

MEDIMMUNE INC /DE
Form 10-Q
July 28, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2006

0-19131

(Commission File No.)

MedImmune, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

52-1555759

(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**

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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 No

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 Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes

No

As of July 20, 2006, 239,431,225 shares of Common Stock, par value \$0.01 per share, were outstanding.

MEDIMMUNE, INC.

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MedImmune, Synagis, CytoGam, Ethyol, FluMist, NeuTrexin, Numax, RespiGam and Vitaxin are registered trademarks of the Company. Abegrin is a trademark of the Company.

Unless otherwise indicated, this Quarterly Report is current as of June 30, 2006 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)

	June 30, 2006 (Unaudited) (In millions)	December 31, 2005
ASSETS:		
Cash and cash equivalents	\$ 1,189.2	\$ 153.4
Marketable securities	340.0	457.1
Trade receivables, net	14.7	281.0
Inventory, net	96.8	69.4
Deferred tax assets, net	64.6	58.0
Other current assets	18.5	18.4
Total Current Assets	1,723.8	1,037.3
Marketable securities	723.1	861.4
Property and equipment, net	419.5	381.4
Deferred tax assets, net	264.4	128.6
Intangible assets, net	273.7	323.5
Other assets	70.8	47.8
Total Assets	\$ 3,475.3	\$ 2,780.0
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Accounts payable	\$ 33.3	\$ 37.0
Accrued expenses	137.7	242.1
Product royalties payable	67.8	93.0
Convertible senior notes	489.6	500.0
Other current liabilities	261.0	276.4
Total Current Liabilities	989.4	1,148.5
Long-term debt	1,165.1	5.2
Other liabilities	0.7	55.8
Total Liabilities	2,155.2	1,209.5
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 June 30, 2006 and December 31, 2005	2.6	2.6
Paid-in capital	2,690.1	2,688.5
Accumulated deficit	(878.2)	(842.5)
Accumulated other comprehensive loss	(13.9)	(11.0)
	1,800.6	1,837.6

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Less: Treasury stock at cost; 16.1 million shares at June 30, 2006 and 8.5

million shares at December 31, 2005	(480.5)	(267.1)
Total Shareholders' Equity	1,320.1	1,570.5
Total Liabilities and Shareholders' Equity	\$ 3,475.3	\$ 2,780.0

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 June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Revenues:				
Product sales	\$ 66.2	\$ 84.7	\$ 557.8	\$ 593.4
Other revenue	6.7	3.8	13.1	4.9
Total revenues	72.9	88.5	570.9	598.3
Costs and expenses:				
Cost of sales	14.0	28.0	137.1	147.8
Research and development	93.7	79.3	181.6	148.6
Selling, general and administrative	82.0	60.9	293.9	218.4
Other operating expenses	8.8	2.9	11.5	5.5
Total expenses	198.5	171.1	624.1	520.3
Operating income (loss)	(125.6)	(82.6)	(53.2)	78.0
Interest income	15.2	17.6	30.9	34.3
Interest expense	(3.0)	(1.9)	(5.7)	(3.9)
Gain (loss) on investment activities	0.9	(1.2)	0.1	(0.9)
Earnings (loss) before income taxes	(112.5)	(68.1)	(27.9)	107.5
Income tax provision (benefit)	(49.3)	(23.9)	(11.7)	37.6
Net earnings (loss)	\$ (63.2)	\$ (44.2)	\$ (16.2)	\$ 69.9
Basic earnings (loss) per share	\$ (0.26)	\$ (0.18)	\$ (0.07)	\$ 0.28
Shares used in calculation of basic earnings (loss) per share	245.9	247.4	246.9	247.7
Diluted earnings (loss) per share	\$ (0.26)	\$ (0.18)	\$ (0.07)	\$ 0.28
Shares used in calculation of diluted earnings (loss) per share	245.9	247.4	246.9	257.0

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

MEDIMMUNE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(in millions)

	Six months ended	
	June 30,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings (loss)	\$ (16.2)	\$ 69.9
Adjustment to reconcile net earnings to net cash provided by operating activities:		
Share-based compensation expense	16.6	-
Deferred taxes	(13.3)	37.8
Depreciation and amortization	64.6	16.3
Amortization of premium on marketable securities	6.2	7.8
Realized loss (gain) on investments	(0.1)	0.9
Losses on write downs of inventory	8.9	7.6
Decrease in sales allowances	(21.7)	(12.3)
Other, net	3.6	2.3
Other changes in assets and liabilities	43.2	58.3
Net cash provided by operating activities	91.8	188.6
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease (increase) in marketable securities, net	268.7	(29.8)
Capital expenditures	(60.1)	(37.0)
Minority interest investments	(24.5)	(7.9)
Net cash provided by (used in) investing activities	184.1	(74.7)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	48.9	10.8
Excess tax benefits from share-based payment arrangements	2.8	-
Share repurchases	(281.8)	(67.5)
Repayments on long-term obligations	(0.4)	(0.5)
Proceeds from issuance of convertible senior notes, net of issuance costs	1,129.9	-
Purchase of call options on convertible senior notes	(316.5)	-
Proceeds from issuance of warrants	177.0	-
Net cash provided by (used in) financing activities	759.9	(57.2)
Net increase in cash and cash equivalents	1,035.8	56.7
Cash and cash equivalents at beginning of period	153.4	171.3
Cash and cash equivalents at end of period	\$ 1,189.2	\$ 228.0

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'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

General

The financial information presented as of and for the three and six months ended June 30, 2006 (Q2 2006 and YTD 2006, respectively) and as of and for the three and six months ended June 30, 2005 (Q2 2005 and YTD 2005, respectively) 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, 2005 and the Company's Form 10-Q for the quarter ended March 31, 2006. The December 31, 2005 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 age 5 to 49. 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.

Intangible Assets

Management assesses intangible assets for impairment on a periodic basis. The intangible asset associated with the reacquisition of the U.S. co-promotion rights for Synagis is amortized based on total future projected domestic sales of Synagis through the first half of 2009. These projections are evaluated in conjunction with the annual long-range planning process. Should the total of incremental payments, a portion of which are variable based on actual sales, made to Abbott in connection with the reacquisition of the U.S. co-promotion rights for Synagis ultimately be less than the amount of the associated liability recorded, the amount of the intangible asset will be adjusted accordingly.

Government Contract

Revenues from the Company's cost plus fixed-fee government contract are recognized as the costs are incurred; fees are recognized on a pro rata basis of costs incurred to date to total estimated costs. Reimbursement of certain direct and indirect costs is recorded utilizing provisional rates, which are subject to periodic review, audit and possible adjustment.

Other Operating Expenses

Other operating expenses include manufacturing start-up costs and other manufacturing related costs associated with pre-approval products, as well as excess capacity charges associated with the plasma production portion of the Frederick Manufacturing Center.

Stock-based Compensation

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS 123R, a revision of SFAS 123, Share-based Payments. SFAS 123R requires public companies to recognize expense associated with share-based compensation arrangements, including employee stock options, using a fair value-based option pricing model, and eliminates

the alternative to use the intrinsic value method of accounting for share-based payments under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). SFAS 123R is effective for the Company's fiscal year beginning January 1, 2006. Adoption of the expense provisions of the statement has a material impact on the Company's results of operations. The Company has adopted SFAS 123R using the modified prospective transition method. Under this method, compensation expense is reflected in the financial statements beginning January 1, 2006 with no restatement of prior periods. As such, compensation expense is 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 had not vested as of January 1, 2006. The Company has implemented the straight-line expense attribution method, whereas the Company's previous expense attribution method was 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).

The following table illustrates the effect on net earnings and earnings per share if the Company had applied the fair value recognition provisions to share-based employee compensation in Q2 2005 and YTD 2005 (in millions, except per share data):

	Q2 2005	YTD 2005
Net earnings (loss), as reported	\$ (44.2)	\$ 69.9
Add: share-based employee compensation expense included in historical results for the vesting of stock options assumed in conjunction with the Company's acquisition of Aviron in January 2002, 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
Deduct: share-based employee compensation expense determined under the fair value based method for all awards, net of related tax effect	(14.2)	(28.8)
Pro forma net earnings (loss)	\$ (58.4)	\$ 41.2
Basic earnings (loss) per share, as reported	\$ (0.18)	\$ 0.28
Basic earnings (loss) per share, pro forma	\$ (0.24)	\$ 0.17
Diluted earnings (loss) per share, as reported	\$ (0.18)	\$ 0.28
Diluted earnings (loss) per share, pro forma	\$ (0.24)	\$ 0.16

New Accounting Standards

In July 2006, the FASB issued FASB Interpretation Number 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN48). 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, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company is currently assessing the impact of the interpretation on its financial statements and will adopt the provisions of this interpretation beginning in the first quarter of 2007.

3. Collaborative Agreements

The Company recorded charges totaling \$1.0 million in Q2 2006 and YTD 2006, and \$3.5 million and \$5.4 million during Q2 2005 and YTD 2005, respectively, associated with upfront fees and milestone payments under licensing agreements and research collaborations. Such amounts are included as a component of research and development expense in the consolidated statements of operations.

4. Intangible Assets

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

	June 30, 2006		December 31, 2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Promotion rights reacquired from Abbott	\$ 360.4	\$ (86.7)	\$ 360.4	\$ (41.3)
Manufacturing know-how acquired from Evans	39.0	(39.0)	39.0	(34.6)
Other intangible assets	0.4	(0.4)	0.4	(0.4)
Total	\$ 399.8	\$ (126.1)	\$ 399.8	\$ (76.3)

The Company recorded an intangible asset of \$360.4 million during the third quarter of 2005 in conjunction with the reacquisition of the co-promotion rights for Synagis in the United States. Amortization of the intangible asset is computed based on projected future sales of Synagis over the expected period of active sales and marketing efforts in the United States, which is projected to continue through the first half of 2009.

Amortization for the Company's intangible assets for Q2 2006 and Q2 2005 was \$4.5 million and \$2.2 million, respectively. Amortization for YTD 2006 and YTD 2005 was \$49.8 million and \$4.4 million, respectively. The estimated aggregate amortization for the remaining life of the assets is as follows (in millions):

For the six months ended December 31, 2006	\$ 45.4
For the year ended December 31, 2007	104.1
For the year ended December 31, 2008	91.1
For the year ended December 31, 2009	33.1
	\$ 273.7

5. Inventory

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

	June 30, 2006	December 31, 2005
Raw Materials	\$ 14.2	\$ 11.1
Work-in-Process	38.0	42.4
Finished Goods	44.6	15.9
	\$ 96.8	\$ 69.4

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The Company recorded permanent inventory write-downs totaling \$0 and \$3.0 million during Q2 2006 and Q2 2005, respectively, and \$8.9 million and \$7.6 million during YTD 2006 and YTD 2005, respectively, in cost of sales to reflect total FluMist inventories at net realizable value. The Company revised its estimate of the net realizable value for FluMist inventory produced for the 2006/2007 season during Q2 2006 based on updated sales forecast information, resulting in a determination that a higher portion of product cost will be realized.

During Q2 2006, the Company identified certain costs associated with noncommercial manufacturing process validation lots that should not have been included in the production cost estimates for the 2006/2007 season (for purposes of estimating the net realizable value of inventory) during the previous two quarters. As a result, cost of sales in the fourth quarter of 2005 and the first quarter of 2006 was overstated by \$1.9 million (\$2.6 million after tax) and \$1.2 million (\$0.7 million after tax), respectively. Removing those costs from the production cost estimates resulted in a reduction to cost of goods sold of \$3.0 million during Q2 2006 and a corresponding increase in inventory. These adjustments were not considered material for any of the impacted periods.

6. Credit Facility

On April 25, 2006, the Company entered into a \$600.0 million credit facility with a three-year term. The credit facility provides for revolving borrowings and letters of credit collateralized by the Company's marketable securities, which become restricted to the extent the credit facility is utilized. Borrowings bear interest at a variable rate based on prime or LIBOR

rates, and the Company is obligated for a commitment fee associated with the unused portion of the credit facility. The credit facility contains covenants restricting the ability of the Company and its subsidiaries to incur indebtedness, grant liens, merge or liquidate, or make certain investments. As of June 30, 2006, there were no outstanding borrowings under the credit facility. As of June 30, 2006, there was \$2.1 million of restricted collateral under the credit facility related to outstanding letters of credit, which is included in other long-term assets in the accompanying balance sheet.

7. Convertible Senior Notes Due 2011 and 2013

During June 2006, the Company issued in a private placement \$575 million aggregate principal amount of convertible senior notes due 2011 (2011 Notes) and \$575 million aggregate principal amount of convertible senior notes due 2013 (2013 Notes) (collectively referred to as the Notes). The 2011 Notes and 2013 Notes bear interest at 1.375% per annum and 1.625% per annum, respectively, in each case payable semi-annually in arrears on January 15 and July 15 of each year.

The Notes are senior unsecured obligations of the Company, and are convertible into cash and, if applicable, shares of our common stock based on an initial conversion rate, subject to adjustment, of 29.9679 shares per \$1,000 principal amount of Notes (which represents an initial conversion price of approximately \$33.37 per share). Upon conversion, a holder would receive cash up to the principal amount of the note and the Company's common stock in respect of such note's conversion value in excess of such principal amount. The Notes are convertible only in the following circumstances: (1) if the closing sale price of the Company's common stock exceeds 130% of the conversion price during a period as defined in the indenture; (2) if the average trading price per \$1,000 principal amount of the Notes is less than or equal to 97% of the average conversion value of the Notes during a period as defined in the indenture; (3) upon the occurrence of specified corporate transactions; and (4) at any time during the 30 day period immediately preceding the maturity date. Upon a change in control or termination of trading, holders of the Notes may require the Company to repurchase all or a portion of their Notes for cash at a repurchase price equal to 100% of the principal amount, plus any accrued and unpaid interest. The Company has agreed to file a shelf registration statement to cover resales of the Notes and underlying common stock and to cause such registration statement to become effective within 180 days of issuance of the Notes.

In connection with the issuance of the Notes, the Company entered into separate convertible note hedge transactions and separate warrant transactions with respect to the Company's common stock to reduce the potential dilution upon conversion of the Notes (collectively referred to as the Call Spread Transactions) (see Note 13). The Company purchased call options to cover approximately 34.5 million shares of the Company's common stock (subject to adjustment in certain circumstances), which is the number of shares underlying the Notes. In addition, the Company sold warrants permitting the purchasers to acquire up to approximately 34.5 million shares of the Company's common stock (subject to adjustment in certain circumstances).

8. Government Contract

During Q2 2006, the Company was awarded a five-year contract from the U.S. Department of Health and Human Services to develop cell-based seasonal and pandemic vaccines using our proprietary live, attenuated, intranasal influenza vaccine technology. The contract is cost-reimbursable plus a fixed fee and is initially anticipated to generate revenue of approximately \$170.0 million. The Company recognized \$2.3 million of revenues under the contract during Q2 2006, which is included in Other Revenues in the accompanying statement of operations.

9. Share-based Compensation

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As of June 30, 2006, the Company has a number of share-based compensation plans as described below. The pre-tax compensation cost that has been recognized for those plans is as follows (in millions):

	Q2 2006	YTD 2006
Cost of sales	\$ -	\$ 0.4
Research and development	1.5	5.2
Selling, general and administrative	5.4	11.0
	\$ 6.9	\$ 16.6
Capitalized in inventory	0.5	1.1
	\$ 7.4	\$ 17.7

The total income tax benefit recognized in the statement of operations for share-based compensation was \$1.3 million in Q2 2006 and \$3.4 million in YTD 2006.

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The Company determined that share-based compensation expense was overstated by \$1.5 million during the first quarter of 2006 due to an inaccurate assumption related to expected forfeiture rates. The Company reduced its Q2 2006 share-based compensation charge by \$1.5 million as a result. The impact of the adjustment is not considered material to either of the reporting periods in 2006.

The Company grants stock option incentive awards under certain of the following plans. The 2004 Stock Incentive Plan (the 2004 Plan) is used prospectively as the primary plan for employee awards.

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	1.4
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 are intended to 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

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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 approximately 16.8 million shares of common stock for issuance under these plans as of June 30, 2006. 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
Granted	3.8	36.26	0.2	27.12	-	-
Exercised	(1.8)	22.69	(0.1)	6.11	(0.2)	25.81
Canceled	(2.2)	41.43	-	-	(0.1)	43.22
Outstanding, June 30, 2006	28.3	\$ 33.00	1.3	\$ 32.60	1.1	\$ 32.83

(1) Price per share is the weighted average exercise price.

The following disclosure provides a description of the significant assumptions used during Q1 2006, Q2 2006, 2005, 2004 and 2003 to estimate the fair value of the Company's employee stock option awards.

Q1 2006, Q2 2006 and 2005 - The fair value of employee stock options granted since January 1, 2005 were estimated using a binomial lattice-based valuation 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. 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 Q1 2006, Q2 2006 and 2005 reflects the implied volatility determined from the market prices of traded call options on the Company's stock. 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.

	Q1 2006		Q2 2006		Full Year 2005	
	Binomial		Binomial		Binomial	
Option pricing model	31	%	31	%	32	%
Expected stock price volatility	0	%	0	%	0	%
Expected dividend yield	4.3 to 4.8		4.5 to 5.4		4.3 to 5.4	
Expected life of option-years	4.6	%	4.9	%	4.3	%
Risk-free interest rate	\$ 12.46		\$ 10.84		\$ 8.94	
Weighted average fair value of options granted						

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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.

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	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	

Additional information related to the plans as of June 30, 2006 is as follows (shares in millions):

Range of exercise prices	Options Outstanding			Options Exercisable		
	Options Outstanding	Wtd. Avg. Remaining contractual life (yrs)	Wtd. Avg. Exercise Price	Options Exercisable	Wtd. Avg. Exercise Price	
\$ 0.01 \$10.00	1.5	1.4	\$6.71	1.5	\$6.71	
\$10.01 \$20.00	1.6	2.8	\$18.24	1.6	\$18.25	
\$20.01 \$30.00	12.8	7.3	\$25.62	7.4	\$26.07	
\$30.01 \$40.00	8.2	7.5	\$36.23	3.9	\$36.75	
\$40.01 \$50.00	3.2	5.2	\$42.58	3.2	\$42.58	
\$50.01 \$60.00	0.4	3.4	\$56.83	0.4	\$56.83	
\$60.01 \$70.00	2.7	3.6	\$60.95	2.7	\$60.95	
\$70.01 \$80.00	0.3	4.1	\$72.26	0.3	\$72.26	
	30.7	6.2	\$32.98	21.0	\$34.45	

The total intrinsic value of options exercised during YTD 2006 and the years ended December 31, 2005, 2004 and 2003 was \$23.7 million, \$24.5 million, \$15.5 million and \$49.3 million, respectively. The total intrinsic value of options outstanding and options exercisable, at June 30, 2006 was \$69.8 million and \$57.1 million, respectively. The weighted average remaining contractual life of options exercisable at June 30, 2006 was 5.0 years.

A summary of the status of the Company's nonvested shares as of June 30, 2006 and changes during YTD 2006 is presented below (shares in millions):

Nonvested Shares	1991, 1999 and 2004 Plans		Non-Employee Directors Plans	
	Shares	Wtd. Avg. Grant-Date Fair Value	Shares	Wtd. Avg. Grant-Date Fair Value
Nonvested, December 31, 2005	8.1	\$ 10.99	0.5	\$ 11.91
Granted	3.8	12.34	0.2	10.35
Vested	(2.1)	12.43	(0.2)	12.97

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Forfeited	(0.6)	11.12	-	-
Nonvested, June 30, 2006	9.2	\$ 11.21	0.5	\$ 10.96

As of June 30, 2006, there was approximately \$57.9 million of total unrecognized compensation related to nonvested employee stock option awards. Such cost is expected to be recognized as follows: \$13.9 million in the remainder of 2006, \$19.4 million in 2007, \$13.4 million in 2008, \$9.8 million in 2009 and \$1.4 million in 2010.

The total fair value of shares vested during YTD 2006 and the year ended December 31, 2005 was \$28.1 million and \$70.1 million, respectively.

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A summary of the stock options vested and expected to vest as of June 30, 2006 is presented below (shares and intrinsic value in millions):

Shares	Wtd. Avg. Ex. Price	Wtd. Avg. remaining contractual life (yrs)	Aggregate Intrinsic Value
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