MEDIMMUNE INC /DE
Form 10-Q
April 30, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2007

0-19131

(Commission File No.)

MedImmune, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**52-1555759**
(State or other jurisdiction of incorporation or organization)	(I. R. S. Employer Identification No.)

One MedImmune Way, Gaithersburg, MD 20878

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code **(301) 398-0000**

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

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

As of April 24, 2007, 237,871,799 shares of Common Stock, par value $0.01 per share, were outstanding.

MEDIMMUNE, INC.
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Unless otherwise indicated, this Quarterly Report is current as of March 31, 2007 and the Company undertakes no obligation to update it to reflect events or circumstances after the date of this Quarterly Report or to reflect the occurrence of unanticipated events.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MEDIMMUNE, INC.

CONSOLIDATED BALANCE SHEETS

(in millions)

	March 31, 2007 (Unaudited) (In millions)	December 31, 2006
ASSETS:		
Cash and cash equivalents	$ 463.3	$ 359.4
Marketable securities	574.2	468.0
Accounts receivable, net	280.6	258.7
Inventory, net	87.6	85.3
Deferred tax assets, net	20.7	19.7
Other current assets	14.6	14.4
Total Current Assets	1,441.0	1,205.5
Marketable securities	566.4	677.8
Property and equipment, net	502.8	481.6
Deferred tax assets, net	241.7	278.4
Intangible assets, net	190.4	219.4
Other assets	91.2	90.5
Total Assets	$ 3,033.5	$ 2,953.2
LIABILITIES AND SHAREHOLDERS EQUITY:		
Accounts payable	$ 45.1	$ 45.5
Accrued expenses	185.3	180.4
Product royalties payable	108.4	98.0
Other current liabilities	23.4	87.3
Total Current Liabilities	362.2	411.2
Long-term debt	1,164.1	1,164.4
Other liabilities	42.8	0.4
Total Liabilities	1,569.1	1,576.0
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 March 31, 2007 and December 31, 2006	2.6	2.6
Paid-in capital	2,713.7	2,706.5
Accumulated deficit	(705.7)	(819.4)
Accumulated other comprehensive loss	(5.7)	(4.7)
	2,004.9	1,885.0
Less: Treasury stock at cost; 17.8 million shares at March 31, 2007 and 16.9 million shares at December 31, 2006	(540.5)	(507.8)
Total Shareholders Equity	1,464.4	1,377.2
Total Liabilities and Shareholders Equity	$ 3,033.5	$ 2,953.2

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

MEDIMMUNE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in millions, except per share data)

	Three months ended March 31,	
	2007	**2006**
Revenues:		
Product sales	$ 531.4	$ 491.6
Other revenue	43.4	6.4
Total revenues	574.8	498.0
Costs and expenses:		
Cost of sales	115.5	123.1
Research and development	79.5	87.9
Selling, general and administrative	147.1	211.9
Other operating expenses	0.3	2.7
Total expenses	342.4	425.6
Operating income	232.4	72.4
Interest income	17.3	15.7
Interest expense	(4.9)	(2.7)
Gain (loss) on investment activities	9.6	(0.8)
Earnings before income taxes	254.4	84.6
Income tax provision	94.4	37.6
Net earnings	$ 160.0	$ 47.0
Basic earnings per share	$ 0.67	$ 0.19
Shares used in calculation of basic earnings per share	237.9	247.9
Diluted earnings per share	$ 0.66	$ 0.18
Shares used in calculation of diluted earnings per share	241.4	260.0

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

MEDIMMUNE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in millions)

	Three months ended March 31, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 160.0	$ 47.0
Adjustment to reconcile net earnings to net cash provided by operating activities:		
Share-based compensation expense	7.4	9.7
Windfall tax benefit of share-based compensation expense	(3.9)	(1.9)
Deferred taxes	5.3	34.5
Depreciation and amortization	43.9	52.9
Amortization of premium on marketable securities	1.3	3.2
Realized loss (gain) on investments, net	(9.6)	0.8
Losses on write-downs of inventory		8.9
Increase in sales allowances	39.5	24.2
Other, net	0.7	1.8
Other changes in assets and liabilities	(59.7)	(19.0)
Net cash provided by operating activities	184.9	162.1
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease (increase) in marketable securities, net	11.2	(178.9)
Capital expenditures	(31.6)	(28.2)
Purchase of assets from Wyeth	(5.0)	
Minority interest investments, net		(2.9)
Net cash used in investing activities	(25.4)	(210.0)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	11.4	40.7
Windfall tax benefit of share-based compensation expense	3.9	1.9
Share repurchases	(70.8)	
Repayments on long-term obligations	(0.2)	(0.2)
Net cash provided by (used in) financing activities	(55.7)	42.4
Effect of exchange rate changes on cash	0.1	0.1
Net increase (decrease) in cash and cash equivalents	103.9	(5.4)
Cash and cash equivalents at beginning of period	359.4	153.4
Cash and cash equivalents at end of period	$ 463.3	$ 148.0

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

MEDIMMUNE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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 primarily develops monoclonal antibodies and vaccines. The Company markets three products: Synagis, FluMist and Ethyol, and has a diverse pipeline of development-stage products.

2. Summary of Significant Accounting Policies

General

The financial information presented as of and for the three months ended March 31, 2007 (Q1 2007) and as of and for the three months ended March 31, 2006 (Q1 2006) is unaudited. In the opinion of the Company s management, the financial information presented herein contains all adjustments necessary for a fair statement of results for the interim periods presented. The Company s operations and financial results are highly seasonal. Interim results are not necessarily indicative of results for an entire year or for any subsequent interim period. These consolidated financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2006. The December 31, 2006 consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

Seasonality

The Company s largest revenue-generating product, Synagis, is used to prevent respiratory syncytial virus (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 in the second and third quarters of any calendar year, causing financial results to vary significantly from quarter to quarter.

FluMist is a nasally delivered live, attenuated vaccine used to help prevent influenza in healthy individuals from 5 to 49 years of age. As influenza 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, causing financial results to vary significantly from quarter to quarter.

Accounts Receivable

The Company s accounts receivable primarily represent amounts due from customers for sales of product, amounts due under contractual agreements including royalties, licensing fees, and milestones, and receivables due under the government contract.

Property and Equipment

Property and equipment are stated at cost. Interest incurred during the period of construction of facilities is capitalized until the asset is substantially complete and ready for its intended use. With respect to construction of manufacturing facilities, the point at which the asset is substantially complete and ready for its intended use is at the point the facility receives the necessary regulatory approvals, such as licensure by the U.S. Food and Drug Administration (FDA). Depreciation and amortization expense commence when the asset is substantially complete and ready for its intended use.

Contract Revenues

Revenues under the Company s licensing and research and development arrangements include upfront fees, milestone payments, contingent payments, royalties, and reimbursement of research and development activities. Contractual arrangements that contain multiple deliverables are divided into separate units of accounting if the delivered item has stand-alone value to the customer and there is objective and reliable evidence of the fair value of the undelivered items. Total consideration is allocated among the separate units based on relative fair values and applicable revenue recognition criteria are considered separately for separate units of accounting.

Nonrefundable upfront licensing fees for which no further performance obligations exist are recognized as revenue upon execution of the arrangement if collectibility is reasonably assured. Nonrefundable upfront fees under arrangements that require the Company s continuing involvement in the form of research, development, manufacturing or other commercial efforts are recognized as revenue ratably over the development period, if development risk is significant, or over the manufacturing period or product life, if development risk is insignificant as of the contract date.

Milestone payments are recognized as revenue using the milestone payment method when the related milestones are achieved in accordance with the terms of the contract, providing that all milestones to be received under the contractual arrangement 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.

Contingent payments are conditioned upon the occurrence of future events for which there is reasonable uncertainty as to their achievement. Contingent payments are recognized as revenue when the related contingencies are resolved, providing that they are determined to be substantive and at-risk.

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

Reimbursements of research and development costs are recognized as revenue as the related costs are incurred. The corresponding research and development costs are included in research and development expenses in the Company s Consolidated Statements of Operations.

Reclassifications

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

New Accounting Standards

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financing Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159). This Statement establishes a fair value option which permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. Any unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. FAS 159 is effective for the Company s fiscal year beginning January 1, 2008. The Company does not currently have any financial instruments for which it intends to elect the fair value option.

3. Inventory

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

	March 31, 2007	December 31, 2006
Raw Materials	$ 14.2	$ 12.6
Work-in-Process	46.6	24.3
Finished Goods	26.8	48.4
	$ 87.6	$ 85.3

The Company recorded permanent inventory write-downs totaling $8.9 million during Q1 2006 in cost of sales to reflect total FluMist inventories at net realizable value. Based on the current projections of sales volumes and pricing for FluMist, the expected net realizable value of FluMist inventory for the 2007/2008 season exceeds cost, and therefore no lower of cost or market inventory reserves were required as of March 31, 2007.

The Company recorded permanent inventory write-downs totaling $8.9 million during Q1 2006 in cost of sales to ref

4. Income Taxes

The Company s effective tax rate was 37% for Q1 2007 compared to an effective tax rate of 44% for Q1 2006. The decrease in the effective tax rate for Q1 2007 was primarily attributable to higher pre-tax book income, the reduced impact of non-deductible share-based compensation, and increased federal tax credits and domestic manufacturing deduction.

On January 1, 2007, the Company adopted the provisions of FASB Interpretation Number 48, Accounting for Uncertainty in Income Taxes, an interpretation of FAS 109 (FIN 48). FIN 48 clarifies the accounting for income tax positions by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the implementation of FIN 48, the Company recognized approximately a $39.1 million increase in the liability for unrecognized tax benefits, of which $29.2 million was accounted for as an increase to the January 1, 2007 balance of accumulated deficit. Additionally, $2.0 million of interest and penalties was recorded as an increase to the January 1, 2007 balance of accumulated deficit. The total amount of unrecognized tax benefits as of January 1, 2007 was $71.4 million. Included in the balance at January 1, 2007 are $61.1 million of tax positions that, if recognized, would affect the effective tax rate. No adjustments have been made during Q1 2007 to the balance of unrecognized tax benefits as of January 1, 2007 after adoption of FIN 48.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits as a component of tax expense. The total amount of accrued interest and penalties as of January 1, 2007 was $3.4 million. During Q1 2007, the Company recognized approximately $0.4 million in interest.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. For income tax returns filed by the Company, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2002, although carryforward tax attributes that were generated prior to 2002 may still be adjusted upon examination by tax authorities if they either have been or will be utilized.

Management has concluded that it is not reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date.

5. Intangible Assets

Intangible assets are comprised of the following (in millions):

	March 31, 2007		December 31, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Co-promotion rights reacquired from Abbott	$ 346.1	$ (160.7)	$ 346.1	$ (126.7)
Manufacturing know-how acquired from Evans	39.0	(39.0)	39.0	(39.0)
Other intangible assets	5.4	(0.4)	0.4	(0.4)
Total	$ 390.5	$ (200.1)	$ 385.5	$ (166.1)

During Q1 2007, the Company capitalized a $5.0 million milestone that was payable to Wyeth upon FDA approval of refrigerated FluMist. The intangible asset will be amortized over the expected useful life of the technological know-how, which is estimated to be 10 years.

Amortization for the Company s intangible assets for Q1 2007 and Q1 2006 was $34.0 million and $45.3 million, respectively.The estimated aggregate amortization for the remaining life of the assets is as follows (in millions):

For the nine months ended December 31, 2007	$ 34.9
For the year ended December 31, 2008	68.9
For the year ended December 31, 2009	57.1
For the year ended December 31, 2010	26.4
For the year ended December 31, 2011	0.5
Thereafter	2.6
	$ 190.4

6. Comprehensive Income

	Q1 2007	Q1 2006
Net earnings	$ 160.0	$ 47.0
Change in foreign currency translations adjustment	(0.1)	0.1
Change in unrealized loss on investments, net of tax	(0.9)	(7.5)
Comprehensive income	$ 159.0	$ 39.6

7. Shareholders Equity

Through March 6, 2007, the Company repurchased approximately 1.9 million shares of common stock at a cost of $61.1 million, or an average cost of $32.35 per share, under its written pre-established securities trading plan pursuant to Rule 10b-5 promulgated under the Securites Exchange Act of 1934, as amended. The Company is holding repurchased shares as treasury shares and is using them for general corporate purposes, including but not limited to issuance upon exercise of outstanding stock options and acquisition-related transactions.

8. Earnings per Share

The following is a reconciliation of the numerators and denominators of the diluted EPS computation (in millions):

	Q1 2007	Q1 2006
Numerator:		
Net earnings for basic EPS	$ 160.0	$ 47.0
Adjustments for interest expense on convertible senior notes, net of tax (1)		0.5
Earnings for diluted EPS	$ 160.0	$ 47.5
Denominator:		
Weighted average shares for basic EPS	237.9	247.9
Effect of dilutive securities:		
Stock options and warrants	3.3	4.8
Convertible senior notes (1)	0.2	7.3
Weighted average shares for diluted EPS	241.4	260.0
Basic earnings per share	$ 0.67	$ 0.19
Diluted earnings per share	$ 0.66	$ 0.18

The Company recognizes interest and penalties accrued related to unrecognized tax benefits as a component of ta

(1) The Company s $1.15 billion convertible senior notes, which were issued during June 2006, are included in the calculation of diluted earnings per share whether or not the contingent requirements have been met for conversion using the treasury stock method if the conversion price of $33.37 is less than the average market price of the Company s common stock for the period, because upon conversion, the par value is settled in cash and only the conversion premium is settled in shares of the Company s common stock. The Company s 1% convertible senior notes, which represented 0.2 million and 7.3 million potential shares of common stock during Q1 2007 and Q1 2006, respectively, are included in the calculation of diluted earnings per share for the period of time they are outstanding using the if-converted method whether or not the contingent requirements have been met for conversion to common stock, unless the effect is anti-dilutive. The Company s $1.15 billion convertible senior notes were anti-dilutive for Q1 2007.

If option or warrant 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 and warrants in the earnings per share calculation is anti-dilutive. Options and warrants to purchase 47.2 million and 14.9 million shares of common stock at prices ranging from $33.30 to $83.25 per share and $35.10 to $83.25 per share, were outstanding as of March 31, 2007 and March 31, 2006, respectively, but were not included in the computation of diluted earnings per share because the exercise price of the options exceeded the average market price.

9. Share-based Compensation

The pre-tax share-based compensation expense recognized during Q1 2007 and Q1 2006 is as follows (in millions):

	Q1 2007	Q1 2006
Cost of sales	$ 0.8	$ 0.4
Research and development	2.3	3.7
Selling, general and administrative	4.3	5.6
Share-based compensation expense	$ 7.4	$ 9.7

Share-based compensation cost included in inventory was $1.4 million and $0.5 million at March 31, 2007 and March 31, 2006, respectively.

10. Legal Proceedings

The Company s material legal proceedings are described in Note 20 to the consolidated financial statements included with the Company s Annual Report on Form 10-K for the year ended December 31, 2006. With respect to the legal proceedings described therein, no material developments have occurred except as follows:

Various Patent Litigation Matters

On the Cabilly Patent case, on March 7, 2007, the Federal Circuit remanded the case to the District Court for the Central District of California for further proceedings. Furthermore, on the Centocor case, on April 11, 2007, the Federal Circuit remanded the case to the District Court for the District of Maryland for further proceedings.

Average Wholesale Price Cases

The status of the various lawsuits by various states and counties alleging manipulation of average wholesale price by several defendants, including the Company, did not change materially during Q1 2007, except that on April 24, 2007, we were served with a complaint filed by the County of Orange, New York alleging similar causes of action against us and other pharmaceutical and biotechnology companies. As of March 31, 2007, 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 $20 million, exclusive of alleged treble damages, best price related claims and other asserted state law causes of action.

Contract-Related Case

With respect to the litigation with Biosynexus, Inc., the appellate decision with respect to the issuance of the preliminary injunction and the Company s motion for summary judgment are pending. In addition, in April 2007, GSK filed its own motion for summary judgment. A trial date has been set for September 24, 2007.

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11. Subsequent Event

On April 22, 2007, the Company entered into a definitive agreement to be acquired by AstraZeneca PLC. Under the terms of the agreement, AstraZeneca will acquire all of the fully diluted common shares outstanding of the Company for $58 per share, or total consideration of approximately $15.6 billion. The acquisition is structured as an all cash tender offer for the Company s outstanding shares on a fully diluted basis followed by a merger in which each untendered share will be converted into the same $58 cash per share price paid in the tender offer. The merger is contingent upon and subject to certain closing conditions, including the tender of a majority of the outstanding shares of the Company on a fully diluted basis and review by the Federal Trade Commission and other regulatory authorities. If the agreement is terminated under certain circumstances, the Company may be required to pay a termination fee of $450.0 million to AstraZeneca.

The Company expects total merger-related costs during 2007 to approximate between 0.2% and 0.3% of the total transaction value, primarily related to financial advisory, legal and accounting fees. The merger-related costs, if incurred, are not expected to significantly impact the Company s financial position.

ITEM 2. 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 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 section in Part I, Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2006 and the Risk Factors section in Part II, Item IA of this Quarterly Report on Form 10-Q.

INTRODUCTION

MedImmune is committed to advancing science to develop better medicines that help people live healthier, longer and more satisfying lives. We currently focus our efforts on using biotechnology to produce innovative products for prevention and treatment in the therapeutic areas of infectious disease, cancer and inflammatory disease. We primarily develop monoclonal antibodies and vaccines. We market three products, Synagis, FluMist, and Ethyol and have a diverse pipeline of development-stage products.

On April 22, 2007, the Company entered into a definitive agreement to be acquired by AstraZeneca PLC. Under the terms of the agreement, AstraZeneca will acquire all of the fully diluted common shares outstanding of the Company for $58 per share, or total consideration of approximately $15.6 billion. The acquisition is structured as an all cash tender offer for the Company s outstanding shares on a fully diluted basis followed by a merger in which each untendered share will be converted into the same $58 cash per share price paid in the tender offer. The merger is contingent upon approval of the Company s shareholders and subject to certain closing conditions, including the tender of a majority of the outstanding shares of the Company on a fully diluted basis and review by the Federal Trade Commission and other regulatory authorities. If the agreement is terminated under certain circumstances, the Company may be required to pay a termination fee of $450.0 million to AstraZeneca.

OVERVIEW

Total revenues increased 15% in Q1 2007 to $574.8 million as compared to $498.0 million in Q1 2006. The increase in total revenues was driven by a 9% increase in worldwide sales of Synagis, as well as growth in other revenues resulting primarily from royalties earned from our human papillomavirus vaccine technology. We reported net income of $160.0 million, or $0.66 per diluted share, in Q1 2007 compared to net income of $47.0 million, or $0.18 per diluted share, in Q1 2006. In addition to the increase in total revenues, net income was favorably impacted in Q1 2007 by lower levels of research and development spending as a result of the completion of pivotal Phase 3 trials during 2006, as well as lower selling, general and administrative expenses primarily due to the absence of co-promotion expense to Abbott.

Key highlights from Q1 2007 are as follows:

- Initiation of a Phase 1 trial with our monoclonal antibody targeting interferon-alpha, known as MEDI-545, in patients with psoriasis.

- Initiation of a Phase I/II clinical trial of IPI-504, a development-stage anti-cancer agent and Heat Shock Protein 90 (Hsp90) inhibitor which is being developed jointly with Infinity Pharmaceuticals, Inc. The goal of the Phase I portion of the multi-center study is to evaluate the safety and the maximum tolerated dose in patients with advanced non-small cell lung cancer. The Phase II portion of the trial will begin with a goal of determining the potential anti-tumor activity in patients.

- Licensing of our proprietary reverse genetics intellectual property to sanofi pasteur, the vaccines business of the sanofi-aventis Group. We will receive an upfront payment and have the potential to receive royalties on certain vaccine stockpiles or sales of other influenza products developed using this technology.

NEW ACCOUNTING STANDARDS

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation Number 48, Accounting for Uncertainty in Income Taxes, an interpretation of FAS 109 (FIN 48), to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income tax positions by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. We adopted FIN 48 as of January 1, 2007, as required. The impact of FIN 48 is discussed in Note 4 to our consolidated financial statements.

In February 2007, the FASB issued Statement of Financing Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159). This Statement establishes a fair value option which permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. Any unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. FAS 159 is effective for our fiscal year beginning January 1, 2008. We do not currently have any financial instruments for which we intend to elect the fair value option.

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. For additional information regarding our critical accounting estimates, please refer to Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the year ended December 31, 2006. 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. The following discussion updates the critical accounting estimates information included in the Form 10-K for the year ended December 31, 2006.

Income Taxes We adopted the provisions of FIN 48 on January 1, 2007. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The evaluation of a tax position is a two-step process. The first step is recognition: we determine whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, we presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The second step is measurement: a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Differences between tax positions taken in a tax return and amounts recognized in the financial statements will generally result in one or more of the following: an increase in a liability for income taxes payable, a reduction of an income tax refund receivable, a reduction in a deferred tax asset, or an increase in a deferred tax liability.

RESULTS OF OPERATIONS

Q1 2007 compared to Q1 2006

Revenues Product Sales

(in millions)	Q1 2007	Q1 2006	Change
Synagis			
Domestic	$ 474.9	$ 434.5	9 %
International	31.9	28.5	12 %
	506.8	463.0	9 %
Ethyol			
Domestic	22.2	19.4	15 %
International	0.7	0.7	1 %
	22.9	20.1	14 %
FluMist	0.7	1.7	(63)%
Other Products	1.0	6.8	(86)%
Total Product Sales	$ 531.4	$ 491.6	8 %

Synagis - Synagis accounted for approximately 95% and 94% of our product sales in Q1 2007 and Q1 2006, respectively. In Q1 2007, domestic sales of Synagis increased 9% to $474.9 million from Q1 2006 sales of $434.5 million. The increase in domestic sales was primarily attributable to higher selling prices and a 2% increase in unit volumes.

We record Synagis international product sales based on a portion of Abbott International s (AI) sales price to customers, as defined in our distribution agreement. Our reported international sales of Synagis increased 12% to $31.9 million for Q1 2007 as compared to $28.5 million in Q1 2006, primarily due to increased unit volumes sold to AI.

Ethyol - Ethyol accounted for approximately 4% of our product sales in Q1 2007 and Q1 2006. Domestic sales of Ethyol increased 15% to $22.2 million in Q1 2007, compared to $19.4 million in Q1 2006 due to higher unit volume and a price increase of approximately 6%. International sales of Ethyol were $0.7 million in both Q1 2007 and Q1 2006.

FluMist - Product sales of FluMist were $0.7 million during Q1 2007 compared to $1.7 million during Q1 2006. Due to the seasonal nature of influenza, the majority of FluMist sales are expected to occur between September and January.

Other Products - Sales of other products decreased to $1.0 million in Q1 2007 from $6.8 million in Q1 2006 reflecting the sale of CytoGam assets to ZLB Behring AG during the fourth quarter of 2006.

Revenues - Other Revenues

(in millions)	Q1 2007	Q1 2006
HPV related	$ 26.3	$ 2.5
RSV franchise	3.5	3.5
Government and other	13.6	0.4
Total other revenue	$ 43.4	$ 6.4

HPV related revenues include royalties and development and sales related milestones related to Merck s and GSK s HPV vaccines for cervical cancer. Sales royalties related to Merck s and GSK s HPV vaccines are based on graduated royalty rate structures.

Revenues related to our RSV franchise represent incremental revenue recognized under the amended international distribution agreement with AI, which represents amounts received in excess of estimated fair value for product sales of Synagis. Such excess amounts have been determined using projected reimbursements for the Synagis season, and are recorded in other revenue, as such excess payments are deemed consideration from AI for the rights to distribute Numax outside of the United States.

During Q1 2007, we recognized $5.4 million in revenues under the government contract, as well as $5.6 million related to the licensing of our reverse genetics technology.

Cost of Sales

Cost of sales was $115.5 million for Q1 2007 compared to $123.1 million in Q1 2006. Gross margins on product sales for Q1 2007 and Q1 2006 were 78% and 75%, respectively. Gross margins were favorably impacted by declining royalty rates for Ethyol and the absence of lower of cost or market adjustments for FluMist. Without the impact of FluMist, gross margins were 78% in Q1 2007 and 77% in Q1 2006. Share-based compensation expense did not significantly impact gross margins in either quarter.

Research and Development Expenses

Research and development expenses decreased 10% to $79.5 million in Q1 2007, compared to $87.9 million in Q1 2006. The decrease is primarily due to lower expenses associated with the completion of pivotal Phase 3 trials during 2006, partially offset by higher infrastructure costs and increased costs associated with earlier stage programs such as Hsp90, cell culture flu, RSV small molecules and interferon-alpha. Research and development expense included share-based compensation expense of $2.3 million in Q1 2007 and $3.7 million in Q1 2006.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses decreased 31% to $147.1 million in Q1 2007 compared to $211.9 million in Q1 2006. The decrease is mainly attributable to the absence of co-promotion expense to AI, which totaled $90.4 million in Q1 2006, partially offset by increased marketing activities, higher personnel costs and increased legal and other professional services fees. Amortization expense for the intangible asset associated with U.S. co-promotion rights for Synagis was $34.0 million in Q1 2007 compared to $43.1 million in Q1 2006, reflecting the revision to the carrying amount and amortization period of the intangible asset during the fourth quarter of 2006. SG&A expense included share-based compensation expense of $4.3 million in Q1 2007 and $5.6 million in Q1 2006.

Gain (Loss) on Investment Activities

We recorded a net gain on investment activities of $9.6 million during Q1 2007 compared to a net loss of $0.8 million during Q1 2006. The Q1 2007 net gain consists primarily of gains on sales of common stock of publicly traded companies held by our venture capital subsidiary. The Q1 2006 net loss consists primarily of impairment write-downs due to the decline in fair value of certain of our minority interest investments below their cost basis that were determined to be other-than-temporary.

Taxes

We recorded income tax expense of $94.4 million for Q1 2007, resulting in an effective tax rate of 37% for the period. We recorded income tax expense of $37.6 million for Q1 2006, resulting in an effective rate of 44% for the period. The decrease in the effective rate in Q1 2007 was primarily attributable to higher pre-tax book income, the reduced impact of non-deductible share-based compensation, and increased federal tax credits and domestic manufacturing deduction.

Net Income

We reported net income for Q1 2007 of $160.0 million, or $0.66 per diluted share, compared to net income for Q1 2006 of $47.0 million, or $0.18 per diluted share. Shares used in computing basic and diluted earnings per share for Q1 2007 were 237.9 million and 241.4 million, respectively, while shares used in computing basic and diluted earnings per share for Q1 2006 were 247.9 million and 260.0 million, respectively. The weighted average shares outstanding declined as compared to the prior period predominantly due to our repurchase program and redemption of a significant portion of the 1% convertible senior notes.

LIQUIDITY AND CAPITAL RESOURCES

Sources and uses of cash

Cash and marketable securities increased 7% to $1.6 billion as of March 31, 2007 as compared to $1.5 billion as of December 31, 2006. Working capital increased to $1,078.8 million at March 31, 2007 from $794.3 million as of December 31, 2006.

Operating Activities

Net cash provided by operating activities was $184.9 million in Q1 2007 as compared to $162.1 million in Q1 2006, primarily due to the increase in net earnings from the prior year period, as adjusted for the impact of non-cash charges and differences in the timing of cash flows and earnings recognition.

We reflect payments pursuant to the amended agreement with Abbott as a reduction of operating cash flows. Such payments are principally based on future sales of products or achieving specific sales-based milestones. We reflected the present value of certain of these payment as a liability to the extent it was probable they would be made and recorded a corresponding intangible asset for the re-acquired marketing and promotional rights. During Q1 2007 and Q1 2006, we made payments to Abbott of $50.1 million and $78.5 million, respectively.

Investing Activities

Cash used in investing activities during Q1 2007 amounted to $25.4 million as compared to $210.0 million during Q1 2006. Cash used in investing activities in Q1 2007 included net decreases to our investment portfolio of $11.2 million; capital expenditures totaling $31.6 million, primarily for the construction of our new pilot lab and office facility in Gaithersburg, Maryland and our new cell culture manufacturing facility in Frederick, Maryland.

Financing Activities

Cash used in financing activities during Q1 2007 amounted to $55.7 million as compared to cash provided of $42.4 million during Q1 2006. Financing activities in Q1 2007 consisted primarily of cash payments made to repurchase shares of our common stock of $70.8 million up through March 6, 2007, offset by cash received upon the exercise of employee stock options of $11.4 million. Cash payments made during Q1 2007 for stock repurchases included $9.7 million related to shares acquired as of December 31, 2006 for which cash settlement occurred during January 2007.

Through March 6, 2007, we repurchased approximately 1.9 million shares of our common stock at a cost of $61.1 million, or an average cost of $32.35 per share, under our written pre-established securities trading plan pursuant to Rule 10b-5 promulgated under the Securites Exchange Act of 1934, as amended. 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We believe our primary market risks as of March 31, 2007 continue to be the exposures to loss resulting from changes in interest rates, foreign currency exchange rates, and equity prices. Our market risks at March 31, 2007 have not changed significantly from those discussed in our Annual Report on Form 10-K for the year ended December 31, 2006. For other information regarding our market risk exposure, please refer to Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk of our Annual Report on Form 10-K for the year ended December 31, 2006.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer, President and Vice Chairman (CEO), and Senior Vice President and Chief Financial Officer (CFO), as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and

procedures. Accordingly, no evaluation or implementation of a control system can provide complete assurance that all control issues and all possible instances of fraud have been or will be detected.

As of March 31, 2007, we carried out an evaluation, under the supervision and with the participation of our management, including our CEO and CFO, of the effectiveness of our disclosure controls and procedures, as required by Rule 13a-15(b) promulgated under the Exchange Act. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective.

In addition, our management, with the participation of our CEO and CFO, determined that there was no change in our internal control over financial reporting that occurred during Q1 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information with respect to legal proceedings is included in Note 10 of Part I, Item 1 Financial Statements, and is incorporated herein by reference and should be read in conjunction with the related disclosure previously reported in our Annual Report on Form 10-K for the year ended December 31, 2006.

ITEM 1A. RISK FACTORS

Our business faces many risks. The risks described below may not be the only risks we face. Additional risks we do not yet know of or we currently believe are immaterial may also impair our business operations. If any of the events or circumstances described in the following risks actually occur, our business, financial condition or results of operations could suffer, and the trading price of our common stock could decline. You should consider the following risks, together with all of the other information in this Quarterly Report on Form 10-Q as read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2006, before making an investment decision with respect to our securities.

Our revenues are largely dependent on sales of Synagis.

Sales of Synagis accounted for approximately 95% and 94% of our total product sales in Q1 2007 and Q1 2006, respectively, and our revenues will continue to be largely dependent on sales of Synagis for the foreseeable future. Any perceived or actual event or series of events that have a negative effect on sales of Synagis will have a detrimental effect on our financial condition and results of operations. Events which would affect sales of Synagis include, but are not limited to, any product liability claims (whether supported or not), any manufacturing or supply delays, any sudden loss of inventory, any inability to satisfy product demand, any unsuccessful sales, marketing or distribution strategies, any changes in the authorization, policies, or reimbursement rates for Synagis by private or public insurance carriers or programs, or any change in the recommendations or guidelines regarding the usage, dosage or administration of Synagis issued to the health care and patient communities by certain organizations, such as the American Academy of Pediatrics.

In addition, Synagis is a biological product regulated and approved for marketing in the U.S. by the FDA and any adverse change in the marketing approval or label for Synagis required by the FDA will have a detrimental affect on our business.

Outside of the U.S., Abbott International, or AI, is responsible for the distribution and commercialization of Synagis as well as obtaining and maintaining regulatory approval for commercialization. Accordingly, sales of Synagis outside of the U.S. are not within our direct control and any negative effect on AI s sales of Synagis could affect our revenues related to those sales. In addition, actions of AI related to the regulatory approval or commercialization of Synagis outside of the U.S. could negatively affect our sales of Synagis in the U.S.

The seasonal nature of a significant portion of our business causes significant fluctuations in our quarterly operating results.

Sales of two of our products, Synagis and FluMist, are seasonal in nature. Synagis sales occur primarily in the first and fourth quarters of the calendar year and FluMist sales occur primarily in the second half of the calendar year. This high concentration of product sales in a portion of the year causes quarter-to-quarter operating results to vary widely and can

exaggerate the consequences to our revenues of any manufacturing or supply delays, any sudden loss of inventory, any inability to satisfy product demand, the inability to estimate the effect of returns and rebates, normal or unusual fluctuations in customer buying patterns, or of any unsuccessful sales or marketing strategies during the applicable sales season. Furthermore, our current product base limits our ability to offset in the second and third quarters any lower-than-expected sales of Synagis during the first and fourth quarters or FluMist during the second half of the year.

The successful commercialization of the refrigerated formulation of FluMist is critical to the future of our influenza vaccine business.

FluMist, in its frozen formulation, was not commercially successful. We do not expect our influenza vaccine business to contribute meaningfully to our revenues, income or earnings until our refrigerated formulation of FluMist, that was recently approved in the U.S., is successfully commercialized. We are also seeking approval from the FDA to use the refrigerated formulation of FluMist for broader age groups and indications. The timing and outcome of obtaining such approval is uncertain and there can be no assurance that the FDA will grant such approval without the need for additional costly and time-intensive measures; without restrictions as to its marketability; on a timely basis consistent with our expectations; or at all.

The commercial success of our influenza vaccine business is uncertain and we may not be able to recover the value of our investment.

The market for influenza vaccines is competitive and complex. The commercial success of our products will be limited if we cannot successfully manufacture, distribute and sell these products in jurisdictions in which the products are approved. The marketplace may view our influenza vaccines as competing against the injectable vaccine. FluMist likely has a higher cost of manufacturing at its historic and current volumes relative to the higher volumes of injectable vaccines. There can be no assurance that demand for our vaccines will support a volume and price that will achieve a profit in accordance with our expectations, or that our revenues for these products will exceed our cost of goods.

The manufacturing process for FluMist is complex and product supply will be adversely affected if we are unable to perform the annual update of the formulations for new influenza strains, if we encounter contamination or other problems or difficulties in the process, if we are unable to obtain eggs or other materials necessary for their manufacture, if the regulatory authorities do not approve the products for release, if there is a sudden loss of inventory or for other reasons.

Our distribution experience relates primarily to sales to wholesalers and specialty pharmaceutical distributors. We have limited experience in distributing and selling products like influenza vaccines that are generally sold in greater volume and smaller order quantities, so there can be no assurance that our distribution and sales systems have been optimally designed to yield the greatest return.

We have made significant investments in the development and commercialization of live, attenuated intranasal influenza vaccines. In addition to our internal research, development and commercialization activities, these investments also include the research and development conducted by Aviron before our acquisition of that company; the cost of our acquisition of Aviron; the cost of the activities conducted by Wyeth, our former collaboration partner for development, promotion and distribution of these vaccines; the cost of dissolving the collaboration and reacquiring Wyeth s rights to this franchise; and losses incurred in manufacturing and selling FluMist after the launch of the frozen formulation of the product. Our results of operations would be negatively affected by impairment charges for the write-down of manufacturing and intangible assets related to FluMist. For various reasons, primarily those set forth above, there can be no assurance that we will be able to recover the value of our investment in the influenza vaccine business.

Loss of our litigation against Sun Pharmaceutical Industries Limited would be detrimental to our Ethyol sales.

Sun Pharmaceutical Industries Limited has submitted an abbreviated new drug application to the FDA for a generic version of Ethyol (amifostine). We have sued Sun for patent infringement and are defending our patents vigorously, but if we lose this litigation, it is probable that Sun will be able to secure approval for a generic version of Ethyol. If a generic version of Ethyol is approved, it is probable that its manufacturer will set a price for that product significantly lower than the current price of Ethyol and, as a result, our market share and sales of Ethyol would decline significantly. There can be no assurance that any actions we might take to mitigate the impact of the introduction of such a generic product would be successful. Likewise, there can be no assurance that the introduction of such a generic product would not adversely affect our manufacturing and/or commercial operations.

Government involvement may limit the commercial success of our influenza vaccine business.

If an influenza outbreak occurs and is classified as a pandemic or large epidemic by public health authorities, it is possible that one or more government entities may take actions that directly or indirectly have the effect of abrogating some of our rights or opportunities. We have not manufactured a pandemic vaccine to date, but even if we were to do so, the economic value of such a vaccine to us could be limited. Our primary manufacturing facility for influenza vaccines is in the U.K. and, in an influenza pandemic, the U.K. government may limit our ability to export product outside the United Kingdom.

Various government entities, including the U.S. government, are offering incentives, grants and contracts to encourage additional investment by commercial organizations into preventative and therapeutic agents against influenza, which may have the effect of increasing the number of competitors and/or providing advantages to known competitors. Accordingly, there can be no assurance that we will be able to successfully establish competitive market share for our influenza vaccines.

In addition, current influenza vaccines are trivalent (contain three strains) and are derived from or analogous to two circulating influenza A viral strains and one circulating influenza B viral strain. If the World Health Organization, the U.S. Centers for Disease Control and Prevention or other similar agencies require or recommend changes in influenza vaccines, for example for a monovalent or quadravalent vaccine or for use of a strain that is not currently circulating in the human population, it is uncertain whether we will be able to manufacture such a product at commercially reasonable rates.

We may not be able to bring our product candidates to market.

Research and development activities are costly and may not be successful, and there can be no assurance that any of our product candidates, even if they are in or approved to enter Phase 3 or other large clinical trials, will be approved for marketing by the FDA or the equivalent regulatory agency of any other country. A significant portion of our annual operating budget is spent on research, development and clinical activities. Currently, numerous products are being developed that may never reach clinical trials, achieve success in the clinic, be submitted to the appropriate regulatory authorities for approval, or be approved for marketing or manufacturing by the appropriate regulatory authorities. There can also be no assurance that we will be able to generate additional product candidates for our pipeline, either through internal research and development, or through the in-licensing or acquisition of products or technology. Even if a product candidate is approved for marketing by the applicable regulatory agency, there can be no assurance that we will be able to successfully manufacture the product on a commercial scale or effectively commercialize the product.

A significant portion of our business is dependent on third parties.

We license a significant portion of the technology necessary for our business from third parties and rely on third parties for a significant portion of the clinical development, supply of components, manufacturing, distribution, and promotion of our products. The actions of these third parties are outside of our control and the failure of these third parties to act in accordance with their obligations to us would have a material adverse effect on our business. Even if we are legally entitled to damages for a failure of a third party to fulfill its obligations to us, there can be no assurance that such damages will adequately compensate us for indirect or consequential losses such as the damage to a product brand or our reputation. If a third party does not fulfill its obligations to us, we may have to incur substantial additional costs, which could have a material adverse effect on our business. For example, we derived revenue in 2006 from royalties and milestone payments from licensing arrangements for intellectual property relating to vaccines against the human papillomavirus (HPV) to prevent cervical cancer under development or marketed by GSK and Merck. The inability or failure of either GSK or Merck to develop and sell the products subject to our licenses due to competition, manufacturing difficulties or other factors that are outside our control could decrease their sales of the HPV vaccine and would in turn have an adverse effect on our revenue and financial condition.

As a U.S. government contractor, we are required to comply with a number of rules and regulations and may be exposed to unique risks.

In 2006, we were awarded a contract from the U.S. Department of Health and Human Services (HHS) to develop cell-based seasonal and pandemic vaccines. We have not been a government contractor in the past and compliance with necessary requirements is complex. Accordingly, there can be no assurance that we will be able to comply with all requirements and failure to comply could result in penalties imposed on us, including but not limited to termination of the contract.

As a government contractor, we have become subject to a number of requirements that generally do not apply to agreements between private parties. These requirements include adherence to the provisions of the Federal Acquisition Regulations that regulate the formation, administration and performance of government contracts. Government contracts contain provisions permitting modification, curtailment, or termination, in whole or in part, without prior notice at the government s convenience upon the payment of compensation only for work already done. Government contracts are also subject to oversight audits by government representatives. If any audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with the U.S. government. As a government contractor, we may also be subject to investigations and inquiries into our business practices that would not be applicable between private commercial parties. We can provide no assurance that any such investigation or inquiry would not result in a material adverse effect on our results of operations and financial condition.

Defending product liability claims could be costly and divert focus from our business operations and product recalls may be necessary.

Our products contain biologically active agents that can alter the physiology of the person using the product. Accordingly, as a developer, tester, manufacturer, marketer and seller of biological products, we may be subject to product liability claims that may be costly to defend, regardless of whether the claims have merit, and may require removal of an approved product from the market. If a claim were to be successful, there is no guarantee that the amount of the claim would not exceed the limit of our insurance coverage and available cash or cash equivalents. Further, a successful claim could reduce revenues related to the product, result in the FDA taking regulatory action (including suspension of product sales for an indefinite period) or result in significant negative publicity for us or damage to our product brand. Any of these occurrences could have a material adverse effect on our business and could result in a clinical trial interruption or cancellation. Additionally, product recalls may be necessary either in connection with product liability claims or for other reasons. Any such recall would adversely affect sales of that product and could affect our reputation.

We may not be able to meet the market demand for our products.

We generally do not have or contract for redundant supply, production, packaging or other resources to manufacture our products. As a result, we are at risk for business interruption if there is any disruption in the manufacturing chain. Difficulties or delays in our or our contractors manufacturing of existing or new products could increase our costs, cause us to lose revenue or market share and damage our reputation. In addition, because our various manufacturing processes and those of our contractors are highly complex and are subject to a lengthy FDA approval process, alternative qualified production capacity may not be available on a timely basis or at all. In particular, the supply of our products is affected by several manufacturing variables, including the number of production runs, production success rate, product yield and the outcome of quality testing. If we are unable to provide an uninterrupted supply of our products to patients our reputation may be negatively affected, which could have a material and adverse effect on our results of operations.

We may lose product due to contamination of our raw materials and other difficulties in the manufacturing process.

The manufacture of our products requires raw materials obtained from a variety of sources including but not limited to animal products or by-products. If these raw materials contain contaminants that are not removed by our approved purification processes, the manufacture of our products will be negatively affected for an indefinite period of time, that could result in a material adverse effect on our product sales, financial condition and results of operations. In addition, our manufacturing operations expose us to a variety of significant risks, including: product defects; product loss; environmental problems resulting from our production process; sudden loss of inventory and the inability to manufacture products at a cost that is competitive with third party manufacturing operations. Furthermore, we collaborate and have arrangements with other companies related to the manufacture of our products and, accordingly, certain aspects of the manufacturing process are not within our direct control. We have not produced FluMist for commercial use at higher volumes and may encounter additional unforeseeable risks as we develop additional commercial manufacturing experience with this product.

Certain developments in the United Kingdom could have an adverse effect on our ability to manufacture our products.

Our operations in the U.K. expose us to additional business risks, and failure to manage those risks could have a material adverse effect on our ability to manufacture influenza vaccines. In particular, in the event of a regional or global influenza

pandemic, our facilities in the U.K. may be subject to government nationalization. In addition, the facilities are unionized and manufacturing may therefore be interrupted due to labor action.

Reimbursement by government and third-party payors is critical for the success of our products.

The cost to individual consumers for purchase of our products, particularly Synagis and Ethyol, can be significant. Accordingly, sales of these products are dependent to a large extent on the insurance reimbursement available for them. Actions by government and third-party payers to contain or reduce the costs of health care by limiting reimbursement, changing reimbursement calculation methodologies, increasing procedural hurdles to obtain reimbursement or by other means may have a material adverse effect on sales of these products. For example, there have been numerous cost containment initiatives in the U.S., both at the state and federal level, as well as in other countries, aimed at reducing health care expenditures that would affect the reimbursement of pharmaceutical products like ours and could have a material adverse effect on our product sales, results of operations and financial condition.

We accrue for and fund rebates due to government entities subject to reimbursement, primarily Medicaid payments to state governments. State governments have the ability to collect rebates for prior periods activity without restriction by statute and, accordingly, we may be subject to future rebate claims by such entities for product use in the past for which reimbursement was not sought. For example, a number of pharmaceutical and biotechnology companies, including us, are currently in the process of determining our exposure and liabilities to various states who may make claims under Medicaid for payments arising from the sales of products that were not properly reported and billed by the states in the past. Our estimate of our exposure to such claims and any reserves we may post for such may not be sufficient to cover our liabilities to the states and the enforcement of such claims beyond our reserves could have an adverse effect on our results of operations and financial position.

Our reliance upon a limited number of pharmaceutical wholesalers and distributors could affect the ability to sell our products.

We rely largely upon pharmaceutical distributors and wholesalers to deliver our currently marketed products to the end users, including physicians, hospitals, and pharmacies. There can be no assurance that these distributors and wholesalers will adequately fulfill the market demand for our products, nor can there be any guarantee that these service providers will remain solvent. Given the high concentration of sales to certain pharmaceutical distributors and wholesalers, we could experience a significant loss if one or more of our larger customers were to declare bankruptcy or otherwise become unable to fulfill its obligations to us.

Obtaining and maintaining regulatory approvals to develop, manufacture and market our products is costly and time consuming.

The development, manufacturing and marketing of all of our products are subject to regulatory approval by the FDA in the U.S., as well as similar authorities in other countries. The approval process for each product is lengthy and potentially subject to numerous delays, which generally would not be in our control. There can be no assurance that any product candidate will be approved for marketing and, even if approved, such approval may be limited in scope in such a manner that would harm the product s potential for market success. Even after a product is approved for marketing, it is still subject to continuing regulation and our failure to comply with our post-marketing commitments could expose us to risks of forfeiture of our license to market a product. Furthermore, if new adverse event information about a product becomes available from broader use in the market or from additional testing, we may be required by applicable authorities to recall the product or notify health care providers of additional risks associated with use of the product. In addition, our product labeling and marketing activities may be found to be inconsistent with applicable laws and regulations.

Even if we have substantially complied with all applicable laws and regulations, the applicable regulatory authorities have the authority to and may revoke or limit approvals or licenses without consulting or obtaining our consent. If we fail to comply with applicable requirements, we may be subject to: fines; seizure or removal of products from the market; total or partial suspension of production; refusal by the applicable authority to approve product license applications; restrictions on our ability to enter into supply contracts; and criminal prosecution. If we are unable to obtain approvals on a timely basis or at all, if the scope of approval is more limited than expected by us or if we are unable to maintain approvals, our ability to successfully market products and to generate revenues will be impaired and such could have a material adverse effect on our business, results of operations and financial condition.

Patent protection for our products may be inadequate or costly to enforce.

We may not be able to obtain effective patent protection for our products in development. There are extensive patent filings in the biotechnology industry and the patent position of biotechnology companies generally is highly uncertain and involves complex legal and factual questions. There can be no assurance that our patent applications will result in patents being issued or that, if issued, such patents will afford protection against competitors with similar technology. Litigation may be necessary to enforce our intellectual property rights. Any such litigation will involve substantial cost and significant diversion of our attention and resources and there can be no assurance that any of our litigation matters will result in an outcome that is beneficial to us. We are also aware that regulatory authorities, including the FDA, are considering whether an abbreviated approval process for so-called generic or follow-on biological products is appropriate. We are uncertain as to when, or if, any such process may be adopted or how such a process would relate to our intellectual property rights, but any such process could have a material effect on the prospects of our products.

If we fail to obtain and maintain any required intellectual property licenses from third parties, our product development and marketing efforts will be limited.

Patents have been and will be issued to third parties, and patent applications have been filed by third parties, that claim one or more inventions used in the development, manufacture or use of our products or product candidates. These patents (including any patents issuing from pending patent applications), if valid and enforceable, would preclude our ability to manufacture, use or sell these products unless we obtain a license from the applicable third party. These third parties are not generally required to provide us with a license and, as such, obtaining any such licenses may not be possible or could be costly and impose significant ongoing financial burdens on us. There can be no assurance that a license will be available on terms acceptable to us or at all, which could have a material adverse effect on our business. In addition, there can be no assurance that we will be able to obtain an exclusive license to any such patent, and as a result, the third parties or their sublicencees may be able to produce products that compete with ours. Litigation may be necessary to challenge the intellectual property rights of third parties and would involve significant cost and significant diversion of management s time and resources. There can be no assurance that any such litigation will result in an outcome that is beneficial to us.

Technological developments by competitors may render our products obsolete.

If competitors were to develop superior or competitive products or technologies, our products or technologies could be rendered noncompetitive or obsolete. Developments in the biotechnology and pharmaceutical industries are expected to continue at a rapid pace. Success depends upon achieving and maintaining a competitive position in the development of products and technologies. Competition from other biotechnology and pharmaceutical companies can be intense. Many competitors have substantially greater research and development capabilities, marketing, financial and managerial resources and experience in the industry. If a competitor develops a better product or technology, our products or technologies, even if protected by patents, could be rendered obsolete, resulting in decreased product sales and a material adverse effect to our business. Even if a competitor creates a product that is not technologically superior, our products may not be able to compete with such products, decreasing our sales.

We are subject to numerous complex laws and regulations and compliance with these laws and regulations is costly and time consuming.

U.S. federal government entities, most significantly the FDA, the U.S. Securities and Exchange Commission, the Internal Revenue Service, the Occupational Safety and Health Administration, the Environmental Protection Agency, the Centers for Medicare and Medicaid Services and the U.S. Department of Veteran s Affairs, as well as regulatory authorities in other states and countries, have each been empowered to administer certain laws and regulations applicable to us. Many of the laws and regulations administered by these agencies are complex and compliance requires substantial time and effort by our officers and employees and extensive consultations with our outside advisors. Because of this complexity, there can be no assurance that our efforts will be sufficient to ensure compliance or to ensure that we are in technical compliance with all such laws and regulations at any given time. In addition, we are subject to audit, investigation and litigation by each of these entities to ensure compliance, each of which can also be time consuming, costly, divert the attention of senior management and have a significant effect on our business, even if we are found to have been in compliance or the extent of our non-compliance is deemed immaterial. If we are found to not be in compliance with any of these laws and regulations, we and, in some cases, our officers may be subject to fines, penalties, criminal sanctions and other liability, any of which could have a material adverse effect on our business.

We cannot control the use of our products.

The product labeling for each of our products is approved by the FDA and other similar regulatory authorities in other countries and marketed only for certain medical indications, but treating health care practitioners, particularly in the oncology field, are not generally required to restrict prescriptions to the approved label. These practices make it likely that our products are being used for unapproved uses and may subject us to regulatory scrutiny, sanctions or product liability, any of which could have a material adverse effect on our business.

We may not be able to hire or retain highly qualified personnel or maintain key relationships.

The success of our business depends, in large part, on our continued ability to attract and retain highly qualified scientific, manufacturing and sales and marketing personnel, as well as senior management such as Mr. David M. Mott, our Chief Executive Officer, President and Vice Chairman, and Dr. James F. Young, our President, Research and Development. In addition, we rely on our ability to develop and maintain important relationships with leading research institutions and key distributors. Competition for these types of personnel and relationships is intense among pharmaceutical, biopharmaceutical and biotechnology companies, and any obstacles hindering our ability to attract or retain such employees and relationships could have a material effect on our business. We do not maintain or intend to purchase key man life insurance on any of our personnel and, accordingly, our business may be subject to disruption upon the sudden or unexpected loss of a key employee.

If we fail to manage our growth properly, the business will suffer.

We have expanded significantly in recent years due to both acquisition and internal growth. To accommodate our rapid growth and compete effectively, we will need to continue to improve our management, operational and financial information systems and controls, generate more revenue to cover a higher level of operating expenses, continue to attract and retain new employees, accurately anticipate demand for products manufactured and expand our manufacturing capacity. This rapid growth and increased scope of operations present risks not previously encountered and could result in substantial unanticipated costs and time delays in product manufacture and development, which could materially and adversely affect the business.

Fluctuations in our common stock price over time could cause stockholders to lose investment value.

The market price of our common stock has fluctuated significantly over time, and it is likely that the price will fluctuate in the future. During Q1 2007, the daily closing price of our common stock on the NASDAQ National Market ranged from a high of $36.39 to a low of $30.64. During 2006, the daily closing price of our common stock ranged from a high of $37.38 to a low of $25.28. Investors and analysts have been, and will continue to be, interested in our reported earnings, as well as how we perform compared to our expectations. Announcements by us or others regarding operating results, existing and future collaborations, results of clinical trials, scientific discoveries, commercial products, patents or proprietary rights or regulatory actions may have a significant effect on the market price of our common stock. In addition, the stock market has experienced price and volume fluctuations that have affected the market price for many biotechnology companies and that have often been unrelated to the operating performance of these companies. These broad market fluctuations may adversely affect the market price of our common stock.

Changes in foreign currency exchange rates or interest rates could result in losses.

We have entered into a supplemental manufacturing contract denominated in Euros. Fluctuations in the Euro-U.S. Dollar exchange rate would lead to changes in the 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. However, due to the variability of timing and amount of payments under this contract, the forward foreign exchange contracts may not mitigate the potential adverse effect on our financial results. In addition, 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, and 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 adversely affect the amount we expect to collect under these agreements. A substantial portion of our current assets is invested in marketable securities, particularly bonds and other fixed income securities, which are subject to fluctuations in value based on interest rates and other factors.

If the contemplated acquisition transaction agreed upon with AstraZeneca PLC does not close, our stock price, business and results of operations may suffer.

On April 22, 2007, we entered into a definitive agreement with AstraZeneca PLC, a public limited company incorporated under the laws of England and Wales, pursuant to which it is contemplated that AstraZeneca will initiate a tender offer for all of our outstanding common stock at a purchase price of $58.00 per share followed by the merger of MedImmune into a wholly owned subsidiary of AstraZeneca, assuming that AstraZeneca acquires more than 50% of our outstanding shares on a fully diluted basis in the tender offer. The closing on the merger transaction is subject to specified terms, conditions and the fulfillment of contingencies, including but not limited to, acquisition in the tender offer of more than 50% of our outstanding shares on a fully diluted basis and the expiration of waiting periods or receipt of antitrust approvals in the United States and other jurisdictions. There can be no assurance that all conditions and contingencies will be satisfied, resolved to AstraZeneca s satisfaction or waived by AstraZeneca, or that the proposed transaction will occur at all. Accordingly, if the transaction is delayed or otherwise not consummated within the contemplated time periods or at all, our stock price may suffer. In addition, failure to close the proposed transaction on a timely basis or at all, could detrimentally affect our relationships with our employees and our ability to retain key talent. We would also remain liable for our costs related to the proposed transaction, including substantial legal, accounting and investment banking fees.

The announcement of the proposed transaction could have an adverse effect on our business in the near term.

Our business partners and customers may delay, defer or cancel purchases pending the consummation of the planned merger with AstraZeneca. The proposed transaction may also adversely affect our ability to attract and retain key management, research and development, manufacturing, sales and marketing and other personnel. In addition, due to the effects of the proposed merger, our quarterly results of operations could be below the expectations of market analysts. Activities relating to the proposed transaction and related uncertainties could divert the attention of our management and employees from our day-to-day business, which could cause disruptions among our relationships with business partners and customers, and cause our employees to seek alternative employment, all of which could detract from our ability to generate revenue and control costs. In addition, the merger agreement with AstraZeneca imposes affirmative and negative restrictions on the operations of our business. Without AstraZeneca s consent, we may be restricted from making certain acquisitions and taking other specified actions until the transaction closes or is terminated. These restrictions may prevent us from pursuing otherwise attractive business opportunities and making other changes to our business prior to completion of the transaction or its termination.

We have agreed to limitations on our ability to seek a strategic transaction on terms and conditions better than the terms and conditions agreed upon by AstraZeneca.

Our agreement with AstraZeneca contains provisions that will make it difficult for another interested party to acquire us. In particular, the agreement requires us to pay a termination fee of $450 million under certain circumstances, restricts our ability to solicit offers from third parties and imposes certain requirements with respect to unsolicited offers or expressions of interest received from third parties. Such provisions could have the effect of dissuading third parties from seeking to acquire the Company at a price higher than AstraZeneca has agreed to pay. If another offer or expression of interest is received from one or more third parties, our Board of Directors has reserved the right to change its recommendation with respect to the AstraZeneca transaction and if such situation occurs, there can be no assurance that an acquisition transaction will occur either with AstraZeneca or any such third parties.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) Issuer purchases of equity securities(1)

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value that May Yet Be Purchased Under the Plans or Programs
January 1, 2007 through January 31, 2007	330,000	$ 33.61	330,000	$ 294,625,893
February 1, 2007 through February 28, 2007	1,200,000	$ 32.34	1,200,000	$ 255,820,668
March 1, 2007 through March 31, 2007	358,500	$ 31.22	358,500	$ 244,627,345

(1) In May 2006, the Board of Directors authorized a stock repurchase program for up to $500.0 million of the Company s common stock on the open market or in privately negotiated transactions during the period from May 2006 through June 2009.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES NONE

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS NONE

ITEM 5. OTHER INFORMATION - NONE

ITEM 6. EXHIBITS

(a) Exhibits:

2.1	Agreement and Plan of Merger, dated as of April 22, 2007, by and among AstraZeneca PLC, AstraZeneca Biopharmaceuticals Inc. and MedImmune, Inc., incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K filed on April 23, 2007
31.1	Rule 13a-14(a)/15d-14(a) Certification of CEO
31.2	Rule 13a-14(a)/15d-14(a) Certification of CFO
32.1	Section 1350 Certifications

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MEDIMMUNE, INC.
(Registrant)

Date: April 30, 2007	/s/ David M. Mott David M. Mott Chief Executive Officer, President and Vice Chairman Principal Executive Officer
Date: April 30, 2007	/s/ Lota S. Zoth Lota S. Zoth Senior Vice President and Chief Financial Officer Principal Financial Officer
Date: April 30, 2007	/s/ Mark E. Spring Mark E. Spring Vice President, Finance and Controller Principal Accounting Officer