MEDAREX INC
Form 10-Q
May 15, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For quarter ended March 31, 2002 Commission File No. 0-19312

MEDAREX, INC.
(Exact name of registrant as specified in its charter.)

New Jersey (State or other jurisdiction of incorporation or organization)	22-2822175 (IRS Employer Identification No.)
707 State Road, Princeton, New Jersey (Address or principal executive offices)	08540 (Zip Code)

Registrant's telephone number, including area code: (609) 430-2880

Indicate by check mark whether 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

The number of shares of common stock, $.01 par value, outstanding as of May 1, 2002 was 73,002,661

MEDAREX, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	December 31, 2001
ASSETS	
Current assets:	

Cash and cash equivalents	$ 31,269
Marketable securities	435,683
Other current assets	24,860
Total current assets	491,812
Property and equipment:	
Land	6,788
Building and leasehold improvements	56,080
Machinery and equipment	16,188
Furniture and fixtures	2,819
Construction in progress	7,767
	89,642
Less accumulated depreciation and amortization	(9,782)
	79,860
Investments in Genmab	65,501
Investments in IDM	48,199
Investments in, and advances to, other affiliates and partners	14,384
Segregated cash	1,300
Other assets	19,371
Total assets	$ 720,427
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Trade accounts payable	$ 3,139
Accrued liabilities	21,485
Deferred contract revenue - current	19,862
Total current liabilities	44,486
Deferred contract revenue - long-term	1,597
Deferred income taxes and other long-term obligations	16,782
Convertible subordinated notes	175,000
Commitments and contingencies	-
Shareholders' equity:	
Preferred stock, $1.00 par value, 2,000,000 shares authorized; none issued and outstanding	-
Common stock, $.01 par value; 200,000,000 shares authorized; 74,005,466 shares issued and 72,876,240 outstanding at December 31, 2001 and 74,017,416 shares issued and 72,926,061 shares outstanding at March 31, 2002	740
Capital in excess of par value	570,655
Treasury stock, at cost 1,129,226 shares in 2001 and 1,091,355 shares in 2002	(2,840)
Deferred compensation	2,188
Accumulated other comprehensive income	37,881
Accumulated deficit	(126,062)
Total shareholders' equity	482,562
Total liabilities and shareholders' equity	$ 720,427

See notes to these unaudited consolidated financial statements.

MEDAREX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

	Three Months Ende	
	March 31, 2001	Marc 20
Sales	$ 66	$
Contract and license revenues	8,104	7
Sales, contract and license revenues from Genmab (includes sales of $2,308 to Genmab in 2002)	750	3
Total revenues	8,920	10
Costs and expenses:		
Cost of sales ($1,438 from sales to Genmab in 2002)	28	1
Research and development	8,060	17
General and administrative	3,602	5
Total costs and expenses	11,690	24
Operating loss	(2,770)	(13
Equity in net loss of affiliate	(577)	(3
Interest income	6,771	4
Impairment loss on investment	-	(1,
Interest expense	(1)	(2
Income (loss) before provision for income taxes	3,423	(15
Provision for income taxes	150	
Net income (loss)	$ 3,273	$(15
Basic net income (loss) per share	$0.04	($
Diluted net income (loss) per share	$0.04	($
Weighted average number of common shares outstanding		
- basic	73,858	74
- diluted	75,828	74

See notes to these unaudited consolidated financial statements.

MEDAREX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	For the Three Mon March 31
	2001
Operating activities:	
Net income (loss)	$ 3,273
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:	
Depreciation	695
Amortization	234
Stock options and awards to employees	68
Stock options and warrants to non-employees	(57)
Non cash revenue - IDM	(5,058)
Non cash revenue - Genmab	(500)
Equity in net loss of Genmab	577
Impairment loss on investments	-
Changes in operating assets and liabilities:	
Other current assets	4,278
Trade accounts payable	(157)
Accrued liabilities	(1,633)
Deferred contract revenue	(634)
Net cash provided by (used in) operating activities	1,086
Investing activities:	
Purchase of property and equipment	(16,999)
Increase in investments and advances to affiliates and partners	(5,226)
Increase in segregated cash	(274)
Purchase of marketable securities	-
Sales of marketable securities	71,502
Net cash provided by investing activities	49,003
Financing activities:	
Cash received from sales of securities, net	234
Principal payments under debt obligations	(6)
Net cash provided by financing activities	228
Net increase in cash and cash equivalents	50,317
Cash and cash equivalents at beginning of period	78,397
Cash and cash equivalents at end of period	$ 128,714
Supplemental disclosures of cash flow information	
Cash paid during period for:	
Interest	$ 1

See notes to these unaudited consolidated financial statements.

MEDAREX, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share data)

1. Organization and Basis of Presentation

The unaudited consolidated financial statements have been prepared from the books and records of Medarex, Inc. and Subsidiaries (the "Company") in accordance with the instructions to Form 10-Q and, accordingly, do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of the results that may be expected for the year. For further information, refer to the financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2001.

2. Net Income (Loss) per Share

Basic and diluted earnings per share are calculated in accordance with the Financial Accounting Standards Board ("FASB") SFAS No. 128, "Earnings per Share" (EPS). Basic earnings per share is based upon the number of weighted average shares of common stock outstanding. Diluted earnings per share is based upon the weighted average number of shares of common stock and dilutive potential shares of common stock outstanding. Potential shares of common stock result from the assumed exercise of outstanding stock options, which are included under the treasury stock method. For the three months ended March 31, 2002, the effect of the conversion of the subordinated notes has been excluded from the computation of diluted income per share, as its effect is antidilutive.

The computation of basic and diluted earnings per share for three months ended March 31, 2001 and 2002 is as follows:

	Three Months Ended March 31	
	2001	2002
Basic:		
Net income (loss)	$ 3,273	$ (15,839)
Weighted average shares outstanding	73,858,000	74,011,000
Basic net income (loss) per share	$ 0.04	$ (0.21)

MEDAREX, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share data)

2. Net Income (Loss) per Share (con't)

	Three Months Ended March 31	
	2001	2002
Diluted:		
Net income (loss)	$ 3,273	$ (15,839)
Weighted average shares outstanding	73,858,000	74,011,000
Net effect of dilutive securities:		
Stock options-	1,970,000	--
Total adjusted weighted-average shares	75,828,000	74,011,000
Diluted net income (loss) per share	$ 0.04	$ (0.21)

3. Marketable Securities

Marketable securities consist of fixed income investments with a maturity of greater than three months and other highly liquid investments that can be readily purchased or sold using established markets. Such securities, which are classified as available-for-sale, are carried at market with unrealized gains and losses reported within other comprehensive income as a separate component of shareholders' equity. If a decline in the fair value of a marketable security below the Company's cost basis is determined to be other than temporary, such marketable security is written down to its estimated fair value with a charge to current earnings. In the first quarter of 2002 the Company recorded a $1,600 impairment charge related to its investment in Oxford GlycoSciences Plc, whose decline in value was determined to be other than temporary.

4. Contingencies

The Company has a contingent commitment to pay $1,000 to Essex Chemical Corporation ("Essex") without interest in installments equal to 20% of net after tax earnings of the Company on an annual basis in future years. The Company's contingent commitment, as amended, to pay up to $1,000 out of future earnings may be satisfied, at the Company's option, through the payment of cash or shares of the Company's Common Stock having a fair market value equal to the amount owed, provided that such shares are registered with the Securities and Exchange Commission. The Company has accrued $667 related to this liability during 2000 which remains outstanding at March 31, 2002.

In the ordinary course of our business, the Company is at times subject to various legal proceedings. We do not believe that any of our current legal proceedings, individually or in the aggregate, will have a material adverse effect on our operations or financial condition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share data)

5. Licensing, Research and Development Agreements

In January 2002, Sangamo BioSciences, Inc. ("Sangamo"), a privately held biotechnology company, and the Company announced a collaboration under which the parties expect to use Sangamo's zinc finger DNA binding protein (ZFP) gene regulation technology platform to increase the expression of antibodies in mammalian cell lines. Under the terms of the agreement, the Company will provide research funding to Sangamo over a two year period, and the parties plan to collaborate to create cell lines with the ability to express antibodies at enhanced levels. The Company will have a non-exclusive license to use these novel cell lines to manufacture antibody products. Sangamo will be entitled to potential milestone payments and royalties on any sales of such products.

In January 2002, the Company entered into a collaboration with Tularik, Inc. ("Tularik"), a publicly traded biotechnology company, to jointly develop and commercialize fully human antibody therapeutic products to specific cancer targets identified by Tularik. The Company plans to generate antibodies to the Tularik targets using its fully human antibody technology. Tularik will contribute three cancer-related targets to the collaboration. The Company and Tularik each expect to assume certain costs and responsibilities leading to the anticipated commercialization of therapeutic products, including preclinical and clinical development and marketing efforts. In addition, the Company made an equity investment in Tularik. The Company expensed a premium of $2,500 for the purchase of Tularik common stock in the quarter ended March 31, 2002, which represented technology access rights and was part of the collaboration.

In January 2002, the Company and Scil Biomedicals GmbH ("Scil"), a privately held biotechnology company, terminated their collaboration related to the development of MDX-210 and MDX-RA for all applications. In the first quarter of 2002, the Company recognized $958 in contract revenue associated with the termination of the collaboration. The Company has no remaining obligations to Scil.

6. Investments in Genmab

In 1999, the Company acquired a 44% ownership interest in Genmab A/S, a Danish biotechnology company ("Genmab"). In June 2000, Genmab completed a private placement in which the Company invested $18,000 in Genmab in order to maintain its approximate 44% ownership interest. In August 2000, the Company acquired an additional 1% of Genmab's capital stock in exchange for certain rights to the Company's fully human antibody technology. This increased the Company's ownership interest to approximately 45%. As a result of Genmab's initial public offering completed in October 2000, the Company's equity interest in Genmab was reduced to approximately 33%. In December 2001, 88,600 shares of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share data)

the Company's Genmab stock were awarded as a bonus to the President and Chief Executive Officer of the Company, further reducing the Company's ownership percentage in Genmab to approximately 32.6%. During the three month periods ended March 31, 2001 and 2002 the value of the Company's investment in Genmab was adjusted to reflect the Company's share of Genmab's loss ($577) and ($3,589), respectively, and an unrealized loss of $(4,131) and $(587), respectively, related to foreign exchange translation. Such foreign exchange translation adjustments are included within accumulated other comprehensive income in the Company's March 31, 2002 balance sheet.

Summary financial information for Genmab is as follows as of and for the three months ended March 31, 2001 and 2002:

	2001	2002
Current Assets	$ 211,758	$ 181,311
Non Current Assets	17,661	21,454
Current Liabilities	4,630	8,308
Non Current Liabilities	5,068	3,553
Net Sales	--	--
Gross Profit	--	--
Net Loss	(1,752)	(11,019)

7. Comprehensive Income (Loss)

The components of comprehensive income (loss) for three month periods ended March 31, are as follows (unaudited):

	Three months ended March 31	
	2001	2002
Net income (loss)	$ 3,273	$(15,839)
Unrealized gain (loss) on securities	449	(2,519)
Unrealized loss on foreign exchange	(4,131)	(587)
Total comprehensive loss	$ (409)	$(18,945)

8. Segment Information

The Company is an integrated monoclonal antibody-based company with antibody discovery, development and manufacturing capabilities. The operations of the Company and its wholly owned subsidiaries constitute one business segment.

Revenue from customers representing 10% or more of total revenues for the three months ended March 31, 2001 and 2002 is as follows:

	Three months ended March 31,	
	2001	2002
Customer		

IDM S.A.	57%	47%
Genmab A/S	8%	28%
Kirin Brewery Co., Ltd	17%	0%

MEDAREX, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(In thousands, except per share data)

No other single customer accounted for more than 10% of the Company's total revenues for the three months ended March 31, 2001 and 2002, respectively.

9. Subsequent Event

In April 2002, the Company and Aventis Behring, L.L.C. entered into a Termination Agreement whereby the parties agreed to terminate the Development and License Agreement between the Company and Aventis which was originally entered into in April 1996 regarding the development and commercialization of MDX-33. Neither the Company nor Aventis has any remaining material obligations to the other under the Development and License Agreement or any other agreement.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which represent our projections, estimates, expectations or beliefs concerning among other things, financial items that relate to management's future plans or objectives or to our future economic and financial performance. Forward-looking statements involve known and unknown risks and uncertainties and are indicated by words such as "anticipates", "expects", "intends", "believes", "plans", "could" and similar words and phrases. These risks and uncertainties include, but are not limited to, our early stage of product development, history of operating losses and accumulated deficit, additional financing requirements and access to capital funding, dependence on strategic alliances, government regulation of the biopharmaceutical industry and other risks that may be detailed from time to time in our periodic reports and registration statements filed with the Securities and Exchange Commission.

Dollars reported in thousands, except per share data.

Basis of Financial Statement Presentation

We are a biopharmaceutical company focused on the discovery and development of human antibody-based therapeutic products using our proprietary technology

platform, the UltiMAb Human Antibody Development System. This unique combination of human antibody technologies enables us to rapidly create and develop high affinity, fully human antibodies to a wide range of potential disease targets for therapeutic antibody products, including products for the treatment and/or diagnosis of cancer, inflammation, auto-immune and other life-threatening and debilitating diseases.

Through our 1997 acquisition of GenPharm International, Inc. and our collaboration with Kirin Brewery Co. Ltd., we expanded our business to include both our HuMAb-Mouse and Kirin's TC Mouse technologies. In December 2000 we unveiled the KM-Mouse, a unique crossbred mouse developed in partnership with Kirin, as the newest addition to our UltiMAb Human Antibody Development System. With the UltiMAb platform, we have assembled a unique family of human antibody technologies for creating the entire spectrum of high-affinity, fully human antibodies. We intend to leverage our product development capabilities with those of our partners, while also gaining access to novel therapeutic targets and complementary development, sales and marketing infrastructure. As of March 31, 2002, 41 pharmaceutical and biotechnology companies have partnered with us to jointly develop and commercialize products or have otherwise acquired the rights to use our proprietary technology in their development of new products, including industry leaders such as Amgen, Inc., Centocor, Inc. (a subsidiary of Johnson & Johnson), Eli Lilly & Company, Human Genome Sciences, Inc., Immunex Corporation, Novartis Pharma AG, Novo Nordisk A/S, and Schering AG. Some of these are licensing partnerships, providing us with licensing fees, milestone payments and royalty payments; others are collaborative partnerships and provide for the sharing of product development costs, revenues, expenses and profits associated with products sold commercially.

Our licensing partners typically obtain licenses to one or more of our antibody generating technologies which allow these partners to develop and commercialize antibody-based products. We could receive license fees, milestones and royalties in connection with each of these products. Under these licenses, there is usually an initial period during which our corporate partner may elect to enter into a research license for antibodies to a particular designated target. Subsequently, our licensing partner may elect to obtain a commercial license for monoclonal antibodies to a particular target. As of March 31, 2002, 21 of our total partnerships were licensing partnerships, and we expect to continue adding additional licensing partnerships in the future.

We are also pursuing an "Applied Genomics" strategy in order to gain access to new target antigens as they are identified, while also sharing the risks and rewards of the related antibody development and commercialization. To this end, we have established a number of collaborative partnerships with leading companies in the fields of genomics and proteomics to jointly develop and commercialize human antibody products. Typically, our collaborator will provide a target antigen, and we will generate antibodies against that antigen using our UltiMAb Human Antibody Development System. We and our collaborators typically agree to share equally costs of clinical development and manufacturing as well as revenues, expenses and profits associated with the products. As of March 31, 2002, 20 of our total partnerships were collaborative partnerships, and we expect to continue adding additional collaborations in the future.

Revenue--Our revenue is principally derived through licensing our human antibody technology to pharmaceutical and biotechnology companies. The terms of these agreements typically include potential license fees and a series of milestone payments commencing upon initiation of clinical trials and continuing through commercialization. These payments may total $7,000 to $10,000 per

product if the antibody receives approval from the FDA and equivalent foreign agencies. We are also entitled to royalties on product sales. Additional revenue is earned from the sales and, in some cases, manufacturing, of antibodies to corporate partners and from government grants.

Research and Development Expenses--Research and development expenses consist primarily of compensation expense, facilities, preclinical and clinical trials and supply expense relating to antibody product development and to the breeding, caring for and continued development of our HuMAb-Mouse and KM-Mouse, as well as to the performance of contract services for our collaborative partners.

General and Administrative Expenses--General and administrative expenses consist primarily of compensation, facility, travel, legal fees and other expenses relating to our general management, financial, administrative and business development activities.

Critical Accounting Policies

The methods, estimates and judgments we use in applying our accounting policies have a significant impact on the results we report in our consolidated financial statements. We evaluate our estimates and judgments on an on-going basis. We base our estimates on historical experience and on assumptions that we believe to be reasonable under the circumstances. Our experience and assumptions form the basis for our judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may vary from what we anticipate and different assumptions or estimates about the future could change our reported results. We believe the accounting policies that require our most difficult, subjective or complex judgments in the preparation of our consolidated financial statements to be as follows:

Revenue Recognition

Historically, a significant portion of our revenue has been recognized pursuant to collaboration and license agreements with our partners. Revenue is recognized as research services are performed over the related funding periods for each agreement. Deferred revenue may result when we do not expend the required level of effort during a specific period in comparison to funds received under the respective agreements or when funds received are refundable under certain circumstances. Milestone and royalty payments are recognized as

revenue upon achievement of specific milestones. Non-refundable upfront payments received in connection with our collaborative partnerships are deferred and recognized as revenue on a straight-line basis over the relevant periods of the respective agreements.

Investments

All marketable securities are classified as available-for-sale securities and are carried at fair value. Marketable securities will include those securities of publicly traded debt and equity securities accounted for under the cost method. These securities trade on listed exchanges; therefore, fair value is readily available. These securities are also subject to an impairment charge when we believe an investment has experienced a decline in value that is other than temporary.

In addition, we make strategic investments in the equity of companies that

are privately held, and these securities are carried at original investment cost. Because these securities are not listed on a financial exchange, we value these investments by using information acquired from industry trends, the management of these companies, financial statements, and other external sources. Based on the information, acquired through these sources, we record an investment impairment charge when we believe an investment has experienced a decline in value that is other than temporary. Future adverse changes in market conditions or adverse changes in operating results of underlying investments that may not be reflected in an investment's current carrying value, may also require an impairment charge in the future.

Liquidity and Capital Resources

We have financed our operations since inception through the sale of our securities in public and private placements, sales of our products for research purposes and technology transfer and license fees.

We had $428,030 in cash, cash equivalents and marketable securities at March 31, 2002 compared to $466,952 at December 31, 2001. Cash, cash equivalents and marketable securities include the net proceeds we received from our public offering completed on June 26, 2001 of 4.50% Convertible Subordinated Notes due 2006, of approximately $169,000. Net cash used by operating activities for the three months ended March 31, 2002 was approximately $22,400 compared with net cash provided by our operating activities of $1,086 for the three months ended March 31, 2001. The change was primarily due to our net loss for the 2002 period.

Net cash provided by investing activities for the three months ended March 31, 2002 was $41,113 compared to $49,003 for the three months ended March 31, 2001. The decrease in investing activities was primarily the result of a decrease of $4,568 in the purchase of property and equipment, a decrease of $5,226 in investment in affiliates and partners and a net decrease of $17,958 from purchases and sales of marketable securities.

In November 2000, we acquired our Milpitas, California facility for approximately $14,600. We previously leased this facility. This property contains approximately 57,000 square feet of laboratory and office space and, as of March 31, 2002, we had expended (cumulatively) approximately $17,400 on renovating this facility.

In January 2001, we purchased a facility and adjacent land in Bloomsbury, New Jersey for approximately $9,200. The Bloomsbury facility is situated on approximately 106 acres of land and currently contains space for approximately 165,000 square feet of laboratory and office space. We currently are using 75,000 square feet as laboratory and office space. As of March 31, 2002, we have completed the initial phase of the Bloomsbury facility and have expended cumulatively approximately $55,300. For the balance of 2002, we expect to expand our research facility in Milpitas and continue the expansion of laboratory and development capacity in Bloomsbury and Annandale, New Jersey. We currently expect the costs for this expansion to be up to approximately $60,000, but this is subject to change.

Net cash provided by financing activities for the three months ended March 31, 2002 was $28 compared to $228 for the three months ended March 31, 2001. The change in 2002 from 2001 was primarily the result of less options exercised by employees during the first quarter of 2002. Proceeds from the exercise of employee stock options will vary from period to period based upon, among other

factors, fluctuations in the market value of our stock relative to the exercise price of such options.

Other Liquidity Matters. In connection with our merger with Essex Medical Products in 1987, we issued promissory notes to Essex Chemical Corporation in the principal amount of $100 and committed to pay 20% of our net after-tax income until a total of $1,000 has been paid, contingent upon the occurrence of certain events. On June 6, 1991, we repaid the $100 of notes, plus accrued interest to Essex. As the result of our net income in 2000 we accrued $667 payable to Essex, which remains accrued at March 31, 2002. At our option, this obligation may be satisfied by the payment of shares of our common stock having a fair market value equal to the amount owed, provided such shares are registered for sale with the SEC.

In July 2000, we entered into an Agreement with and Immuno-Designed Molecules S.A. or IDM whereby we licensed to IDM certain of our technologies in exchange for equity units in IDM. As a result of this transaction, we realized a gain from the transfer of technology of approximately $40,500 (based upon an independent valuation). In accordance with Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements, we will recognize this gain over a 24-month period as contract revenue. Accordingly, during the three months ended March 31, 2002, we recognized $5,107 as contract revenue and as of that date approximately $9,273 remains unrecognized and will be recorded as revenue during the next two quarters of 2002.

Future Liquidity Resources. Our current sources of liquidity are cash, cash equivalents and marketable securities, interest and dividends earned on such cash, cash equivalents and marketable securities, sales of our products for research, and contract and licensing revenue. We believe that such sources of liquidity will be sufficient to meet our operating, debt service, and capital requirements for at least the next 24 months. However, we may require additional financing within this time and may raise funds through public or private financings, line of credit arrangements, collaborative relationships and/or other methods.

Results of Operations

Three months ended March 31, 2001 and 2002

Revenue increased by $1,851, from $8,920 to $10,771, during the three-month period ended March 31, 2002, a 21% increase as compared to the three-month period ended March 31, 2001. The increase relates principally to $2,308 of sales

revenues from Genmab A/S and $972 of contract and license revenues from Eli Lilly & Company, partially offset by $1,500 in lower contract and license revenues from Kirin Brewery Co., Ltd.

Cost of sales increased by $1,449, from $28 to $1,477, during the three-month period ended March 31, 2002, a 5,175% increase as compared to the three-month period ended March 31, 2001. The increase, primarily, reflects the production cost of MDX-CD4 that was sold to Genmab in the first quarter of 2002.

Research and development expenses are largely comprised of personnel costs, those expenses related to facilities for our clinical research, development and clinical trial manufacturing efforts, third party research costs and supply costs. Research and development expenses for our products in development

increased by $9,194 during the three-month period ended March 31, 2002, from $8,060 to $17,254, a 114% increase as compared to the three-month period ended March 31, 2001. The increases relate primarily to costs associated with the following:

- Personnel costs for the three-month period ended March 31, 2002 increased by $2,838 or 107% as compared to the three-month period ended March 31, 2001. The increase in staff is to support higher levels of product development and clinical trial manufacturing activities, the continued development of our UltiMAb system, and the performance of contract services for our collaborative partners and clinical activities. Included in the increase are salary, benefits, payroll taxes and recruiting costs. We expect personnel costs to increase further as we continue to increase our product development activities and progress our products in clinical trials.

- License and technology access fees for the three-month period ended March 31, 2002 increased by $2,781 or 9,365% over the three-month period ended March 31, 2001. In the first quarter of 2002 we paid a premium of $2,500 representing technology access rights for the purchase of Tularik, Inc. common stock as part of our collaboration and license agreement which was charged to expense. We expect license fees, including funds paid to certain partners, to increase in the future.

- Research supply costs for the three-month period ended March 31, 2002 increased by $2,555 or 310% over the three-month period ended March 31, 2001. Included in these costs are materials and small equipment associated with the development of our products. We expect these costs to increase as we continue to expand our research and product development activities.

- Facility costs for the three-month period ended March 31, 2002 increased by $1,317 or 75% over the three-month period ended March 31, 2001. The increase in 2002 primarily relates to the substantial investments made in our three research and development facilities during 2001 and the first quarter of 2002. Such expenditures included: building and land improvements, machinery and lab equipment, furniture and fixtures and other related costs. As a result, depreciation, utilities, maintenance, property taxes and related expenses increased for the three-month period ended March 31, 2002, as compared to the same period in 2001. We expect facility costs to increase in future periods as a result of our continued capital expansion plans.

We also expect expenses related to clinical trials to increase in the future as we continue to develop our therapeutic product pipeline. As part of our partnering strategy, a significant portion of the research and development expenses incurred in connection with products using our technology is expected to be borne by our partners. We believe this allows us to participate in the research and development of substantially more potential product candidates

than we could develop on our own if we bore the entire cost of development. Products using our technology are currently in various stages of development from preclinical to Phase III. The successful development of these product candidates is dependent on many factors, including among other things, the efforts of our partners, unforeseen delays in, or expenditures relating to,

preclinical development, clinical testing, manufacturing or regulatory approval, failure to receive market acceptance, the emergence of competitive products and the inability to produce or market our products due to third-party proprietary rights.

General and administrative expenses include compensation and other expenses related to finance and administrative personnel, legal services and business development. General and administrative expenses for the three-month period ended March 31, 2002, increased by $1,816, from $3,602 to $5,418, a 50% increase as compared to the three-month period ended March 31, 2001. The increase is primarily attributable to higher personnel costs, consulting and depreciation expenses. General and administrative expenses are expected to increase in the future as our products are developed and we expand our business activities.

Equity in net loss of affiliate for the three-month period ended March 31, 2002, increased by $3,012, from $577 to $3,589, a 522% increase as compared to the three-month period ended March 31, 2001. Genmab is an affiliated company and is accounted for using the equity method. We expect equity in net loss of Genmab to increase in the near future due to the Genmab's publicly stated intention to make additional investments in research and development to develop its own product pipeline.

Interest income for the three-month period ended March 31, 2002, decreased by $1,825, from $6,771 to $4,946 a 27% decrease as compared to the three-month period ended March 31, 2001. The decrease reflects lower interest rates received on our investments partially offset by our higher average cash balances as the result of proceeds received from the June 26, 2001 public offering of our 4.50% convertible subordinated notes due in 2006.

Impairment loss on investment of $1,600 during the three-month period ended March 31, 2002 reflects a decline in the value of the investment made in the capital stock of Oxford GlycoSciences Plc as part of our collaboration with them. During the first quarter of 2002, the decline in the value of the investment was determined to be "other than temporary."

Interest expense during the three-month period ended March 31, 2002 increased by $2,217 from $1 to 2,218. The increase as compared to the three-month period ended March 31, 2001 reflects accrued interest on the 4.50% convertible subordinated notes issued on June 26, 2001 and due in 2006. Interest is due on January 1 and July 1 of each year.

Recent Issued Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board, or FASB, issued Statement No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have infinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statement. Other intangible assets will continue to be amortized over their useful lives. The January 1, 2002 adoption of Statement No. 142 did not have any impact on our consolidated financial position or results of operations as we currently have no goodwill or intangible assets with indefinite useful lives.

In October 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", effective for fiscal years beginning after December 15, 2001. Statement No. 144 supersedes Statement

No.121 and identifies the methods to be used in determining fair value. The January 1, 2002 adoption of Statement No. 144 did not have any impact on our consolidated financial position or results of operations.

Item 3. Quantitative and Qualitative Disclosures about Market Risks.

We do not currently use derivative financial instruments in our operations or investment portfolio. However, we regularly invest excess operating cash in deposits with major financial institutions, money market funds, notes issued by the U.S. Government, as well as fixed income investments and U.S. bond funds both of which can be readily purchased or sold using established markets. We believe that the market risk arising from our holdings of these financial instruments is minimal. We do not have exposure to market risks associated with changes in interest rates, as we have no variable interest rate debt outstanding. We do not believe we have any material exposure to market risks associated with interest rates.

We may be exposed to exchange conversion differences in translating the foreign results from operations of its investment in Genmab to U.S. dollars. Depending upon the strengthening or weakening of the U.S. dollar, the conversion difference could be significant to our recording of our investment in Genmab. Foreign exchange translation gains or losses have been and will continue to be recorded within "accumulated other comprehensive income" in the equity section of our balance sheet.

Part II -- Other Information

Item 1. Legal Proceedings

In the ordinary course of our business, we are at times subject to various legal proceedings. We do not believe that any of our current legal proceedings, individually or in the aggregate, will have a material adverse effect on our operations or financial condition.

Item 6. Exhibits and reports on Form 8-K

(a) Reports on Form 8-K: None

(b) Exhibits: None

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.

MEDAREX, INC.

(Registrant)

Date: May 10, 2002

By /s/ Christian S. Schade

Christian S. Schade
Senior Vice President
Finance & Administration
(Principal Financial and
Accounting Officer)