

Edgar Filing: MEDAREX INC - Form 10-Q

MEDAREX INC  
Form 10-Q  
November 13, 2001

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 September 30, 2001  
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Commission File No. 0-19312  
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MEDAREX, INC.  
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(Exact name of registrant as specified in its charter.)

New Jersey  
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22-2822175  
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(State or other jurisdiction of  
incorporation or organization)

(IRS Employer  
Identification No.)

707 State Road #206, 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  No

The number of shares of common stock, \$.01 par value, outstanding as of November 9, 2001 was 72,776,166 shares.

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

December 31, September 30  
-----  
2000 2001  
(Unaudited)

ASSETS  
Current assets:

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Cash and cash equivalents	\$ 78,397	\$ 89,731
Marketable securities	265,206	388,797
Other current assets	23,422	18,168
	-----	-----
Total current assets	367,025	496,696
Property and equipment:		
Land	-	6,782
Building and leasehold improvements	2,356	51,940
Machinery and equipment	6,503	14,609
Furniture and fixtures	409	2,032
Construction in progress	20,000	2,457
	-----	-----
	29,268	77,820
Less accumulated depreciation and amortization	(5,837)	(9,077)
	-----	-----
	23,431	68,743
Investment in Genmab	77,468	72,615
Investment in IDM	48,199	48,199
Investments in, and advances to, other affiliates and partners	7,634	19,584
Segregated cash	22,068	1,300
Other assets	12,555	20,550
	-----	-----
Total assets	\$ 558,380	\$ 727,687
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	\$ 1,463	\$ 2,135
Accrued liabilities	5,945	8,908
Deferred contract revenue - current	29,810	25,574
	-----	-----
Total current liabilities	37,218	36,617
Deferred contract revenue - long-term	15,326	2,683
Deferred income taxes	20,274	18,766
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; 73,802,666 shares issued and 72,597,666 outstanding at December 31, 2000 and 73,980,966 shares issued and 72,775,966 shares outstanding at September 30, 2001	738	740
Capital in excess of par value	569,410	570,316
Treasury stock, at cost 1,205,000 shares	(3,031)	(3,031)
Deferred compensation	2,234	2,439
Accumulated other comprehensive income	39,313	42,335
Accumulated deficit	(123,102)	(118,178)
	-----	-----
Total shareholders' equity	485,562	494,621
	-----	-----
Total liabilities and shareholders' equity	\$ 558,380	\$ 727,687
	=====	=====

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See notes to these unaudited consolidated financial statements.

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MEDAREX, INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF OPERATIONS  
 (Unaudited)  
 (In thousands, except share data)

	Nine Months Ended		Three Mo
	September 30, 2000	September 30, 2001	September 30 2000
<b>Revenues:</b>			
Sales	\$ 150	\$ 879	\$ 37
Contract and license revenues	10,133	24,797	5,362
Contract and license revenues from Genmab	633	2,913	275
	10,916	28,589	5,674
<b>Costs and expenses:</b>			
Cost of sales	83	495	29
Research and development	22,780	23,714	5,520
General and administrative	12,115	11,801	6,210
	34,978	36,010	11,759
Operating loss	(24,062)	(7,421)	(6,085)
Equity in net income (loss) of affiliate	393	(3,714)	551
Interest and dividend income	15,403	18,885	6,845
Interest expense	(3)	(2,376)	(1)
	Income (loss) before provision for income taxes	5,374	1,310
Provision for income taxes	(8,269)	450	4,065
	4,365	450	4,065
Net income (loss)	\$ (12,634)	\$ 4,924	\$ (2,755)
Basic net income (loss) per share	\$ (0.18)	\$ 0.07	\$ (0.04)
Diluted net income (loss) per share	\$ (0.18)	\$ 0.07	\$ (0.04)
<b>Weighted average number of common shares outstanding during the year - basic</b>			
	70,845,871	73,914,692	73,194,686
- diluted	70,845,871	75,425,409	73,194,686

See notes to these unaudited consolidated financial statements.

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MEDAREX, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
(In thousands)

	For the Nine Months Ended September 30,	
	2000	2001
	-----	-----
Operating activities:		
Net income (loss)	\$ (12,634)	\$ 4,924
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	562	2,470
Amortization	309	1,113
Stock options to employees	3,117	205
Stock options and warrants to non-employees	5,237	15
Non cash revenue - IDM	-	(15,175)
Non cash revenue - Genmab	-	(1,333)
Equity in net (income) loss of Genmab	(393)	3,714
Provision for income taxes	3,914	-
Changes in operating assets and liabilities, net of acquisition:		
Other current assets	(11,801)	1,303
Trade accounts payable	77	672
Accrued liabilities	(544)	3,482
Deferred contract revenue	(3,338)	(1,571)
	-----	-----
Net cash used in operating activities	(15,494)	(181)
Investing activities:		
Purchase of property and equipment	(2,158)	(48,552)
Decrease in other assets	601	-
Increase in investments and advances to affiliates and partners	(27,565)	(10,750)
Decrease (increase) in segregated cash	(20,603)	20,768
Purchase of marketable securities	(294,431)	(169,500)
Sales of marketable securities	14,845	50,069
	-----	-----
Net cash used in investing activities	(329,311)	(157,965)
Financing activities:		
Cash received from sales of securities, net	398,799	394
Proceeds from sale of convertible subordinated notes, net	-	169,105
Principal payments under debt obligations	(24)	(19)
	-----	-----
Net cash provided by financing activities	398,775	169,480
	-----	-----
Net increase in cash and cash equivalents	53,970	11,334
Cash and cash equivalents at beginning of period	14,366	78,397

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Cash and cash equivalents at end of period

-----  
\$ 68,336  
=====

-----  
\$ 89,731  
=====

See notes to these unaudited consolidated financial statements.

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MEDAREX, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)  
(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 generally accepted accounting principles 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, 2000.

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 nine months and the three months ended September 30, 2001, 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. For the nine months and three months ended September 30, 2000, potentially dilutive securities have been excluded from the computation, as their effect is antidilutive.

The computation of basic and diluted earnings per share for the nine months and three months ended September 30, 2000 and 2001 is as follows:

	Nine Months Ended September 30		Three Months Ended September 30	
	2000	2001	2000	2001
	-----	-----	-----	-----
Basic:				
Net income (loss)	\$ (12,634)	\$ 4,924	\$ (2,755)	\$ (2,684)

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Weighted average shares outstanding	70,846	73,915	73,195	73,947
	-----	-----	-----	-----
Basic net income (loss) per share	\$ (0.18)	\$ 0.07	\$ (0.04)	\$ (0.04)
	=====	=====	=====	=====

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MEDAREX, INC. AND SUBSIDIARIES

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

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

	Nine Months Ended September 30		Three Months Ended September 30	
	2000	2001	2000	2001
	-----	-----	-----	-----
Diluted:				
Net income (loss)	\$ (12,634)	\$ 4,924	\$ (2,755)	\$ (2,684)
Weighted average shares outstanding	70,846	75,915	73,195	73,947
Net effect of dilutive securities:				
Stock options--	--	1,510	--	--
	-----	-----	-----	-----
Total adjusted weighted-average shares	70,846	75,425	73,195	73,947
	=====	=====	=====	=====
Diluted net income (loss) per share	\$ (0.18)	\$ 0.07	\$ (0.04)	\$ (0.04)
	=====	=====	=====	=====

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 accumulated other comprehensive income which is a separate component of shareholders' equity.

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. At December 31, 2000 the Company had accrued \$667 related to this liability.

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In the ordinary course of our business, the Company is at times subject to various legal proceedings. We are not currently subject to any such legal proceedings.

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### MEDAREX, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(In thousands, except per share data)

#### 5. Licensing, Research and Development Agreements

In August 2001, the Company and Aventa Biosciences Corporation ("Aventa") entered into a collaboration to jointly develop and commercialize fully human antibody therapeutic products to targets identified by Aventa and the Company. The Company plans to generate antibodies to these targets using its fully human antibody technology. The Company and Aventa expect to share costs and responsibilities leading to the anticipated commercialization of antibody products, including costs and responsibilities related to preclinical and clinical development and marketing efforts. In November 2001, Aventa changed its name to Ambit Biosciences Corporation.

In August 2001, the Company entered into an agreement with Genesto A/S ("Genesto") to develop fully human antibodies to multiple disease targets identified by Genesto. Genesto expects to develop and commercialize any human antibody products resulting from this agreement. The Company could receive license fees, milestone payments and royalties on commercial sales of products resulting from its agreement with Genesto.

In September 2001, the Company and Incyte Genomics, Inc. ("Incyte") entered into a collaboration to jointly develop and commercialize fully human antibody therapeutic products. The Company and Incyte expect to share costs and responsibilities leading to the anticipated commercialization of antibody products, including costs and responsibilities related to preclinical and clinical development and marketing efforts.

#### 6. Investment 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%. During the nine and three month periods ended September 30, 2001 the value of the Company's investment in Genmab was adjusted to reflect the Company's share of Genmab's loss (\$3,714) and (\$1,955), respectively, and an unrealized gain (loss) of (\$1,139) and \$5,560, respectively, related to foreign exchange translation. Such foreign exchange translation adjustments are included within accumulated other comprehensive income in the Company's September 30, 2001 balance sheet.

Summary financial information for Genmab for the nine and three months ended September 30, 2001 is as follows (unaudited):

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	Nine Months ended September 30, 2001 -----	Three Months ended September 30, 2001 -----
Net sales	\$ --	\$ --
Gross profit	--	--
Net loss	(11,262)	(5,486)

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MEDAREX, INC. AND SUBSIDIARIES

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

7. Comprehensive Income (Loss)

The components of comprehensive income (loss) for the nine and three month periods ended September 30, are as follows (unaudited):

	Nine months ended September 30 -----	
	2000 -----	2001 -----
Net income (loss)	\$(12,634)	\$ 4,924
Unrealized gain on securities	2,367	4,161
Unrealized gain (loss) on foreign exchange	--	(1,139)
Total comprehensive income (loss)	\$(10,267) =====	\$ 7,946 =====

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 nine and three months ended September 30, 2000 and 2001 is as follows:

	Nine months ended September 30 -----		Three months ended September 30 -----	
Customer -----	2000 ----	2001 ----	2000 ----	2001 ----



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IDM S.A	8%	53%	15%	45%
Kirin Brewery Co., Ltd.	41%	16%	26%	13%
Genmab A/S	7%	13%	8%	20%
Scil Biomedicals GmbH	20%	3%	35%	2%

No other single customer accounted for more than 10% of the Company's total revenues for the nine and three months ended September 30, 2000 and 2001, respectively.

### 9. Subsequent Events

In October 2001, the Company and m-phasys, Inc. ("m-phasys") entered into a collaboration to jointly develop and commercialize fully human antibody therapeutic products to multiple disease targets identified by m-phasys. The Company plans to generate antibodies to these targets using its fully human antibody technology. The Company and m-phasys expect to share costs and responsibilities leading to the anticipated commercialization of antibody products, including costs and responsibilities related to preclinical and clinical development and marketing efforts.

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### 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.

#### 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 \$478,528 in cash, cash equivalents and marketable securities and \$1,300 in a segregated cash account as of September 30, 2001 compared to \$343,603 and \$22,068, respectively, as of December 31, 2000. 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, as well as the release from escrow of \$20,000 in connection with the restructuring of the collaboration with Eos Biotechnology, Inc. completed in April 2001. This \$20,000 was previously recorded in segregated cash. Operating activities used \$181 of cash for the

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nine-month period ended September 30, 2001.

On November 3, 2000, we acquired the Milpitas, California facility for approximately \$14,600. We had previously leased this facility. This property contains approximately 57,000 square feet of laboratory and office space. As of September 30, 2001, we spent approximately \$10,400 and expect to spend an additional \$500 on building modifications and equipping the Milpitas facility this year. In January 2001, we purchased a facility in Greenwich, New Jersey for approximately \$9,200. The Greenwich facility is situated on approximately 140 acres of land and currently contains approximately 165,000 square feet of laboratory and office space. We intend to modify and expand the Greenwich facility to increase our capacity to provide materials for clinical trials for our future products under development through our collaborations and alliances. As of September 30, 2001, we completed the initial phase of the Greenwich Facility and started phase two. To date, we have expended approximately \$30,800 on the building and land. We currently do not have the capacity to manufacture our products under development in large commercial quantities and have no experience in commercial-scale manufacturing. With the addition of these two facilities and our increase in collaboration agreements, our number of employees has increased from 123 on September 30, 2000 to 238 on September 30, 2001.

We have leased approximately 43,000 square feet of laboratory, clinical trial production and office space in a facility located in Annandale, New Jersey. The term of the lease expires on September 30, 2003, subject to renewal for an additional five years.

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In January 1998, we entered into a four-year lease for approximately 10,000 square feet in a facility located in San Jose, California. This space includes an animal facility, research and development laboratories and administrative offices.

In September 1999, we entered into a lease for approximately 6,000 square feet of administrative office space in a facility located in Princeton, New Jersey. In 2000, this lease space was increased to a total of approximately 20,000 square feet and the lease was extended to expire on March 31, 2006. This facility serves as our general corporate headquarters.

At September 30, 2001 the aggregate future minimum lease commitments over the remainder of the lease terms for all of our facilities are approximately \$5,386. As of September 30, 2001, we have commitments for approximately \$23,000 of capital expenditures relating to our facilities.

Our current sources of liquidity are our 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 revenues. As we utilize our cash, the interest earned will be reduced. We believe that under existing operating plans our current sources of liquidity will be sufficient to meet anticipated cash requirements for the next twenty-four months.

Upon exhaustion of our current cash reserves, our continued operations will depend on our ability to raise additional funds through equity or debt financing and/or enter into licensing or joint development agreements, including collaborative research and development arrangements pursuant to which certain costs associated with the regulatory approval process for certain of our products would be borne by the licensees or joint developers. We may not be able to successfully complete such sales or financing activities.

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### Results of Operations

Nine months ended September 30, 2000 and 2001

Revenue increased by \$17,673 during the nine-month period ended September 30, 2001, a 162% increase from the nine-month period ended September 30, 2000. The increase relates principally to \$14,400 of contract and license revenues from IDM, S.A. and \$2,113 of contract and license revenues from Genmab A/S.

Cost of sales increased by \$413 during the nine-month period ended September 30, 2001, a 498% increase as compared to the nine-month period ended September 30, 2000. The increase, primarily, reflects the production cost of MDX-CD4 that was sold to Genmab in the second and third quarters of 2001.

Research and development expenses increased by \$934 during the nine-month period ended September 30, 2001, a 4% increase from the nine-month period ended September 30, 2000. The increase is principally due to higher personnel costs, supplies and depreciation expense, partially offset by a one-time refund in April 2001 of a \$5,000 May 2000 payment to Eos as part of a new binding letter of intent for the restructuring of the applied genomics collaboration that was originally established in February 2000. Research and development costs are expected to increase at an accelerated rate as our products progress through the regulatory approval process.

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General and administrative expenses decreased by \$314 during the nine-month period ended September 30, 2001, a 3% decrease from the nine-month period ended September 30, 2000. The decrease is primarily attributable to lower consulting and shareholder relation expenses, which in 2000 included non-cash charges related to warrants issued to consultants. The decrease was partially offset by heightened legal and travel costs incurred in connection with the expansion of our business activities. 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 increased by \$4,107 during the nine-month period ended September 30, 2001, a 1,045% increase from the nine-month period ended September 30, 2000. The increased loss reflects our share of Genmab's loss for the full nine-month period in 2001 and for our share of Genmab's income in 2000 beginning in May when we made an additional \$18,000 investment in Genmab. 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 additional investments in research and development to develop its own product pipeline.

Interest and dividend income increased by \$3,482 during the nine-month period ended September 30, 2001, a 23% increase from the nine-month period ended September 30, 2000. The increase reflects interest earned on 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.

Interest expense increased by \$2,373 during the nine-month period ended September 30, 2001, the increase from the nine-month period ended September 30, 2000 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 beginning January 1, 2002.

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Three months ended September 30, 2000 and 2001

Revenue increased by \$5,782 during the three-month period ended September 30, 2001, a 102% increase from the three-month period ended September 30, 2000. The increase relates principally to \$4,284 of contract and license revenues from IDM.

Cost of sales increased by \$333 during the three-month period ended September 30, 2001, a 1148% increase from the three-month period ended September 30, 2000. The increase primarily reflects the production cost of MDX-CD4 that was sold to Genmab in September 2001.

Research and development expenses increased by \$5,638 during the three-month period ended September 30, 2001, a 102% increase from the three-month period ended September 30, 2000. The increase is principally due higher supplies, personnel costs and depreciation.

General and administrative expenses decreased by \$1,520 during the three-month period ended September 30, 2001, a 24% decrease from the three-month period ended September 30, 2000. The decrease is primarily attributable to lower consultant expenses, which in 2000 included non-cash charges related to warrants issued to consultants. This decrease was partially offset by higher legal expenses associated with the increasing number of partnering agreements.

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Equity in net loss of affiliate increased \$2,506 during the three-month period ended September 30, 2001, a 455% increase from the three-month period ended September 30, 2000. Genmab is an affiliated company and is accounted for using the equity method. The increase in loss primarily reflects increased research and development expenditures at Genmab. We expect equity in net loss of Genmab to increase in the near future due to the Genmab's additional investments in research and development to develop its own product pipeline.

Interest and dividend income decreased by \$422 during the three-month period ended September 30, 2001, a 6% decrease from the three-month period ended September 30, 2000. The decrease reflects lower interest rates for the quarter.

Interest expense increased by \$2,248 during the three-month period ended September 30, 2001, the increase from the three-month period ended September 30, 2000 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 beginning January 1, 2002.

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### Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statement No. 141, "Business Combinations" and 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 Statements. Other intangible assets will continue to be amortized over their useful lives. The Company is currently reviewing the impact of these Statements and will apply the new rules for

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goodwill and other intangible assets beginning in the first quarter of 2002.

In October 2001, the Financial Accounting Standards Board issued Statement No. 144, "Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", 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 Company is currently reviewing the impact of Statement No. 144 and will be performing an analysis at a later date in connection with the adoption of Statement No. 144 on January 1, 2002.

### Item 3. Quantitative and Qualitative Disclosures about Market Risks.

We do not 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 are not currently subject to any such legal proceedings.

On May 24, 2000, Lexicon Genetics Incorporated filed a complaint against Deltagen, Inc. in U.S. District Court for the District of Delaware alleging that Deltagen was willfully infringing the claims of United States Patent No. 5,789,215, under which Lexicon holds an exclusive license in the relevant field from our wholly-owned subsidiary GenPharm International, Inc. This patent covers certain methods of engineering the animal genome, including methods for the production of knockout mice.

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On October 31, 2000, Lexicon amended its complaint to add GenPharm, as the licensor of the patent, as a plaintiff. On November 14, 2000, Deltagen filed an answer to Lexicon's amended complaint which included counterclaims against Lexicon and, for the first time, counterclaims against GenPharm. In its counterclaims, Deltagen sought declaratory relief that the patent was invalid, unenforceable and not infringed. In addition, Deltagen asserted counterclaims against both Lexicon and GenPharm under the antitrust laws. Deltagen sought, among other relief, an award of monetary damages against Lexicon and GenPharm in an unspecified amount.

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On September 24, 2001, the litigation against GenPharm was dismissed with prejudice pursuant to a stipulation following a settlement of the underlying dispute between Lexicon and Deltagen.

Item 6. Exhibits and reports on Form 8-K

(a) Reports on Form 8-K: None

(b) Exhibits: None

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Signatures  
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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.  
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(Registrant)

Date: November 13, 2001

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

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