	5.3	$42.46	3.4	$42.50
$50.01—$60.00	0.4	3.9	$56.71	0.4	$56.71
$60.01—$70.00	3.3	3.6	$60.88	3.3	$60.88
$70.01—$80.00	0.3	4.5	$72.22	0.3	$72.22
	31.1	5.7	$32.54	22.5	$34.82

In June 2001, the Company introduced an employee stock purchase plan ("ESPP") under which 3.0 million shares of common stock were reserved for issuance. Eligible employees may purchase a limited number of shares of the Company's common stock at 85% of the market value at plan-defined dates. Employees purchased 0.3 million shares, 0.2 million shares and 0.2 million shares, for $5.6 million, $4.6 million and $4.8 million, during 2005, 2004 and 2003 respectively, under the plan. In connection with the Acquisition, the Company assumed warrants to purchase common stock, of which the following are outstanding as of December 31, 2005:

Shares (in 000's)	Exercise Price	Expiration
5.1	$55.13	June 2008

[15] INCOME TAXES

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

	Year Ended December 31,		
	2005	2004	2003
Current:			
Federal	**$ (1.7)**	$(10.9)	$ 33.0
State	**8.0**	(4.3)	7.4
Foreign	**0.1**	0.2	0.2
Total current expense (benefit)	**6.4**	(15.0)	40.6
Deferred:			
Federal	**5.0**	4.8	83.1
State	**9.8**	4.8	(15.7)
Foreign	**2.9**	—	—
Total deferred expense	**17.7**	9.6	67.4
Total tax expense (benefit)	**$24.1**	$ (5.4)	$108.0

Significant components of the Company's deferred tax assets and liabilities at December 31, are as follows (in millions):

	2005	2004
Deferred tax assets:		
U.S. and state net operating loss carryforwards	**$ 63.3**	$ 77.4
U.K. net operating loss carryforwards	**1.8**	6.8
U.S. general business credit carryforwards	**49.6**	48.7
Alternative minimum tax credit carryforwards	**8.0**	7.5
Accrued co-promotional expenses not currently deductible	**19.2**	23.1
Fixed assets and intangibles	**35.4**	19.3
Accounts receivable allowances and reserves	**17.1**	14.7
Allowance for government rebates	**11.4**	14.1
Deferred compensation	**2.4**	6.3
Other accrued expenses not currently deductible	**9.7**	6.6
State research and development credits	**14.1**	13.1
Investment impairment	**10.3**	6.9
Unrealized losses on investments	**5.9**	—
California capitalized research expenses	**0.7**	1.3
Other	**2.2**	1.2
Total deferred tax assets	**251.1**	247.0
Deferred tax liabilities:		
Unrealized gains on investments	**—**	(6.0)
Contingent interest	**(14.0)**	(8.3)
Total deferred tax liabilities	**(14.0)**	(14.3)
U.S. valuation allowance	**(50.2)**	(48.0)
U.K. valuation allowance	**(0.3)**	(6.8)
Total valuation allowance	**(50.5)**	(54.8)
Net deferred tax assets	**$186.6**	$177.9

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,					
	2005		2004		2003	
(In Millions)	Amount	Tax Rate	Amount	Tax Rate	Amount	Tax Rate
U.S	$ (4.2)		$(17.7)		$292.4	
International	11.7		8.5		(1.2)	
Earnings (loss) before taxes on income:	$ 7.5		$ (9.2)		$291.2	
Tax at U.S. federal statutory income tax rate	$2.6	35.0 %	$ (3.2)	(35.0)%	$101.9	35.0 %
State taxes, net of federal tax benefit	(2.8)	(37.4)%	(2.3)	(25.5)%	(0.6)	(0.2)%
State research and development credits	(0.9)	(12.1)%	(10.8)	(117.5)%	—	— %
Changes in federal valuation allowance	—	— %	0.8	8.6 %	—	— %
Change in state valuation allowance related to state research and development credits	0.7	9.9 %	9.5	103.1 %	—	— %
Other changes in state valuation allowance	5.0	66.8 %	4.0	43.4 %	9.8	3.4 %
Changes in foreign valuation allowance	(4.3)	(57.6)%	(2.4)	(25.6)%	1.0	0.3 %
Change in state income tax contingency reserve	1.8	24.6 %	(1.5)	(15.8)%	—	— %
Nondeductible IPR&D expense	15.3	203.4 %	2.4	26.4 %	—	— %
U.S. general business credits generated	(0.8)	(11.0)%	(3.6)	(38.7)%	(2.4)	(0.8)%
Effect of foreign rates other than 35%	(0.6)	(7.5)%	(0.4)	(4.3)%	—	— %
Meals and entertainment	1.1	14.1 %	0.8	8.7 %	0.6	0.2 %
Nondeductible costs associated with orphan drug credit	0.3	3.6 %	0.4	4.7 %	—	— %
Record goodwill for prior period purchase accounting adjustments	1.8	23.6 %	—	— %	—	— %
True-up of unearned compensation	(1.9)	(25.0)%	0.5	5.1 %	—	— %
True-up of permanent differences in prior year U.K. tax returns	3.1	41.6 %	—	— %	—	— %
True-up of prior period tax provisions	2.8	37.3 %	—	— %	—	— %
Other	0.9	11.8 %	0.4	3.8 %	(2.3)	(0.8)%
Total	$24.1	321.1 %	$ (5.4)	(58.6)%	$108.0	37.1 %

The effective income tax rate on earnings from continuing operations was 321.1% in 2005 as compared to (58.6)% in 2004. The higher effective tax rate in 2005 is attributable primarily to the Cellective Therapeutics acquisition which resulted in non-deductible acquired IPR&D expense of $43.7 million.

During the third quarter of 2005, the prior accounting for the reversal of approximately $4.8 million of valuation allowances associated with the utilization of certain acquired income tax carryforwards was corrected. The correction was comprised of relatively small amounts related to reporting periods dating back to the acquisition of Aviron in January 2002 and resulted in additional income tax expense of approximately $4.8 million during the third quarter of 2005 and a corresponding reduction to goodwill on the consolidated balance sheet.

During the fourth quarter of 2005, the Company made a number of additional corrections related to the reporting periods dating back to the acquisition of Aviron relating predominantly to unearned compensation, income tax carryforwards, valuation allowances and income tax contingency reserves, as well as for the prior accounting for foreign exchange gains on intercompany borrowings and provision to return adjustments for the Company's U.K. subsidiary. The aggregate impact of these fourth quarter 2005 corrections was to reduce goodwill by $4.0 million and reduce income tax expense by $1.6 million bringing the cumulative third and fourth quarter corrections to $3.2 million. The $11.2 million true-up adjustment recorded in the fourth quarter of 2004 related to the final resolution and determination of beginning deferred tax assets related to the fixed assets of Aviron was also corrected during the fourth quarter of 2005 by reducing goodwill and increasing deferred income taxes by $5.0 million.

Tax Attributes

At December 31, 2005 the Company had consolidated net operating loss carryforwards for U.S. income tax purposes of approximately $129.4 million expiring between 2020 and 2022. As of December 31, 2005, the Company had foreign net operating loss carryforwards of $6.0 million for U.K. income tax purposes that can be carried forward indefinitely.

The U.K. carryforward amount decreased from 2004 as such losses were utilized and due to reconciliations to previously-filed tax returns. The Company also has U.S. general business credit carryforwards comprised of federal research and experimentation and orphan drug credit carryforwards of approximately $68.2 million at December 31, 2005 expiring through 2025. The timing and manner in which the Company will utilize U.S. net operating loss and general business credit carryforwards in any year, or in total, will be limited by provisions of the Internal Revenue Code Sections 382 and 383,

regarding changes in ownership of the Company. It is not anticipated that these limitations will result in the loss of the related tax attributes.

Items Charged to Equity and Other Comprehensive Income or Goodwill

During 2005 and 2004, the Company recognized certain tax benefits related to stock option plans in the amount of $7.6 million and $5.2 million, respectively. $0.6 million of the 2005 benefits was recorded as a reduction to income taxes payable and a reduction to goodwill as it related to vested options of legacy Aviron employees. The remaining benefits were recorded as a reduction to income taxes payable and an increase in additional paid-in-capital.

During 2005 the Company recognized a decrease in its unearned compensation deferred tax asset resulting in a charge to additional paid-in capital of $1.9 million. The unearned compensation deferred tax asset was established for the tax effect of future deductions related to the unvested shares of the legacy Aviron employees at the time of the Acquisition. The decrease in the deferred tax asset in 2005 relates to 2005 terminations of certain of those employees. Also during 2005, the Company made certain corrections to prior accounting for unearned compensation and accounting for deductions related to vested shares of legacy Aviron employees. These corrections resulted in a $6.7 million decrease to additional paid-in capital and a $3.2 million decrease to goodwill.

During 2005 the Company released valuation allowances due to utilization of the related deferred tax assets resulting in a $3.2 million decrease to goodwill. As these valuation allowances were established in the purchase accounting for the Acquisition, the release of the valuation allowances were appropriately accounted for through goodwill.

During 2005 and 2004, the Company recognized a deferred tax asset related to unrealized losses on investments in the amount of $11.9 million and $9.0 million, respectively. The deferred tax assets were recorded properly as a decrease in accumulated other comprehensive income.

Valuation Allowance

At December 31, 2005, the Company had a total valuation allowance against its deferred tax assets of $50.5 million. $17.6 million of the valuation allowance relates to acquired deferred tax assets for which subsequently recognized tax benefits will be allocated to reduce goodwill or other noncurrent intangible assets. The change in the valuation allowance was a net decrease of $4.3 million and an increase of $11.9 million during 2005 and 2004, respectively; $2.7 million of the 2005 decrease was due to reclassification of income tax contingency reserves out of valuation allowance.

The state valuation allowance related to research and development credits increased by $0.7 million. The balance of the state valuation allowance, which predominantly relates to current year generated net operating losses, increased in total by $4.2 million, with a $5.0 million increase impacting tax expense and the remaining $0.8 million decrease impacting goodwill. The increase in state valuation allowances related to research and development credits and net operating loss carryforwards relates to current year generated credits and losses for which management has not determined that it is more likely than not that the Company will have sufficient future earnings in that jurisdiction to utilize the credits and losses.

The foreign valuation allowance decreased by $6.5 million with $4.3 million of the decrease impacting tax expense and the remaining $2.2 million decrease impacting goodwill. The foreign valuation allowance decrease relates to utilization of tax attributes. Since the Company has not determined that it is more likely than not that the Company will generate U.K. taxable income in the future, the Company has provided a full valuation allowance against remaining U.K. deferred tax assets totaling $0.3 million.

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 and the federal and state general business credits which were generated by U.S. Bioscience and Aviron prior to their acquisition by the Company. Accordingly, a valuation allowance remains for some of these deferred tax assets at December 31, 2005 and 2004.

American Jobs Creation Act of 2004

Under the American Jobs Creation Act of 2004, a phased-in special deduction was introduced associated with pre-tax income from domestic production activities. The Company was not eligible for the special deduction in 2005 because the Company had net operating loss carryforwards that offset its taxable income. It is unclear whether the Company will be eligible for the special deduction in 2006 because the Company will have net operating carryforwards that will likely offset taxable income.The Company has analyzed the impact of the one-time favorable foreign dividend provisions enacted as part of the American Jobs Creation Act of 2004. After considering the impact of this legislation on the Company's tax position, the Company has determined that it continues to be the Company's intention to indefinitely reinvest undistributed foreign earnings. Accordingly, no deferred tax liability has been recorded in connection therewith. It is not practicable for the Company to determine the amount of the unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries that are essentially permanent in duration.

Income Tax Contingency Reserves

The Company has established contingency reserves related to income taxes in accordance with SFAS No. 5. These reserves predominantly relate to research and experimentation credits, transaction costs, and various state matters. The reserves related to research and experimentation credits and transaction costs were appropriately recorded against correlating deferred tax assets, and the state income tax reserves were appropriately recorded in current taxes payable.

The State of Maryland passed legislation during 2004 disallowing intercompany royalties and interest deductions. The Company reached a settlement with the State of Maryland on these transactions which resulted in the Company releasing a reserve of $1.5 million in 2004.

[16] SIGNIFICANT AGREEMENTS AND COLLABORATIONS

GlaxoSmithKline (GSK)

The Company and GSK are developing under a strategic alliance a vaccine against human papillomavirus ("HPV") to prevent cervical cancer. Under the terms of the agreement, the companies will collaborate on research and development activities. The Company conducted Phase 1 and Phase 2 clinical trials and manufactured clinical material for the studies. GSK is responsible for the final development of the product, as well as regulatory, manufacturing, and marketing activities. In exchange for exclusive worldwide rights to the Company's HPV technology, GSK agreed to provide the Company with an upfront payment, equity investment and research funding (substantially all received and recognized prior to 2002), as well as potential developmental and sales milestones and royalties on any product sales.

In February 2005, the Company amended its agreement with GSK for the development of HPV vaccines. Under the amended agreement, the Company may also receive certain milestone payments and royalties on future development and sales of an investigational HPV vaccine now in Phase 3 development by Merck & Co., Inc ("Merck"). In the aggregate, the Company may receive up to approximately $42 million in milestone payments from GSK and Merck in connection with the development of the HPV vaccines.

In August 2005, the Company licensed worldwide rights from GSK to develop certain anti-Staphylococcal monoclonal antibodies, the lead antibody being in Phase 2 clinical development for the prevention of serious bloodstream infections caused by Staphylococcus in low-birthweight infants. The Company will be responsible for future research and development and any resulting second-generation monoclonal antibodies as well as all future sales and marketing activities worldwide. Under the terms of the agreement, the Company agreed to provide an upfront fee, potential milestone payments, and royalties on any resulting marketed products. The Company has also assumed responsibility for future milestone and royalty payment obligations to Biosynexus Inc., from which GSK originally licensed the BSYX-A110 antibody and related rights in 2002. The Company and GSK have been sued by Biosynexus in connection with this transaction (see Note 18).

In 2000, the Company granted a worldwide, exclusive license to its *Streptococcus pneumoniae* vaccine technology to GSK in exchange for an upfront 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 has rights to a vaccine against certain subunits of Epstein-Barr virus ("EBV"), a herpes virus that is the leading cause of infectious mononucleosis. The vaccine is being developed by GSK under a worldwide collaborative agreement, excluding North Korea and South Korea. Under the agreement, the Company could receive future milestone payments, and royalties from GSK based on any net product sales.

Abbott Laboratories

The Company has a co-promotion agreement with Abbott for promotion of Synagis in the United States. Under the terms of the co-promotion agreement, the Company is required to pay Abbott a percentage of net domestic sales based on achieving certain sales thresholds over the annual contract year. In August 2005, the Company amended the co-promotion agreement. Under the terms of the amended agreement, Abbott will continue to provide promotional activities with respect to Synagis until June 30, 2006, at which time the Company will take full responsibility for sales and marketing in the United States. The Company will continue to pay Abbott for their co-promotion services during the 2005/2006 respiratory syncytial virus ("RSV") season and has agreed to make certain incremental payments over and above the previous co- promotion agreement to Abbott, including milestone-based payments and increased incentive payments contingent upon the achievement of certain sales thresholds during 2005 and 2006. In addition, if Numax, the Company's second-generation anti-RSV monoclonal antibody that is currently in Phase 3 development, is not approved by the FDA before September 1, 2008, the Company would pay Abbott a portion of the proceeds from the sales of Synagis in the U.S. for up to a two-year period beginning at such time. The present value of the incremental payments that the Company deems probable have been recorded as liabilities in the consolidated balance sheet and are as follows as of December 31, 2005: Other Current Liabilities, $236.7 million; Other Liabilities, $54.8 million. In connection with this transaction, the Company recorded an intangible asset of $360.4 million which represented the estimated fair value of the exclusive promotion rights, determined as the aggregate present value of the probable incremental payments to be made as a result of the amended terms of the agreement in excess of the value of the co-promotion services to be rendered, as determined under the original agreement. The intangible asset will be amortized ratably over future sales of Synagis over the expected period of active sales and marketing activity in the United States (see Note 8).

The Company has a distribution agreement with AI, an affiliate of Abbott, to distribute Synagis outside of the United States. Under the terms of the distribution agreement, the Company manufactures and sells Synagis to AI at a price based on end-user sales. The Company recognized $7.5 million in other revenues in each of 2004 and 2003 upon the achievement of certain sales goals under the distribution agreement. In February 2005, the Company and AI amended the international distribution agreement to include the exclusive distribution of Numax, if and to the extent approved for marketing by regulatory authorities outside of the United States. Under the terms of the amended agreement, AI will be working to secure regulatory approval of Numax outside of the U.S. and, upon receipt of such approval, will distribute and market Numax outside of the United States. The amended agreement requires AI to pay the Company additional compensation as compared to the previous agreement, and such amounts in excess of estimated fair value for product sales of Synagis are recognized as other revenue in the consolidated statement of operations. During 2005, $17.1 million of incremental revenue was recognized as other revenue.

ALZA Corporation

In October 2001, the Company reacquired the domestic marketing rights to Ethyol from ALZA Corporation. Beginning April 1, 2002, the Company pays ALZA a declining royalty for nine years, based on sales of Ethyol in the United States.

Evans Vaccines Limited

The Company manufactures key components of FluMist, specifically the bulk monovalents and diluents, at a facility in Speke, the U.K., pursuant to a sublease arrangement with Evans Vaccines Limited, a division of Chiron. The manufacturing areas on the existing site are subleased through June 2006. In connection with the agreements, the Company made an initial payment of $15.0 million and additional payments of $3.9 million each in September 2001, 2002, 2003, 2004 and 2005. The Company was also obligated to make additional payments not to exceed $20 million, less a $1 million credit and accrued interest on that credit, to be paid over the term of the agreement based on net sales of FluMist. This amount was due January 2006 and is included in other current liabilities in the accompanying consolidated balance sheets.

Schering-Plough Corporation

The Company has an agreement with affiliates of Schering, for distribution of Ethyol in countries comprising the European Union, the European Free Trade Association and other countries outside of the United States.

The Company also has licensing agreements for Ethyol 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 Ethyol, and the Company sells the product to the licensees at an agreed upon price.

Wyeth

In April 2004, the Company entered into agreements to dissolve the collaboration with Wyeth for FluMist and to reacquire rights to an investigational second-generation liquid formulation, CAIV-T, and all related technology. As a result of the dissolution and in exchange for an upfront fee and future development milestones and sales-related royalties, MedImmune reacquired the influenza vaccines franchise, and has assumed full responsibility for the manufacturing, marketing, and sale of FluMist and any subsequent related products. During a transition period that was substantially completed as of December 31, 2004, Wyeth provided bulk manufacturing materials and transferred clinical trial data, as well as provided manufacturing support services.

During 2004, the Company made cash payments totaling $79.9 million under the terms of the agreement, representing (1) the final reconciliation of the amounts owed between parties related to the 2003/2004 influenza season, (2) the settlement of commercialization and development expenses owed between parties through the date of the agreement, (3) the purchase of Wyeth's distribution facility in Louisville, Kentucky, (4) the transfer of other assets from Wyeth and (5) the payment of certain milestones for achieving certain goals for transition activities. The transaction was accounted for as a purchase of assets, and the purchase price was allocated to each of the components based on their relative fair values as determined by an independent valuation.

In connection with the transaction, the Company recorded acquired IPR&D charges of $4.7 million and $29.2 million during 2005 and 2004, respectively, as well as a permanent impairment charge of $73.0 million during 2004 to write off the remaining unamortized cost of the Wyeth intangible asset originally recorded for the collaboration.

Under the terms of the former collaboration, during the 2003/2004 influenza season, Wyeth distributed FluMist and recorded all product sales, and the Company received payments from Wyeth in the form of product transfer payments, supply goal payments and royalties. The Company shipped approximately 4.1 million doses of FluMist to Wyeth during 2003, but did not recognize any sales-related revenue in 2003 due to the lack of certainty associated with returns and discounts in the vaccine's launch season. During 2003, the Company received $8.4 million in reimbursements from Wyeth for marketing expenses and $37.5 million in milestone revenues upon FDA approval of FluMist and the achievement of certain other goals, which are included in other revenues. During 2003, the Company agreed to pay $10 million to Wyeth for the purchase and use of clinical trial data from Wyeth's international CAIV-T trials, which is included in research and development expense.

[17] COMMITMENTS AND CONTINGENCIES

Manufacturing, Supply and Purchase Agreements

Synagis

In December 1997, the Company entered into a Euro-denominated agreement with Boehringer Ingelheim Pharma GmbH & Co. KG ("BI") to provide supplemental manufacturing of Synagis. The Company has firm commitments with BI for planned production and fill/finish through 2012 for approximately 99 million Euros ($117.3 million as of December 31, 2005). The Company paid $29.4 million in 2005, $30.3 million in 2004 and $18.1 million in 2003 related to production and scale-up of production as part of an additional agreement. Should BI 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.

In 2005, Sicor Pharmaceuticals, Inc. began to provide filling services for Synagis product manufactured at the FMC facility under a multi-year agreement. The Company has a firm commitment with Sicor for approximately $6.5 million through 2007. The Company paid Sicor $3.3 million in 2005 for commercial fills. In September 2005, Cardinal Health PTS, LLC began to label and package Synagis filled by Sicor under a multi-year agreement. The Company has a firm commitment with Cardinal for approximately $0.4 million in 2006. The Company paid Cardinal $0.8 million in 2005 for labeling and packaging services.

FluMist

The Company has a production agreement with Cardinal Health 406, Inc. to perform secondary production (i.e., assembly, labeling and packaging) of FluMist. As part of this agreement, the Company is obligated to pay annual non-refundable minimum payments for each contract year, if the price for units invoiced to the Company during a production year totals less than the minimum payment. Future minimum payments totaling $3.1 million are committed through December 31, 2007. Payments of $1.6 million were made for 2005, and $1.1 million were made for each of 2004 and 2003. Should the actual level of future production exceed the contract minimum, then actual payments will be correspondingly higher.

The Company has a worldwide multi-year supply agreement with Becton Dickinson for the supply of its AccuSpray non-invasive nasal spray delivery system for administration of FluMist. The Company has firm commitments to Becton Dickinson of approximately $28 million through 2009. The Company paid Becton Dickinson $1.8 million, $6.0 million and $2.4 million in 2005, 2004 and 2003, respectively.

CytoGam

The Company has manufacturing, supply and purchase agreements to provide production capability for CytoGam, and to provide a supply of human plasma for production of the product. The Company has entered into a new arrangement with BioLife Plasma Services and is committed for approximately $1.5 million for source plasma in 2006. The Company paid BioLife $4.3 million, $4.1 million and $4.1 million in 2005, 2004, and 2003, respectively. No assurance can be given that an adequate supply of plasma will be available from the Company's suppliers.

Massachusetts Biologic Laboratories ("MBL") is the current manufacturer of bulk product for CytoGam. The Company has a commercial agreement with MBL for planned bulk production of CytoGam through June 2006 for $2.6 million, subject to production level adjustments. Pursuant to the agreements with MBL, the Company paid $5.9 million, $5.9 million and $8.1 million in 2005, 2004 and 2003, respectively, for production and process development.

The Company has a commercial agreement with Precision Pharma Services for manufacture of the intermediate material (fraction II + III paste), and is committed for $0.5 million in fractionation services, subject to production yield adjustments, through June 2006. The Company paid Precision Pharma Services $1.1 million, $0.7 million and $2.4 million in 2005, 2004 and 2003, respectively, for fractionation services. The Company has entered into an agreement with Precision Pharma Services effective July 2006 for fractionation services and to replace MBL as the bulk manufacturer. Completion of the technical transfer for the bulk production process is expected to be completed in 2006. The Company is contingently committed to Precision Pharma for fractionation services and bulk production for approximately $11.0 million through 2009, pending FDA approval of the manufacture of bulk product by Precision Pharma.

If MBL, which currently holds the sole product and establishment licenses from the FDA for the manufacture of CytoGam, or Precision Pharma Services are unable to satisfy the Company's requirements for CytoGam on a timely basis or are 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.

Letters of Credit

The Company has guaranteed performance under certain agreements related to its construction projects. The undiscounted maximum potential amount of future payments that the Company could be required to make under such guarantees, in the aggregate, is approximately $1.7 million.

Research and Development, Licensing and Other Agreements

The Company has entered into research and development collaborations, licensing and other agreements with various federal and academic laboratories and other institutions to gain access to new product candidates and technologies, to further develop its products and technology, and to perform clinical trials. Under these agreements, the Company is committed to provide funding of approximately $14 million in 2006, and $32 million in the aggregate over the term of those agreements. In addition, the Company is also contingently committed for development milestone payments as well as sales-related milestone payments and royalties relating to potential future product sales under these agreements. The amount, timing and likelihood of these payments is unknown as they are dependent on the occurrence of future events that may or may not occur, such as the granting by the FDA of a license for product marketing in the United States. If all contractual development milestones were to be achieved under these agreements, which the Company does not consider probable, the total development milestones payments would approximate $1.1 billion.

[18] LEGAL PROCEEDINGS

Litigation Regarding Generic Version of Ethyol

In April 2004, Sun Pharmaceutical Industries Limited ("Sun") submitted an abbreviated new drug application ("ANDA") to the U.S. Food and Drug Administration for a generic version of Ethyol (amifostine) and notified the Company of such submission in June 2004. In the notice, Sun notified the Company that as part of its ANDA it had filed certification of the type described in Section 505(j)(2)(A)(vii)(IV) of the Federal Food, Drug and Cosmetic Act, 21 U.S.C. § 335(j)(2)(A)(vii)(IV), with respect to certain patents owned by the Company. In August 2004, the Company filed an action in the United States District Court for the District of Maryland for patent infringement against Sun, arising out of the filing by Sun of the ANDA with the FDA seeking approval to manufacture and sell the generic version of Ethyol prior to the expiration of various U.S. patents. Discovery is currently ongoing. The Company intends to vigorously enforce its patents.

AWP Cases

In January 2003, a lawsuit was filed by the County of Suffolk, New York ("Suffolk") in the United States District Court, Eastern District of New York, naming MedImmune, along with approximately 25 other pharmaceutical and biotechnology companies, as defendants. In August 2003, the County of Westchester, New York ("Westchester") filed and served a similar suit against MedImmune and approximately 25 other pharmaceutical and biotechnology companies. Likewise, in September 2003, the County of Rockland, New York ("Rockland") also filed and served a similar suit against MedImmune and approximately 25 other pharmaceutical and biotechnology companies. In August 2004, the City of New York ("New York City") also filed and served a similar suit against MedImmune and approximately 60 other pharmaceutical and biotechnology companies. The federal cases brought against the Company by Suffolk, Westchester and Rockland (collectively, the "Counties") and New York City have been consolidated for pre-trial purposes under the caption In re Pharmaceutical Industry Average Wholesale Price Litigation, MDL No. 1456, Civ. Action No. 01-CV-12257-PBS, before the United States District Court in the United States District Court for the District of Massachusetts (AWP Multidistrict litigation).

In June 2005, an amended and consolidated complaint ("Consolidated Complaint") was filed on behalf of thirty New York Counties and the City of New York—all of which are represented by one law firm. This lawsuit joins all previous county actions, with the exception of Suffolk County and Nassau County. (A lawsuit was also filed by Erie County, which remains pending, but that action was filed in New York state court.) Similarly, nine additional counties, all represented by this same law firm, are having their cases transferred to the MDL in order to join the Consolidated Complaint or have expressed an interest in joining the consolidated complaint. Nassau County's complaint was transferred to the MDL in April 2005. Separate counsel represents Nassau. The Erie County suit remains pending in New York State Supreme Court. In three separate opinions, Judge Saris dismissed all of Suffolk County's claims against MedImmune; Suffolk County did not join the Consolidated Complaint as to any of the defendants that were dismissed, including MedImmune.

The Counties and New York City allege that the defendants, including MedImmune, manipulated the "average wholesale price" ("AWP"), a price listed by price reporting agencies and used as a Medicaid reimbursement benchmark, causing the Counties and New York City to pay artificially inflated prices for covered drugs. In addition (with the exception of Erie County which has sued us in state court and alleges only improper AWP reporting), the Counties and New York City argue that the defendants, including MedImmune, did not accurately report "best price," a statutorily defined term that must be reported by manufacturers in order to qualify for Medicaid reimbursement. The plaintiffs seek declaratory and injunctive relief, disgorgement of profits, and treble and punitive damages suffered as a result of the defendants' alleged unlawful practices related to prescription medication paid for by Medicaid. Nassau County's complaint makes substantially the same allegations as the Consolidated Complaint but also includes RICO counts. With respect to the Consolidated Complaint, it asserts similar claims to those raised in the original complaint as well as new claims directed to RespiGam and CytoGam and new allegations related to the alleged improper reporting of the Wholesaler Acquisition Cost of various products, including Synagis, Ethyol, RespiGam and CytoGam, and how this alleged improper reporting affects the AWP for these products.

Similarly, in January 2005, a complaint was filed by the State of Alabama against more than 70 companies, including MedImmune, accusing all defendants of improper AWP and average manufacturer price (AMP) reporting and further alleging fraudulent misrepresentation, unjust enrichment and wantonness. Likewise, in October 2005, a lawsuit was filed by the State of Mississippi naming approximately 50 defendants, including MedImmune. The complaint alleges causes of action for state Medicaid fraud, deceptive trade practices, false advertising, crimes against the sovereignty, mail fraud, restraint of trade, common law fraud, and unjust enrichment.

As of December 31, 2005, the Company estimates the range of possible pre-tax loss from the Alabama action, the Mississippi action, the New York City action and the New York State County actions (both consolidated and unconsolidated) to range from $0 to $15 million, exclusive of alleged treble damages, best price related claims and other asserted state law causes of action. The Company intends to vigorously defend against the claims asserted in these complaints.

Various Patent Litigation Matters

In April 2003, the Company filed a suit against Genentech, Celltech R&D Limited ("Celltech") and City of Hope National Medical Center in the United States District Court for the Central District of California. The Company currently pays Genentech a royalty for sales of Synagis made or sold in the U.S. pursuant to a patent license agreement between the parties covering United States Patent No. 6,331,415B1 (the "Cabilly Patent"). In the complaint, the Company alleged that the Cabilly Patent was obtained as a result of a collusive agreement between Genentech and Celltech that violates federal and California antitrust laws as well as California's unfair business practices act. Additionally, the Company alleged that the Cabilly Patent is invalid and unenforceable under federal patent law and is not infringed by Synagis. In December 2003, the court granted Celltech's and Genentech's motions to dismiss the antitrust claims, and in January 2004, the court denied the Company's motion to amend the complaint. In March 2004, the Company appealed from the dismissal of the antitrust claims to the United States Court of Appeals for the Federal Circuit. In April 2004, the court dismissed the remaining claims in the case for lack of subject matter jurisdiction. The Company filed a second appeal of that dismissal to the United States Court of Appeals for the Federal Circuit, which was consolidated with the first appeal. Briefing in both appeals was completed, and oral argument was held in February 2005. The court issued a decision on October 18, 2005, affirming the District Court decision which had dismissed all claims.

MedImmune filed a Petition for Certiorari with the United States Supreme Court as to the subject matter jurisdiction issue and the Supreme Court granted the petition on February 21, 2006. The Company expects oral arguments to be heard during the Court's 2006–2007 term, which begins in October 2006.

In April 2002, the Company filed a suit against Centocor, Inc. ("Centocor") in the United States District Court for the District of Maryland. That action was amended in January 2003 to add the Trustees of Columbia University in the City of New York ("Columbia") and the Board of Trustees of the Leland Stanford Junior University ("Stanford" and together with Columbia, the "Universities") as the owners of the patent. The Company currently pays Centocor a royalty for sales of Synagis made or sold in the U.S. pursuant to a patent Sublicense Agreement between the parties (the "Sublicense Agreement"). In the litigation, the Company has been seeking a declaratory judgment that it has no obligation to continue paying royalties to Centocor on the basis that the patent is invalid, unenforceable and does not cover Synagis. In March 2004, Centocor and the Universities moved to dismiss this suit for lack of subject matter jurisdiction and the District Court granted Centocor and the Universities' motion in June 2004. The Company filed an appeal and the United States Court of Appeals for the Federal Circuit issued a decision on June 1, 2005, affirming the District Court decision which had dismissed all claims. The Company filed a Petition for Rehearing en banc which was denied on August 25, 2005. MedImmune filed a Petition for Certiorari with the United States Supreme Court and is awaiting a decision on that petition. The Company believes the Court will not make a decision on its petition until the Genentech matter described above is resolved.

The Company has been made aware that on January 17, 2006, Genentech filed an action against the Company alleging that the Company's Synagis product infringed two United States patents relating to certain lyophilized products. The suit was filed in the United States District Court for the Eastern District of Texas and seeks unspecified money damages. The Company has not yet been served with the Complaint. The Company and Genentech have been discussing matters relative to the patents, and MedImmune has been advising Genentech of various defenses it believes it has to the exposure, if any, for past sales of Synagis. The Company no longer makes or sells lyophilized Synagis in the United States. The Company intends to vigorously defend this lawsuit, if served on the Company.

Contract-Related Case

On August 26, 2005, the Company entered into a License Agreement with an affiliate of GSK, pursuant to which the Company would develop monoclonal antibodies for infections and diseases caused by staphylococcal bacteria. GSK itself licenses certain technology from Biosynexus, Inc. and, in the License Agreement, sublicensed the portion of such technology related to monoclonal antibodies to the Company on an exclusive basis as well as exclusively licensing to MedImmune certain related technology developed internally by GSK. On December 28, 2005, Biosynexus sued GSK and MedImmune in a New York state court alleging that GSK had improperly assigned its contract with Biosynexus to MedImmune thereby breaching GSK's obligations to Biosynexus and that MedImmune had tortiously induced that breach. Biosynexus is seeking a preliminary injunction to halt the flow of information and materials from GSK to the Company and damages due to the transfer of confidential information that has occurred to date. The Company believes that the Biosynexus claims against the Company are without merit and intends to vigorously defend against the claims asserted in the complaints. The Company does not believe that the outcome of this litigation will have a material adverse impact on the Company, but it may affect the progress of its anti-*staphylococcal* program.

Other Matters

The Company is also involved in other legal proceedings arising in the ordinary course of our business. After consultation with its legal counsel, the Company believes it has meritorious defenses to the claims against it referred to above and is determined to defend its positions 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 could possibly have a material adverse effect on its results of operations for a particular period. There can be no assurance that the Company will be successful in any of the litigations to which it is a party. In the ordinary course of business, the Company has provided indemnification to various parties for certain product liability claims and claims that its products were not manufactured in accordance with applicable federal standards. While the Company is not aware of any current claims under these provisions, there can be no assurance that such claims will not arise in the future or that the effect of such claims will not be material to the Company.

Selected Consolidated Financial Data

(in millions, except per share data)	2005[1][2]	2004[2]	2003	2002[3][4]	2001[4]
Results for the Year					
Total revenues	**$1,243.9**	$1,141.1	$1,054.4	$ 852.7	$ 620.7
Gross profit	**884.3**	757.6	702.8	589.1	442.8
Net earnings (loss)	**(16.6)**	(3.8)	183.2	(1,098.0)	149.0
Basic earnings (loss) per share	**(0.07)**	(0.02)	0.73	(4.40)	0.70
Diluted earnings (loss) per share	**(0.07)**	(0.02)	0.72	(4.40)	0.68
Year End Position					
Cash and marketable securities	**$1,471.9**	$1,706.1	$1,900.1	$ 1,423.1	$ 777.7
Total assets	**2,780.0**	2,564.4	2,794.6	2,188.3	1,236.9
Long-term debt, including current portion[5]	**506.2**	507.1	682.1	218.4	9.5
Shareholders' equity	**1,570.5**	1,674.6	1,699.2	1,677.2	1,044.3

[1] *Includes charges for acquired in-process research and development (IPR&D) in connection with our acquisition of Cellective on October 14, 2005.*

[2] *Includes charges related to the dissolution of the collaboration with Wyeth and reacquisition of full rights to the influenza vaccines franchise.*

[3] *Includes a charge for acquired IPR&D in connection with our acquisition of Aviron on January 10, 2002.*

[4] *Certain prior year amounts have been reclassified to conform to the current year presentation.*

[5] *The 1% convertible senior notes, which have an aggregate principal amount of $500 million, have been classified as current liabilities in our consolidated balance sheet as of December 31, 2005 as we anticipate that the holders will require us to redeem the notes on July 15, 2006, as permitted by the senior notes indenture.*

QUARTERLY FINANCIAL DATA (UNAUDITED)

	2005 Quarter Ended			
(in millions, except per share data)	Dec. 31	Sept. 30	June 30	Mar. 31
Net product sales	$481.6	$146.0	$ 84.7	$ 508.7
Gross profit	341.4	97.3	56.7	388.9
Net earnings (loss)	(22.4)	(64.1)	(44.2)	114.1
Net earnings (loss) per share:				
Basic	$ (0.09)	$ (0.26)	$ (0.18)	$ 0.46
Diluted	$ (0.09)	$ (0.26)	$ (0.18)	$ 0.45

	2004 Quarter Ended			
	Dec. 31	Sept. 30	June 30	Mar. 31
Net product sales	$457.8	$ 92.3	$ 90.7	$ 483.2
Gross profit	327.3	51.9	53.4	325.0
Net earnings (loss)	50.5	(65.0)	(100.3)	111.0
Net earnings (loss) per share:				
Basic	$ 0.20	$ (0.26)	$ (0.40)	$ 0.45
Diluted[1]	$ 0.20	$ (0.26)	$ (0.40)	$ 0.43

[1] *In accordance with EITF No. 04-8, "The Effect of Contingently Convertible Debt on Diluted Earnings per Share," which became effective during 2004, our 1% convertible senior notes are now included in diluted earnings per share using the if-converted method, regardless if the market price trigger has been met, unless the effect is anti-dilutive. As required, prior period diluted earnings per share have been restated for comparative purposes. The table below presents a reconciliation of historical and restated diluted earnings per share for the 2004 quarter in which the 1% convertible senior notes were dilutive:*

	Net Income (numerator)	Weighted Average Shares (denominator)	Per Share Amount
Quarter ended March 31, 2004			
Historical diluted earnings	$111.0	$250.9	$0.44
Assuming conversion of 1% Notes	1.2	7.3	—
Restated diluted earnings	$112.2	$258.2	$0.43

Corporate Information

CORPORATE HEADQUARTERS
One MedImmune Way
Gaithersburg, MD 20878
Tel.: (301) 398-0000
Fax: (301) 398-9000
Web site: www.medimmune.com

INDEPENDENT AUDITORS
PricewaterhouseCoopers LLP
McLean, VA

ANNUAL STOCKHOLDERS' MEETING
The next annual meeting of stockholders will be held on May 25, 2006 at 10:00 a.m. eastern time, at MedImmune's corporate headquarters located at One MedImmune Way, Gaithersburg, MD 20878.

SEC FORM 10-K AND REQUESTS FOR INFORMATION
A copy of MedImmune'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.
One MedImmune Way
Gaithersburg, MD 20878
or
IR@MedImmune.com

TRANSFER AGENT AND REGISTRAR
American Stock Transfer & Trust Company
59 Maiden Lane
Plaza Level
New York, NY 10038
(718) 921-8200

COMMON STOCK PRICES
MedImmune's stock trades on The Nasdaq National Market under the symbol MEDI. At December 31, 2005, there were 255,352,914 shares of common stock outstanding and 1,920 common stockholders of record. The following table shows the range of high and low prices and year-end closing prices for the common stock for the two most recent fiscal years.

	2005		2004	
	High	Low	High	Low
First Quarter	**$27.45**	**$23.20**	$26.41	$20.77
Second Quarter	**27.55**	**23.60**	25.95	22.91
Third Quarter	**33.83**	**26.48**	25.15	21.70
Fourth Quarter	**37.58**	**31.82**	28.70	23.62
Year End Close	**$35.02**		$27.11	

FORWARD-LOOKING STATEMENTS
Unless otherwise indicated, the information in this annual report is as of December 31, 2005. 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, and are based on numerous assumptions, which MedImmune cannot control and that may not develop as MedImmune expects. Consequently, actual results may differ materially from those described in the forward-looking statements. Among the factors that could cause actual results to differ materially are the risks, uncertainties and other matters discussed in this report, particularly under the section captioned "Risk Factors." MedImmune cautions that RSV disease and influenza disease targeted by two of MedImmune's products, Synagis and FluMist, respectively, occur primarily during the winter months and MedImmune believes its operating results will reflect that seasonality for the foreseeable future. MedImmune is also developing several products for potential future marketing. There can be no assurance that such development efforts will succeed, that such products will receive required regulatory clearance or that, even if such regulatory clearance is received, such products will ultimately achieve commercial success. This annual report will not be updated as a result of new information or future events except as may be required by applicable law or regulation.

Officers and Directors

DIRECTORS

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Founder and Chairman of the Board, MedImmune, Inc.; President, MedImmune Ventures, Inc.

DAVID M. MOTT[6]
Chief Executive Officer, President and Vice Chairman, MedImmune, Inc.

DAVID BALTIMORE, PH.D.[4][5]
President, California Institute of Technology

M. JAMES BARRETT, PH.D.[1][2][5][6]
Chairman, Sensors for Medicine and Science, Inc.

JAMES H. CAVANAUGH, PH.D.[2][3][6]
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President and Chief Executive Officer, Barbara Franklin Enterprises

GORDON S. MACKLIN[1][2][4]
Corporate Financial Advisor

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Former Vice President, Corporate Licensing, Merck & Co.

GEORGE M. MILNE, JR., PH.D.[2][3]
Former President of Central Research Pfizer, Inc.

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

MANAGEMENT OF MEDIMMUNE, INC.

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Chief Executive Officer, President and Vice Chairman

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President, Research and Development

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Executive Vice President and Chief Medical Officer

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Senior Vice President, Corporate Development

LINDA J. PETERS
Senior Vice President, Regulatory Affairs

R. MICHAEL SMULLEN
Senior Vice President, Sales

LOTA S. ZOTH
Senior Vice President and Chief Financial Officer

JOAN A. BRANDT, PH.D.
Vice President, Corporate Quality Assurance

DAVID A. CARLIN, PH.D.
Vice President, Clinical Research Design

FRANK CZWORKA, JR.
Vice President, Sales, Infectious Disease

ALLAN DARLING, PH.D.
Vice President, Corporate Quality Control

CHRISTINE A. DINGIVAN, M.D.
Vice President, Clinical Research and Operations

GARY B. EBBERT,
Vice President, Antibody and Small Molecule Manufacturing

JEFFREY S. HACKMAN
Vice President, Marketing, Vaccines

LUZ D. HAMMERSHAIMB, M.D.
Vice President, Clinical Development

BAHIJA JALLAL, PH.D.
Vice President, Translational Sciences

GEORGE W. KEMBLE, PH.D.
Vice President, Vaccine Research and Development

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Vice President, Medical and Scientific Affairs

GENEVIEVE A. LOSONSKY, M.D.
Vice President, Clinical Development

ANTHONY M. LUTTRELL
Vice President, Quality

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Vice President, Medical Affairs

KEVIN W. MCNELLY
Vice President, Supply Chain Operations

JAMES R. MILLER
Vice President, International Business Analysis and New Products

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Vice President, Finance and Treasurer

DIRK J. REITSMA, M.D.
Vice President, Clinical Development

KEVIN M. ROONEY
Vice President, Sales and Marketing, Oncology

MARK E. SPRING
Vice President, Finance and Controller

JOHN J. TRIZZINO
Vice President, Trade and Distribution

RANDALL M. TURNER
Vice President, Engineering and Facilities

MARK C. TWYMAN
Vice President and General Manager, Vaccines

MAURICIO VARGAS-CORTES, PH.D.
Vice President, Project Management

ROBERT E. WALKER, M.D.
Vice President, Clinical Development

LORI A. WEIMAN
Vice President, Public Affairs

JOHN J. WHALEN, M.D.
Vice President, Clinical Development Operations

DOUG B. WILLNER
Vice President, Sales Training

SAMUEL YONREN, M.D.
Vice President, Product Safety

CAROLINE N. YORK
Vice President, Reimbursement

PETER C. YOUNG
Vice President, Information Technology

Design: www.vivodesign.com

MedImmune

ONE MEDIMMUNE WAY
GAITHERSBURG, MD 20878
TEL (301) 398-0000
FAX (301) 398-9000

WWW.MEDIMMUNE.COM