

Edgar Filing: IGEN INTERNATIONAL INC /DE - Form 10-Q

IGEN INTERNATIONAL INC /DE

Form 10-Q

February 14, 2003

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

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

For Quarter Ended December 31, 2002

Commission File Number 0-23252

IGEN International, Inc.

-----  
(Exact name of registrant as specified in its charter)

DELAWARE

94-2852543

-----  
(State or other jurisdiction  
incorporation or organization)

-----  
(IRS Employer  
Identification No.)

16020 INDUSTRIAL DRIVE, GAITHERSBURG, MD 20877

-----  
(Address of principal executive offices) (Zip Code)

301-869-9800

-----  
(Registrant's telephone number, including area code)

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 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 \_\_\_\_

Indicate by check mark whether the registrant is an accelerated filer.

Yes X No \_\_\_\_

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class -----	Outstanding at February 3, 2003 -----
Common Stock, \$0.001 par value	23,747,872

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For the Quarter Ended December 31, 2002

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IGEN International, Inc.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands, except share data)

ASSETS

CURRENT ASSETS:

December 31, 20

-----  
(Unaudited)

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Cash and cash equivalents	\$ 25,4
Short-term investments	16,2
Accounts receivable, net	13,9
Inventory	5,4
Other current assets	3,0
	-----
Total current assets	64,1
EQUIPMENT AND LEASEHOLD IMPROVEMENTS, NET	5,6
OTHER NONCURRENT ASSETS:	
Investment in affiliate	10,3
Restricted cash	1,7
Other	9
	-----
TOTAL	\$ 82,7
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable and accrued expenses	\$ 11,0
Current portion of notes payable	5,4
Convertible preferred stock dividends payable	
Current portion of deferred revenue	3
Obligations under capital leases	
	-----
Total current liabilities	16,8
	-----
NONCURRENT LIABILITIES:	
Note payable	13,9
Subordinated convertible debentures	31,3
Deferred revenue	
	-----
Total noncurrent liabilities	45,4
	-----
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY:	
Convertible preferred stock, \$0.001 par value, 10,000,000 shares authorized, issuable in Series: Series A, 600,000 shares designated, none issued; Series B, 25,000 designated, none and 8,500 shares issued and outstanding-liquidation value of \$0 and \$8,500 plus accrued and unpaid dividends	
Common stock: \$0.001 par value, 50,000,000 shares authorized: 23,735,077 and 23,064,392 shares issued and outstanding	
Additional paid in capital	242,5
Stock notes receivable	(2,0
Accumulated deficit	(220,0
	-----
Total stockholders' equity	20,4
	-----
TOTAL	\$ 82,7
	=====

See notes to condensed consolidated financial statements.

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IGEN International, Inc.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except per share data)  
Unaudited

	Three months ended December 31,		
	2002	2001	
	----	----	
REVENUES:			
Royalty income	\$ 10,357	\$ 5,458	\$
Product sales	5,745	4,516	
Contract fees	149	450	
	-----	-----	--
Total	16,251	10,424	--
	-----	-----	
OPERATING COSTS AND EXPENSES:			
Product costs	2,680	1,518	
Research and development	5,765	6,311	
Selling, general and administrative	6,565	5,879	
Litigation related costs	1,171	900	
	-----	-----	--
Total	16,181	14,608	--
	-----	-----	
INCOME (LOSS) FROM OPERATIONS	70	(4,184)	
	-----	-----	--
OTHER (EXPENSE) INCOME:			
Interest expense	(1,385)	(1,502)	
Other income, net	338	215	
	-----	-----	--
Total	(1,047)	(1,287)	
	-----	-----	
EQUITY IN LOSS OF AFFILIATE	(3,329)	(3,756)	(
	-----	-----	--
NET LOSS	(4,306)	(9,227)	(
	-----	-----	--
PREFERRED DIVIDENDS	-	(349)	
	-----	-----	--
NET LOSS ATTRIBUTED TO COMMON SHAREHOLDERS	\$ (4,306)	\$ (9,576)	\$ (
	=====	=====	==
BASIC AND DILUTED NET LOSS PER COMMON SHARE	\$ (0.18)	\$ (0.48)	\$
	=====	=====	==
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING-			
BASIC AND DILUTED	23,731	20,105	==
	=====	=====	

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See notes to condensed consolidated financial statements.

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## IGEN International, Inc. CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (In thousands) Unaudited

### OPERATING ACTIVITIES:

Net loss	\$ (20)
Adjustments to reconcile net loss to net cash used for operating activities:	
Depreciation and amortization	3
Loss on disposal of equipment	
Equity in loss of affiliate	12
Amortization of detachable warrant value	1
Expense related to stock options	
Changes in assets and liabilities:	
Increase in accounts receivable	(4)
(Increase) decrease in inventory	
(Increase) decrease in other current assets	(1)
Increase in restricted cash	
Increase in accounts payable and accrued expenses	
Decrease in deferred revenue	
Net cash used for operating activities	(8)

### INVESTING ACTIVITIES:

Expenditures for equipment and leasehold improvements	(2)
Investments in affiliate	(16)
Purchase of short-term investments	(20)
Maturities of short-term investments	5
Sales of short-term investments	3
Net cash used for investing activities	(30)

### FINANCING ACTIVITIES:

Issuance of common stock, net	
Payments on notes payable and capital lease obligations	(3)
Principal collected on note receivable	1
Preferred stock dividends paid	(3)
Increase in other long-term assets	
Net cash (used for) provided by financing activities	(5)

NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(44)
--	------

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CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD

69

CASH AND CASH EQUIVALENTS, END OF PERIOD

\$ 25

## SUPPLEMENTAL DISCLOSURES:

Cash payments of interest

\$ 2

Accrued preferred dividends

\$

Equipment and leashold improvement contributed to affiliate

\$

See notes to condensed consolidated financial statements.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

### 1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of IGEN International, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. These financial statements should be read together with the audited financial statements and notes for the year ended March 31, 2002 contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted. In the opinion of the Company's management, the financial statements reflect all adjustments necessary to present fairly the results of operations for the three and nine month periods ended December 31, 2002 and 2001, the Company's financial position at December 31, 2002 and the cash flows for the nine month periods ended December 31, 2002 and 2001. The results of operations for the interim period are not necessarily indicative of the results of the entire year.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents- Cash and cash equivalents include cash in banks, money market funds, securities of the U.S. Treasury, and certificates of deposit with original maturities of three months or less.

Short-Term Investments - Short-term investments consist primarily of corporate debt-securities that are classified as "available for sale." These "available for sale" securities, which are all due within one year, are accounted for at their fair value and unrealized gains and losses on these securities, if any, are reported as a component of stockholders' equity. As of December 31, 2002, the Company had unrealized losses on "available for sale" securities of approximately \$206,000. This amount is included in comprehensive income and has been recorded within additional paid-in capital in the accompanying condensed consolidated balance sheets. The Company uses the specific identification method in computing realized gains and losses on the sale of investments which are included in results of operations as generated.

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Concentration of Credit Risk - The Company has invested its excess cash generally in securities of the U.S. Treasury, money market funds, certificates of deposit and corporate bonds. The Company invests its excess cash in accordance with a policy objective that seeks to ensure both liquidity and safety of principal. The policy limits investments to certain types of instruments issued by institutions with strong investment grade credit ratings and places restrictions on their terms and concentrations by type and issuer. The Company has not experienced any losses on its investments due to credit risk.

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### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Restricted Cash -The Company has a debt service reserve of approximately \$1.7 million that is restricted in use and held in trust as collateral (see Note 4).

Inventory - Inventory is recorded at the lower of cost or market using the first-in, first-out method and consists of the following:

(in thousands)	December 31, 2002	March 31, 2002
Finished Goods	\$ 2,423	\$ 2,070
Work in process	672	1,149
Raw materials	2,387	1,272
	-----	-----
	\$ 5,482	\$ 4,491
	=====	=====

Equipment and Leasehold Improvements - Equipment and leasehold improvements are carried at cost. Depreciation on equipment and furniture is computed over the estimated useful lives of the assets, generally three to five years, using straight-line or accelerated methods. Leasehold improvements are amortized on a straight-line basis over the life of the lease.

Equipment and leasehold improvements consist of the following:

(in thousands)	December 31, 2002	March 31, 2002
Lab instruments and equipment	\$ 5,432	\$ 7,761
Office furniture and equipment	5,634	7,492
Leasehold improvements	3,235	2,864
	-----	-----
	14,301	18,117
Accumulated depreciation and amortization	(8,658)	(11,688)
	-----	-----
	\$ 5,643	\$ 6,429
	=====	=====

Capitalized Software Costs - Software development costs incurred subsequent to the establishment of technological feasibility are capitalized in accordance with SFAS No. 86 "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." Through December 31, 2002, software development has been substantially completed concurrently with the establishment of

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technological feasibility, and accordingly, no costs have been capitalized to date.

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### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

**Evaluation of Long-Lived Assets** - The Company evaluates the potential impairment of long-lived assets based upon projections of undiscounted cash flows whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. Management believes no impairment of these assets exists as of December 31, 2002.

**Warranty Costs** - The Company generally warrants its products against defects in materials and workmanship for one year after sale and provides for estimated future warranty costs at the time revenue is recognized. At December 31, 2002, accrued product warranty costs totaled \$250,000 and are included in accrued expenses.

**Revenue Recognition** - The Company derives revenue principally from three sources: product sales, royalty income and contract fees. Product sales revenue is generally recognized when contractual obligations have been satisfied, title and risk of loss have been transferred to the customer and collection of the resulting receivable is reasonably assured.

Rental revenue associated with instruments that are leased is recognized ratably over the life of the lease agreements. Royalty income is recorded when earned, based on information provided by licensees. Revenue from services performed under contracts is recognized over the term of the underlying customer contract or at the end of the contract, when obligations have been satisfied. For services performed on a time and material basis, revenue is recognized upon performance. Estimates of allowances for doubtful accounts are based on the age of receivables, individual customer profiles and historical experience.

Amounts received in advance of performance under contracts or commercialization agreements are recorded as deferred revenue until earned.

**Foreign Currency** - Gains and losses from foreign currency transactions such as those resulting from the settlement of foreign receivables or payables, are included in the results of operations as incurred.

**Research and Development** - Research and development costs are expensed as incurred.

**Loss Per Share** - The Company uses Statement of Financial Accounting Standard (SFAS) No. 128 "Earnings per Share" for the calculation of basic and diluted earnings per share. The Company's loss has been adjusted by dividends accumulated on the Company's Series B Convertible Preferred Stock (Series B) for all periods during which the Series B was outstanding. Due to the Company's net loss, the potentially dilutive common shares related to outstanding stock options and Series B are not included in the calculation of diluted net loss per common share.

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### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Estimates and Reclassifications - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Certain amounts from the prior periods have been reclassified to conform to the current period presentation.

New Accounting Standards - In June 2001, the FASB issued SFAS No. 143 "Accounting for Asset Retirement Obligations" (SFAS No. 143). SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company has elected early adoption of this pronouncement and it was implemented as of April 1, 2002. This implementation of SFAS No. 143 did not have a material effect on the Company's financial position or results of operations.

In October 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment of Long-Lived Assets" (SFAS No. 144) which supersedes SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" and the accounting and reporting provisions of APB No. 30, "Reporting the Results of Operations, Reporting and Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" for the disposal for a segment of business. This statement is effective for fiscal years beginning after December 15, 2001. SFAS No. 144 retains many of the provisions of SFAS No. 121 but addresses certain implementation issues associated with that Statement. The Company adopted SFAS No. 144 as of April 1, 2002 and implementation did not have a material effect on the Company's financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS No. 145). SFAS No. 145 requires the classification of gains and losses from extinguishments of debt as extraordinary items only if they meet certain criteria for such classification in APB No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual, and Infrequently Occurring Events and Transactions." Any gain or loss on extinguishments of debt classified as an extraordinary item in prior periods that does not meet the criteria must be reclassified as other income or expense. These provisions are effective for fiscal years beginning after May 15, 2002. Additionally, SFAS No. 145 requires sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. These lease provisions are effective for transactions occurring after May 15, 2002. SFAS No. 145 will not have a material effect on the Company's financial position or results of operations.

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS No. 146). SFAS No. 146 replaces Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs incurred in a Restructuring)." SFAS No. 146 requires companies to

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recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company does not expect the adoption of SFAS No. 146 to have a material effect on its financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation- Transition and Disclosure- an amendment of SFAS No. 123" (SFAS No. 148). This statement amends SFAS No. 123 "Accounting for Stock Based Compensation" (SFAS No. 123) to provide alternative methods of voluntarily transitioning to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure requirements of SFAS No. 123 to require disclosure of the method used to account for stock-based employee compensation and the effect of the method on reported results in both annual and interim financial statements. This pronouncement is effective for both annual and interim periods beginning after December 15, 2002. The Company is in the process of evaluating the impact that will result from adopting SFAS No. 148 and is therefore unable to disclose its expected effects on the Company's financial position and results of operations.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). FIN 46 addresses variable interest entities and provides a framework through which an enterprise assesses consolidation of that entity. FIN 46 is effective immediately for variable interest entities created or acquired after January 31, 2003 and is effective April 1, 2004 for variable interest entities created or acquired on or before January 31, 2003. The Company is in the process of evaluating the impact that will result from adopting FIN 46 and is therefore unable to disclose its expected effects on the Company's financial position and results of operations.

### 3. MESO SCALE DIAGNOSTICS JOINT VENTURE

During August 2001, the Company entered into agreements with Meso Scale Technologies, LLC. ("MST") continuing Meso Scale Diagnostics, LLC. ("MSD"), a joint venture formed solely by the Company and MST in 1995. MSD was formed for the development and commercialization of products utilizing a proprietary combination of MST's multi-array technology together with ORIGEN and other technologies owned by the Company. MST is a company established and wholly-owned by the son of IGEN's Chief Executive Officer.

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### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Under the amended agreements that were negotiated by an independent committee of the Company's Board of Directors, the Company holds a 31% voting equity interest in MSD. It also owns 100% of the non-voting equity interest in MSD and is entitled to a preferred return on \$53.2 million of the funds previously invested in MSD through December 31, 2002 and on additional funds it invests thereafter. This preferred return would be payable out of a portion of both future profits and certain third-party financings, before any payments are made to other equity holders. MST owns the remaining 69% of the voting equity interest in MSD.

The Company agreed to fund the joint venture through its expiration date of November 30, 2003. Funding for the period from January 1, 2003 to November 30, 2002 is \$20.6 million, subject to a permitted variance of fifteen percent, and is based on an annual budget approved by an independent committee of the Company's Board of Directors. The funding commitment may be satisfied in part through in-kind contributions of scientific and administrative personnel and

shared facilities.

The MSD joint venture will expire on November 30, 2003, and may be extended by mutual agreement of the parties. If the term of the joint venture is not extended, the Company, MSD and MST have agreed to work in good faith and use reasonable efforts to secure third-party funding for MSD. MST and MSD have the right to terminate the joint venture prior to November 30, 2003 under certain circumstances, including a change in control of the Company, as defined. Upon termination, expiration or non-renewal of the joint venture agreement, MSD and MST have the right to purchase the Company's interest in MSD at fair market value less certain discounts, and many of the licenses and other arrangements among the Company, MSD and MST will continue indefinitely.

Since inception of the joint venture, the Company has utilized the equity method to account for the investment. In conjunction with the amended agreements and the progress made by MSD in the development of its products, the Company has determined that future contributions to MSD would be made based on the future investment benefit to be obtained by the Company. Therefore, the Company's contributions to MSD since July 1, 2001 were recorded as Investment in Affiliate and the Company has recorded approximately 100% of MSD's losses since that date as Equity in Loss of Affiliate. Prior to that date, the Company accounted for its equity investments in MSD as research and development funding and accordingly, recorded all MSD investments as research and development expenses as incurred. These research and development expenses totaled \$2.4 million during the three months ended June 30, 2001.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

4. NOTE PAYABLE

In March 1999, the Company entered into a debt financing with John Hancock Mutual Life Insurance Company under a Note Purchase Agreement from which the Company received \$30 million. The 8.5% Senior Secured Notes mature in March 2006. The Company is required to make quarterly principal and interest payments of \$1.7 million in each fiscal year through March 2006.

Collateral for the debt is represented by royalty payments and rights of the Company to receive monies due pursuant to the Company's license agreement with Roche. Additional collateral is represented by a Restricted Cash account, which had a balance of \$1.7 million at December 31, 2002. Loan covenants include compliance with annual and quarterly Royalty Payment Coverage Ratios which are tied to royalty payments and debt service.

5. SUBORDINATED CONVERTIBLE DEBENTURES

In January 2000, the Company completed a placement of \$35 million principal amount of Subordinated Convertible Debentures. The 5% debentures, if not converted, mature in January 2005 with semi-annual interest payments to be made in cash or an equivalent value of common stock. The debentures are immediately convertible into 1,129,032 shares of the Company's common stock, which represents a \$31 per share conversion price.

As part of this financing, the Company also issued detachable warrants to purchase 282,258 shares of common stock with an exercise price of \$31 per share. Using the Black-Scholes model and the relative fair value of the warrants and

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the debentures at the time of issuance, these warrants were valued at approximately \$7.0 million. The detachable warrant value has been recorded as a reduction of the face value of the convertible debentures.

Costs associated with placing the debentures totaling \$1.9 million were deferred and have been netted against the recorded convertible debenture balance. The convertible debenture discount consisting of the warrant value and debt issuance costs is being amortized over the five-year life of the debentures.

All warrants remain outstanding as of December 31, 2002.

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### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

#### 6. STOCKHOLDERS' EQUITY

In 1997, the Company issued 25,000 shares of Series B with a stated value of \$1,000 per share which were convertible into shares of Common Stock of the Company at a rate of \$13.96 per share. On July 9, 2002, the Company redeemed all previously unconverted Series B shares for their liquidation value. In fiscal 2003, through the redemption date, 8,500 shares of Series B were converted into 608,880 shares of Common Stock and dividends totaling \$3.4 million were paid to Series B holders in connection with these conversions. There are no remaining Series B shares outstanding and all Series B dividend obligations have been satisfied. The Series B dividend payable balance at March 31, 2002 has been reclassified to current liabilities in the accompanying condensed consolidated balance sheets.

In connection with the exercise of stock options by officers in July 2000, the Company granted loans in the principal amounts of \$3.7 million, maturing in July 2007. The loans are 6.62% simple interest (paid annually), full recourse loans against all assets of the borrowers, collateralized by the pledge of shares of the Company's common stock owned by the borrowers. In September 2002, one loan totaling \$1.6 million was fully repaid with interest.

#### 7. LITIGATION

##### Roche

In 1997, the Company filed a lawsuit against Roche Diagnostics GmbH (formerly Boehringer Mannheim GmbH) in the Southern Division of the United States District Court for the District of Maryland. The lawsuit arose out of a 1992 License and Technology Development Agreement (the "Agreement"), under which the Company licensed to Roche certain rights to develop and commercialize diagnostic products based on the Company's ORIGEN technology. In its lawsuit, the Company alleged that Roche failed to perform certain material obligations under the Agreement and engaged in unfair competition against the Company. The jury trial in this litigation was completed in January 2002, and the jury rendered a verdict that Roche had materially breached the license agreement, had violated its duty to the Company of good faith and fair dealing, and had engaged in unfair competition against the Company. In February 2002, the Court issued a final order of judgment that confirmed the jury's decisions to award \$105 million in compensatory damages and \$400 million in punitive damages, entitled the Company to terminate the Agreement, and directed Roche to grant to the Company for use in its retained fields a license to certain improvements. Roche

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was also ordered, at its sole cost and expense, to deliver such improvements to the Company and to provide all other information and materials required or necessary to enable the Company to commercialize these improvements.

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Improvements, as defined in the judgment, include Roche's Elecsys(R) 1010, 2010 and E170 lines of clinical diagnostic immunoassay analyzers, the tests developed for use on those systems, and Roche's nucleic acid amplification technology called PCR. The judgment also bars Roche from marketing, selling, placing or distributing outside of its licensed field any products, including its Elecsys diagnostics product line, that are based on the Company's ORIGIN(R) technology.

While the Company has voluntarily agreed not to terminate the Agreement until the appellate court determines that it is entitled to do so, the Company has notified Roche that the Agreement will terminate automatically if and when the Company's right is affirmed by the appellate court. Upon termination, Roche will be prohibited from commercializing all ORIGIN-based products in all fields. Roche filed counterclaims against the Company alleging, among other things, that IGEN breached the Agreement by permitting Eisai Co., Ltd., another of the Company's licensees, to market certain ORIGIN-based products in Japan. The final judgment issued in the litigation found in the Company's favor and against Roche on all of Roche's counterclaims, except for one for which the Company was ordered to pay \$500,000.

Roche appealed certain aspects of the judgment to the U.S. Court of Appeals for the Fourth Circuit. In connection with that appeal, Roche posted a \$600 million bond to support its financial obligations to the Company under the judgment. During the appeal process, which the Company expects will be completed in 2003, Roche is obligated to continue to comply with the terms of the Agreement, including its obligation to continue to pay the Company royalties on Roche's sales of royalty-bearing products and to share and deliver improvements. Roche's obligation to pay the \$505 million of monetary damages awarded to the Company is suspended until completion of the appeal process. Although the Company will vigorously oppose Roche's appeal, Roche may ultimately prevail in its attempt to modify or overturn the judgment issued in this litigation.

### Other Proceedings

In February 2001, Brown Simpson Strategic Growth Fund L.P., Brown Simpson Strategic Growth Fund, Ltd. and Brown Simpson Partners I (collectively "Brown Simpson") initiated a shareholder derivative lawsuit for and on behalf of the shareholders of the Company in the Circuit Court for Montgomery County, Maryland against four of the Company's current directors, two former directors, three executive officers and the Company as a nominal defendant.

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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In the complaint, Brown Simpson alleged breach of fiduciary duties by the named individual defendants in connection with transactions between the Company and other entities in which certain directors and officers are alleged to have an interest, including the Meso Scale Diagnostics, LLC. joint venture.

In March 2001, a second shareholder derivative lawsuit was filed by Laurence Paskowitz in the Circuit Court for Montgomery County, Maryland with allegations substantially the same as those set forth in the complaint filed by Brown Simpson. The complaint was later amended to add direct claims against the defendants and to seek class action certification for those direct claims.

Both lawsuits sought principally the following: that the defendants hold in trust and be required to account for and restore to the Company damages that IGEN has allegedly sustained by reason of the allegations and relief relating to board and management composition. The Paskowitz complaint also sought damages for a class of IGEN shareholders for the direct claims against the individual defendants. The complaints did not include any claims against the Company.

The Company and the individual defendants filed motions to dismiss or, in the alternative, for summary judgment in both lawsuits. In May 2002, the court issued an opinion and order dismissing all claims asserted against all of the defendants in both cases. No appeal was filed by the Brown Simpson plaintiff and the decision in that case is now final. In June 2002, the Paskowitz plaintiff filed an appeal to the Court of Special Appeals in Maryland seeking review only for one direct claim. The Circuit Court dismissal of all other claims in the Paskowitz complaint is now final. A decision of the Court of Special Appeals is anticipated in the near future. The Company believes that the remaining claim of Paskowitz is without merit and intends to continue to vigorously oppose it.

The Company is involved, from time to time, in various other legal proceedings arising in the ordinary course of business. In the opinion of management, the Company does not believe that any legal proceedings described as Other Proceedings will have a material adverse impact on its financial position, results of operations or cash flows.

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Overview

We have devoted substantial resources to the research and development of our proprietary technologies, primarily the ORIGEN(R) technology for the clinical diagnostic, life science and biodefense / industrial markets. We currently derive a majority of our revenue from royalties received from licensees that develop and market certain ORIGEN-based systems.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We also generate sales of our own products, particularly the M-SERIES(R) System and related consumable reagents and biodefense testing products for homeland security. We may selectively pursue additional strategic alliances, which could result in additional license fees or contract revenues. Since inception, we have incurred significant losses and, as of December 31, 2002, we had an accumulated deficit of \$220 million. We expect to continue to incur substantial research and development, manufacturing scale-up and general and administrative costs

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associated with our operations. As a result, we will need to generate higher revenue from present levels to achieve profitability.

In addition to historical information, this document contains forward-looking statements within the meaning of the "safe-harbor" provisions of the Private Securities Litigation Reform Act of 1995.

Reference is made in particular to statements regarding the markets and potential markets and market growth for diagnostic products, potential impact of competitive products, our expectations regarding the level of anticipated royalty and revenue growth in the future, the potential market for products in development, prospects for future business arrangements with third parties, financing plans, the outcome of litigation, our plans and objectives for future operations, assumptions underlying such plans and objectives, the need for and availability of additional capital and other forward-looking statements included in this document.

The words "may", "should", "could", "will", "expect", "intend", "estimate", "anticipate", "believe", "plan" and similar expressions have been used in this document to identify forward-looking statements. We have based these forward-looking statements on our current views with respect to future events and financial performance.

Such statements are based on management's current expectations and are subject to a number of risks and uncertainties which could cause actual results to differ materially from those described in the forward-looking statements.

In particular, careful consideration should be given to the cautionary statements in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and to the risks and uncertainties detailed in our Annual Report on Form 10-K for the year ended March 31, 2002 and other filings previously made with the Securities and Exchange Commission. We disclaim any intent or obligation to update these forward-looking statements.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Results of Operations

Quarter and Nine Months Ended December 31, 2002 and 2001.

Revenues. Total revenues for the quarter and nine months ended December 31, 2002 were \$16.3 million and \$41.7 million, respectively. This represents increases of \$5.8 million (56%) and \$13.6 million (48%), respectively, when compared with the same prior year periods. The revenue growth for the 2002 periods was primarily due to increases in product sales and royalty income.

Product sales were \$5.7 million and \$14.0 million during the quarter and nine months of the current year, which represent increases of 27% and 28%, respectively, over the prior year's product sales of \$4.5 million and \$10.9 million for the same respective periods. This growth in product sales was from the M-SERIES line of life science products (an increase of \$100,000 and \$700,000 for the quarter and nine month periods), and new sales of biodefense products for detection of biological agents or toxins (an increase of \$1.1 million and

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\$2.4 million for the quarter and nine month periods). We anticipate that our ongoing biodefense initiatives will generate double-digit percentage biodefense related sales increases in fiscal year 2004.

Sales to physician office laboratory (POL) customers totaling \$600,000 and \$1.9 million in the current quarter and nine month period were unchanged from the prior year. We began serving these POL customers in June 2000 when Roche transferred the customers in order to comply with a court ordered preliminary injunction. In February 2002, the Maryland federal court issued a final order of judgment against Roche, which does not require Roche to renew existing POL contracts, some of which are scheduled to expire during fiscal years 2003 and 2004. Should POL customer contracts not be renewed, future POL product sales would experience a decline.

Royalty income was \$10.4 million and \$26.9 million during the quarter and nine months ended December 31, 2002, an increase of 90% and 62%, respectively, over the same prior year periods. Royalties from Roche represent approximately \$10.0 million (97%) and \$26.1 (97%) of the total royalty income for the current quarter and nine month period, respectively, compared to \$5.2 million (95%) and \$15.9 million (96%) in the comparable prior year periods. These increases are attributable to higher Roche sales of its Elecsys and E170 product lines, which are based on our ORIGEN technology that was licensed to Roche under a 1992 license agreement, as well as certain modifications made by Roche to their methodology for computing and paying royalties as a result of the litigation.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

While we are not satisfied that Roche is properly calculating and paying the required royalties, the recent changes in the way in which Roche calculates and pays its royalties to us is expected to have a continued positive impact on our royalty income in future periods. However, we have notified Roche that their license to sell ORIGEN-based products will be terminated once our right to do so is affirmed on appeal, in which case our royalty income from Roche would cease.

Contract fees for the current quarter and nine months period were \$100,000 and \$700,000, respectively and \$500,000 and \$600,000 in the comparable prior year periods. These fees related primarily to work completed in conjunction with the development of clinical assays for Roche. Should the Roche license be terminated, revenue from these fees would cease.

Operating Costs and Expenses. Product costs were \$2.7 million (47% of product sales) and \$6.2 million (44% of product sales) for the quarter and nine months ended December 31, 2002 compared to \$1.5 million (34% of product sales) and \$3.8 million (35% of product sales) for the quarter and nine months ended December 31, 2001.

Product costs, as a percentage of product sales in the current year, increased due to costs incurred in connection with the recent launch of our new M-SERIES 384 instrument for life science customers (9% and 5% of product sales in the current quarter and nine month periods), and third party leasing costs incurred by us related to instruments being used by POL customers, which were previously paid by Roche (2% and 3% of product sales in the current quarter and nine month periods), as well as a change in the product mix (instrumentation vs. consumable reagents) from the prior year.

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Research and development expenses decreased by \$500,000 (9%) and \$2.6 million (13%) to \$5.8 million and \$17.9 million in the quarter and nine months ended December 31, 2002, from \$6.3 million and \$20.5 million. Excluding funding of the MSD joint venture activities prior to the amendment and extension of the MSD joint venture agreements in August 2001, research and development expense was \$18.1 million in the comparable prior year nine month period. Research and development expenses primarily relate to ongoing development costs and product enhancements associated with the M-SERIES family of products, development of new assays for the life sciences market and research and development of new systems and technologies, including hospital point-of-care products. We expect research and development costs to increase as product development and core research continue to expand, including costs associated with our efforts in developing biodefense testing products.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Selling, general and administrative expenses were \$6.6 million and \$18.8 million in the quarter and nine months ended December 31, 2002, an increase of \$700,000 (12%) and \$1.4 million (8%) over the same prior year periods. These increases were primarily attributable to additional personnel and support costs required to generate the growth in sales and customers.

Costs related to our litigation with Roche, which include financial and legal advisory fees associated with settlement discussions, were \$1.2 million and \$3.2 million for the quarter and nine months ended December 31, 2002, respectively. For the prior year periods, these costs were \$900,000 and \$8.8 million, respectively (both prior year amounts being net of a \$5.7 million settlement payment for a patent infringement action made by Roche to us). Excluding the prior year's settlement payment, litigation costs in the current year periods declined from 2001, due to the conclusion of the Roche jury trial in January 2002 and the completion of post-trial motions in April 2002.

Interest and Other Expense. Interest and other expense, net of interest income, were \$1.0 million and \$2.8 million for the quarter and nine months ended December 31, 2002, respectively and \$1.3 million and \$3.8 million in the prior year's periods. These decreases resulted from a growth in interest income in the current year periods due to higher cash balances.

Equity in Loss of Affiliate. In August 2001, we entered into agreements with MST continuing MSD, a joint venture formed solely by IGEN and MST in 1995. MSD was formed for the development and commercialization of products utilizing a propriety combination of MST's multi-array technology together with ORIGEN and other technologies owned by us. In conjunction with the amended agreements and the progress made by MSD in the development of its products, we determined that future contributions to MSD would be made based on the future investment benefit to be obtained by us. Our contributions to MSD since July 1, 2001 were recorded as "Investment in Affiliate" and we have recorded approximately 100% of MSD's losses since that date as Equity in Loss of Affiliate.

Net Loss. The net loss for current quarter was \$4.3 million (\$0.18 per common share) compared to a net loss of \$9.2 million (\$0.48 per common share, after consideration of the effect of preferred dividends) in the same prior year

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quarter. The net loss for the nine months ended December 31, 2002 was \$20.0 million (\$0.86 per common share, after consideration of the effect of preferred dividends) compared to a net loss of \$33.2 million (\$1.80 per common share, after consideration of the effect of preferred dividends) for the nine months ended December 31, 2001.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of operations in the future are likely to fluctuate substantially from quarter to quarter as a result of various factors, which include the volume and timing of orders for M-SERIES or other products; the timing of instrument deliveries and installations; variations in revenue recognized from royalties and other contract revenues; timing of any termination of our license to Roche; whether POL customers' contracts are renewed; whether Roche will continue to supply service and assays to POL customers; the mix of products sold; whether instruments are sold to or placed with customers; the timing and cost of M-SERIES product upgrades; the timing of and costs for the introduction of new products; competitors' introduction of new products; variations in expenses incurred in connection with the operation of the business, including legal fees, research and development costs and sales and marketing costs; equity in loss of affiliate; the continued supply of the materials that we use in our products; manufacturing capabilities; and the volume and timing of product returns and warranty claims.

We have experienced significant losses each year since inception and expect those losses to continue. Losses have resulted from a combination of lower royalty revenue than we believe we are entitled to under the license agreement with Roche, costs incurred in research and development, Roche litigation costs, our share of losses in affiliate, selling costs and other general and administrative costs. We expect to incur additional losses as a result of increases in expenses for manufacturing, marketing and sales capabilities, research and product development, general and administrative costs and equity in loss of affiliate, offset in part by lower Roche litigation costs beginning in fiscal 2003. Our ability to become profitable in the future will depend, among other things, on our ability to expand the commercialization of existing products; introduce new products into the market; develop marketing, sales and distribution capabilities cost-effectively; and complete new business arrangements.

#### Liquidity and Capital Resources

We have financed operations through the sale of preferred and common stock, debt financings and the placement of convertible debentures. In addition, we have received funds from research and licensing agreements, sales of our ORIGEN line of products and royalties from product sales by licensees. As of December 31, 2002, the Company had \$41.6 million in cash, cash equivalents and short-term investments with working capital of \$47.3 million.

Net cash used in operations decreased to \$8.2 million for the nine months ended December 31, 2002, as compared to \$23.6 million for the corresponding prior year period, primarily due to a lower net loss and the reclassification of MSD contributions to an "investing activity" in the current period. See "Equity in Loss of Affiliate".

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We used \$2.6 million and \$4.3 million of cash for the acquisition of equipment and leasehold improvements during the nine months ended December 31, 2002 and 2001, respectively. We believe material commitments for capital expenditures and additional or expanded facilities may be required in a variety of areas, such as product development programs. We have not, at this time, made material commitments for any such capital expenditures or facilities and have not secured additional sources, if necessary, to fund such commitments. If we were unable to fund such commitments, we may have to scale back or even eliminate some programs or plans.

Net cash used in financing activities totaled \$5.3 million for the nine months ended December 31, 2002. This use of funds was primarily due to debt service of \$3.8 million and Series B dividend payments of \$3.4 million offset by stock issuances yielding proceeds of \$400,000 and the receipt of \$1.6 million resulting from the repayment of a loan by an officer.

Our material future obligations are as follows:

	Three Months Ended March 31	Years ended March 31			
Contractual Obligations (in thousands)	Total	2003	2004	2005	2006
Notes payable	\$19,374	\$ 1,310	\$ 5,523	\$ 6,007	\$ 6,007
Subordinated convertible debentures	35,000	-	-	35,000	-
MSD funding commitment	20,600	5,618	14,982	-	-
Operating and capital leases	7,033	549	2,482	2,331	-
Interest obligations	7,381	1,290	3,112	2,628	-
Total contractual obligations	\$89,388	\$ 8,767	\$26,099	\$45,966	\$ 7,000

During August 2001, we entered into agreements with MST continuing MSD, a joint venture formed solely by IGEN and MST in 1995. Under the amended joint venture agreements, we agreed to fund the joint venture through its expiration date of November 30, 2003. Funding for the period from January 1, 2003 to November 30, 2003 is \$20.6 million, subject to a permitted variance of fifteen percent, and is based on an annual budget approved by an independent committee of our Board of Directors. The funding commitment may be satisfied in part through in-kind contributions of scientific and administrative personnel and shared facilities.

The operating and capital lease commitments in the table above exclude amounts expected to be allocated to MSD to meet a portion of our funding commitment.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS  
OF OPERATIONS

The MSD joint venture will expire on November 30, 2003 and may be extended by mutual agreement of the parties. If the term of the joint venture is not extended, IGEN, MSD and MST have agreed to work in good faith and use reasonable efforts to secure third party funding for MSD. MST and MSD have the right to terminate the joint venture prior to November 30, 2003 under certain circumstances, including a change in control of IGEN, as defined. Upon termination, expiration or non-renewal of the joint venture agreement, MSD and MST have the right to purchase our interest in MSD at fair market value less certain discounts, and many of the licenses and other arrangements among IGEN, MSD and MST will continue indefinitely.

We have a substantial amount of indebtedness, and there is a possibility that we may be unable to generate cash or arrange financing sufficient to pay the principal of, interest on and other amounts due with respect to indebtedness when due or in the event any of it is accelerated. Termination of the license agreement with Roche would cause approximately \$19.4 million of our debt payment obligations as of December 31, 2002, under our 8.5% senior secured notes to accelerate. In addition, our indebtedness may require that we dedicate a substantial portion of our expected cash flow from operations to service indebtedness, which would reduce the amount of expected cash flow available for other purposes, including working capital and capital expenditures.

We need substantial amounts of money to fund operations. In this regard, from time to time we have discussions with third parties, including multinational corporations, regarding various business arrangements including distribution, marketing, research and development, joint venture and other business agreements, which could provide for substantial up-front fees or payments. Further, we are considering and evaluating the advisability and feasibility of a variety of financing alternatives, which could be completed in the near term, including issuance of additional debt or equity securities.

There can be no assurance that we will successfully complete any of the foregoing arrangements and access to funds could be adversely impacted by many factors, including the results of pending litigation, the volatility of the price of our common stock, continuing losses from operations, establishment of new business arrangements, the status of new product launches and other factors. We believe that existing capital resources, together with revenue from product sales, royalties and contract fees will be adequate to fund operations through fiscal year 2004. If we are unable to raise additional capital, we may have to scale back, or even eliminate, some programs. Alternatively, we may consider pursuing arrangements with other companies, such as granting licenses or entering into joint ventures, on terms and conditions that may not be favorable to us.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS  
OF OPERATIONS

Roche has the right to continue to market its Elecsys products within its

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licensed field until our right to terminate their license is affirmed on appeal. In connection with the litigation with Roche, we have notified Roche that the license agreement will terminate upon the appellate court affirming our right to do so.

Termination of the license agreement would have a material adverse effect on our revenues unless, and until, we enter into one or more strategic relationships with other companies that are able to develop and commercialize diagnostic instruments within the field presently licensed to Roche. There can be no assurance that we will be able to enter into one or more strategic relationships on favorable terms, if at all.

### Critical Accounting Policies

Our significant accounting policies are more fully described in Note 2 to our Condensed Consolidated Financial Statements. However, certain accounting policies are particularly important to the portrayal of our financial position and results of operations and require the application of significant judgments by our management. As a result they are subject to an inherent degree of uncertainty. In applying those policies, our management uses its judgment to determine the appropriate assumptions to be used in the determination of certain estimates.

These estimates are based on our historical experience, terms of existing contracts, our observance of trends in the industry, information provided by our customers, and information available from other outside sources, as appropriate. Our significant accounting policies include:

**Inventory** - We carry our inventory at the lower of cost or market using the first-in, first-out method. We apply judgment in determining the provisions for slow moving, excess and obsolete inventory based on historical experience, anticipated product demand and changes in product design.

**Equipment and Leasehold Improvements** - Our equipment and leasehold improvements are carried at cost. Depreciation on equipment and furniture is computed over the estimated useful lives of the assets, generally three to five years, using straight line or accelerated methods. Leasehold improvements are amortized on a straight-line basis over the life of the lease. We apply judgment in determining the appropriate useful life of these assets.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**Revenue Recognition** - We derive revenue principally from three sources: product sales, royalty income and contract fees. Product sales revenue is generally recognized when contractual obligations have been satisfied, title and risk of loss have been transferred to the customer and collection of the resulting receivable is reasonably assured.

Rental revenue associated with instruments that are leased is recognized ratably over the life of the lease agreements. We make estimates of allowances for doubtful accounts based on the age of receivables, individual customer profiles and historical experience.

Royalty income is recorded when earned based on information provided by

licensees.

Revenue from services performed under contracts is recognized over the term of underlying customer contract or at the end of the contract, when obligations have been satisfied. For services performed on a time and material basis, revenue is recognized upon performance.

Amounts received in advance of performance under contracts or commercialization agreements are recorded as deferred revenue until earned.

Capitalized Software Costs - We record software development costs in accordance with SFAS No. 86 "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed." We apply our judgment in determining when software being developed has reached technological feasibility, and at that point we would capitalize software development costs. Through December 31, 2002, software development has been substantially completed concurrently with the establishment of technological feasibility, and accordingly, no costs have been capitalized to date.

Equity Accounting - We account for our ownership in the MSD joint venture on the equity method as we have determined that we do not control MSD's operations. Factors considered in determining our level of control include the fact that we own less than 50% of the voting equity interest in MSD; that we do not have exclusive authority over MSD decision making and have no ability to unilaterally modify the joint venture agreements; and that we have the right to appoint only one out of two seats on MSD's board of managers. See Note 3 of Notes to Condensed Consolidated Financial Statements.

Recent Accounting Pronouncements.

In June 2001, the FASB issued SFAS No. 143 "Accounting for Asset Retirement Obligations" (SFAS No. 143). SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002.

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We have elected early adoption of this pronouncement and it was implemented as of April 1, 2002. The implementation of SFAS No. 143 did not have a material effect on our financial position or results of operations.

In October 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment of Long-Lived Assets" (SFAS No. 144) which supersedes SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" and the accounting and reporting provisions of APB No. 30, "Reporting the Results of Operations, Reporting and Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" for the disposal of segment business. This statement is effective for fiscal years beginning December 15, 2001. SFAS No. 144 retains many of the provisions of SFAS No. 121 but addresses certain implementation issues associated with that Statement. We adopted SFAS No. 144 as of April 1, 2002 and implementation did not have a material effect on our financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS No. 145). SFAS No. 145 requires the classification of gains and losses from extinguishments of debt as extraordinary items only if they meet certain criteria for such classification in APB No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business , and Extraordinary, Unusual, and Infrequently Occurring Events and Transactions". Any gain or loss on extinguishments of debt classified as an extraordinary item in prior periods that does not meet the criteria must be reclassified as other income or expense. These provisions are effective for fiscal years beginning after May 15, 2002. Additionally, SFAS No. 145 requires sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. These lease provisions are effective for transactions occurring after May 15, 2002. SFAS No. 145 will not have a material effect on our financial position or results of operations.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS No. 146). SFAS No. 146 replaces Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs incurred in a Restructuring)". SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. We do not expect the adoption of SFAS No. 146 to have a material effect on our financial position or results of operations.

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation- Transition and Disclosure- an amendment of SFAS No. 123" (SFAS No. 148). This statement amends SFAS No. 123 "Accounting for Stock Based Compensation" (SFAS No. 123) to provide alternative methods of voluntarily transitioning to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure requirements of SFAS No. 123 to require disclosure of the method used to account for stock-based employee compensation and the effect of the method on reported results in both annual and interim financial statements. This pronouncement is effective for both annual and interim periods beginning after December 15, 2002. We are in the process of evaluating the impact that will result from adopting SFAS No. 148 and are therefore unable to disclose its expected effects on our financial position and results of operations.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). FIN 46 addresses variable interest entities and provides a framework through which an enterprise assesses consolidation of that entity. FIN 46 is effective immediately for variable interest entities created or acquired after January 31, 2003 and is effective April 1, 2004 for variable interest entities created or acquired on or before January 31, 2003. We are in the process of evaluating the impact that will result from adopting FIN 46 and are therefore unable to disclose its expected effects on our financial position and results of operations.

#### ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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Information about market risks for the nine months ending December 31, 2002 does not differ materially from that discussed under Item 7A of the Company's Annual Report on Form 10-K for the year ended March 31, 2002.

### ITEM 4: CONTROLS AND PROCEDURES

IGEN management, including the Chairman of the Board & Chief Executive Officer (serving as the principal executive officer) and Chief Financial Officer, have conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based on that evaluation, the Chairman of the Board & Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this quarterly report has been made known to them in a timely fashion. There have been no significant changes in internal controls, or in other factors that could significantly affect internal controls, subsequent to the date the Chairman of the Board and Chief Financial Officer completed their evaluation.

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### PART II OTHER INFORMATION

#### Item 1: Legal Proceedings

The information required under this item is incorporated herein by reference to Part I, Item 1 - Notes to Consolidated Financial Statements (see Note 7).

#### Item 6: Exhibits and Reports on Form 8-K.

##### (a) Exhibits:

- 99.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.2 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

##### (b) Reports on Form 8-K

The Company filed reports on Form 8-K under Item 5, Other Events on October 3, 2002.

### 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.

IGEN International, Inc.

Date: February 14, 2002      /s/George V. Migausky  
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George V. Migausky

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Vice President of Finance and Chief  
Financial Officer  
(On behalf of the Registrant and as Principal  
Financial Officer)

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IGEN INTERNATIONAL, INC.

CERTIFICATIONS PURSUANT TO  
SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, Samuel J. Wohlstadter, certify that:

1. I have reviewed this quarterly report on Form 10-Q of IGEN International, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 14, 2003

/s/Samuel J. Wohlstadter

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Samuel J. Wohlstadter  
Chairman of the Board and Chief Executive Officer

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IGEN INTERNATIONAL, INC.

CERTIFICATIONS PURSUANT TO  
SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, George V. Migausky, certify that:

1. I have reviewed this quarterly report on Form 10-Q of IGEN International, Inc.;

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2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 14, 2002

/s/George V. Migausky

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George V. Migausky  
Vice President and Chief Financial Officer