CORNERSTONE STRATEGIC VALUE FUND INC
Form N-2/A
November 14, 2011

As filed with the Securities and Exchange Commission on November 14, 2011

Registration File No. 333-168927
Registration File No. 811-05150

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-2
(Check appropriate box or boxes)

[X]	REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933
[X]	Pre-Effective Amendment No. 1
[ ]	Post-Effective Amendment No. ___

and

[X]	REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940
[X]	Amendment No. 5

Cornerstone Strategic Value Fund, Inc.

Exact Name of Registrant as Specified in Charter

350 Jericho Turnpike, Suite 206, Jericho, New York 11753

Address of Principal Executive Offices (Number, Street, City, State, Zip Code)

Registrant's Telephone Number, including Area Code (513) 326-3597

Frank Maresca – c/o Ultimus Fund Solutions, LLC, 350 Jericho Turnpike, Suite 206, Jericho, New York 11753

Name and Address (Number, Street, City, State, Zip Code) of Agent for Service

Copies of Communications to:

Thomas R. Westle, Esquire
Blank Rome LLP
405 Lexington Avenue
New York, New York 10174

Approximate Date of Proposed Public Offering: As soon as practicable after the effective date of this Registration Statement

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box …. [ ]

It is proposed that this filing will become effective (check appropriate box)

[X] when declared effective pursuant to section 8(c)

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(2)
Common Stock	2,867,443	$8.48	$24,315,916.64	$2,786.60

(1) Estimated solely for the purpose of calculating fee as required by Rule 457(o) under the Securities Act of 1933 based upon the closing price reported on the New York Stock Exchange consolidated reporting system of $9.42 on November 4, 2011.

(2) $116.10 of which was previously paid.

Pursuant to Rule 473 under the Securities Act of 1933, as amended, the Registrant hereby amends the Registration Statement to delay its effective date until the Registrant shall file a further amendment that specifically states that the Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

Cornerstone Strategic Value Fund, Inc.
8,602,327 Rights for 2,867,443 Shares of Common Stock

Cornerstone Strategic Value Fund, Inc. (the "Fund") is issuing non-transferable rights ("Rights") to its holders of record of shares ("Shares") of common stock ("Common Stock") (such holders herein defined as, "Stockholders"). These Rights will allow Stockholders to subscribe for new Shares of Common Stock. For every three (3) Rights a Stockholder receives, such Stockholder will be entitled to buy one (1) new Share. Each Stockholder will receive one Right for each outstanding Share it owns on November 21, 2011 (the "Record Date"). Fractional Shares will not be issued upon the exercise of the Rights. Accordingly, the number of Rights to be issued to a Stockholder on the Record Date will be rounded up to the nearest whole number of Rights evenly divisible by three. Stockholders on the Record Date may purchase Shares not acquired by other Stockholders in this Rights offering (the "Offering"), subject to certain limitations discussed in this Prospectus. Additionally, if there are not enough unsubscribed Shares to honor all over-subscription requests, the Fund may, in its sole discretion, issue additional Shares up to 100% of the Shares available in the Offering to honor over-subscription requests. See "The Offering" below.

The Rights are non-transferable, and may not be purchased or sold. Rights will expire without residual value at the Expiration Date (defined below). The Rights will not be listed for trading on the NYSE Amex, and there will not be any market for trading Rights. The Shares to be issued pursuant to the Offering will be listed for trading on the NYSE Amex, subject to the NYSE Amex being officially notified of the issuance of those Shares. On November 4, 2011, the last reported net asset value ("NAV") per Share was $6.32 and the last reported sales price per Share on the NYSE Amex was $9.42, which represents a 49.05% premium to the Fund's NAV per Share. The subscription price per Share (the "Subscription Price") will be the greater of (i) 102% of NAV per Share as calculated at the close of trading on the date of expiration of the Offering and (ii) 90% of the market price per Share at such time. The considerable number of shares that may be issued as a result of the Offering may cause the premium above NAV at which the Fund’s shares are currently trading to decline, especially if stockholders exercising the Rights attempt to sell sizeable numbers of shares immediately after such issuance.

STOCKHOLDERS WHO CHOOSE TO EXERCISE THEIR RIGHTS WILL NOT KNOW THE SUBSCRIPTION PRICE PER SHARE AT THE TIME THEY EXERCISE SUCH RIGHTS BECAUSE THE OFFERING WILL EXPIRE (i.e., CLOSE) PRIOR TO THE AVAILABILITY OF THE FUND'S NAV AND OTHER RELEVANT MARKET INFORMATION ON THE EXPIRATION DATE. ONCE A STOCKHOLDER SUBSCRIBES FOR SHARES AND THE FUND RECEIVES PAYMENT, SUCH STOCKHOLDER WILL NOT BE ABLE TO CHANGE HIS OR HER DECISION. THE OFFERING WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON DECEMBER 16, 2011 (THE "EXPIRATION DATE"), UNLESS EXTENDED, AS DISCUSSED IN THIS PROSPECTUS.

The Fund is a diversified, closed-end management investment company. The Fund’s investment objective is to seek long-term capital appreciation through investing primarily in the equity securities of U.S. and non-U.S. companies. There can be no assurance that the Fund’s objective will be achieved.

For more information, please call The Altman Group (the "Information Agent") toll free at (800) 581-4001.

(continued on following page)

Investing in the Fund involves risks. See “Risk Factors” on page 27 of this prospectus.

	Estimated Sales Load	Estimated Proceeds

	Estimated Subscription Price(1)		to the Fund(2)
Per Share	$8.48	None	$8.48
Total	$24,315,916.64	None	$24,315,916.64

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(1) Because the Subscription Price will not be determined until after printing and distribution of this Prospectus, the "Estimated Subscription Price" above is an estimate of the subscription price based on the Fund's per-Share NAV and market price at the close of trading on November 4, 2011. See "The Offering - Subscription Price" and "The Offering - Payment for Shares."

(2) Proceeds to the Fund are before deduction of expenses incurred by the Fund in connection with the Offering, estimated to be approximately $101,000. Funds received prior to the final due date of this Offering will be deposited in a segregated account pending allocation and distribution of Shares. Interest, if any, on subscription monies will be paid to the Fund regardless of whether Shares are issued by the Fund; interest will not be used as credit toward the purchase of Shares.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is _________, 2011.

(continued from previous page)

The Fund’s Shares are listed on the NYSE Amex under the ticker symbol “CLM.”

Investment Adviser. Cornerstone Advisors, Inc. (the “Adviser”) acts as the Fund's investment adviser. See “Management of the Fund.” As of September 30, 2011, the Adviser managed two other closed-end funds with combined assets with the Fund of approximately $151,358,649. The Adviser's address is 1075 Hendersonville Road, Suite 250, Asheville, North Carolina, 28803.

This prospectus sets forth concisely the information about the Fund that you should know before deciding whether to invest in the Fund. A Statement of Additional Information, dated _____, 2011 (the “Statement of Additional Information”), and other materials, containing additional information about the Fund, have been filed with the Securities and Exchange Commission (the “SEC”). The Statement of Additional Information is incorporated by reference in its entirety into this prospectus, which means it is considered to be part of this prospectus. You may request a free copy of the Statement of Additional Information, the table of contents of which is on page 45 of this prospectus, and other information filed with the SEC, by calling collect (513) 326-3597 or by writing to the Fund c/o Ultimus Fund Solutions, LLC, 350 Jericho Turnpike, Suite 206, Jericho, NY 11753. The Fund files annual and semi-annual stockholder reports, proxy statements and other information with the SEC. The Fund does not have an Internet website. You can obtain this information or the Fund’s Statement of Additional Information or any information regarding the Fund filed with the SEC from the SEC’s web site (http://www.sec.gov).

The Fund’s Shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any governmental agency.

You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone to provide you with different information. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus. The Fund will amend this prospectus if, during the period this prospectus is required to be delivered, there are any material changes to the facts stated in this prospectus subsequent to the date of this prospectus.

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SUMMARY

This summary does not contain all of the information that you should consider before investing in the Fund. You should review the more detailed information contained or incorporated by reference in this prospectus and in the Statement of Additional Information, particularly the information set forth under the heading "Risk Factors."

The Fund	Cornerstone Strategic Value Fund, Inc. is a diversified, closed-end management investment company. It was incorporated in Maryland on May 1, 1987 and commenced investment operations on June 30, 1987. The Fund's Shares of Common Stock are traded on the NYSE Amex under the ticker symbol "CLM". As of December 31, 2010, the Fund had 8,511,413 Shares issued and outstanding.
The Offering	The Fund is offering non-transferable rights to its Stockholders as of the close of business on November 21, 2011. These Rights will allow Stockholders to subscribe for an aggregate of 2,867,443 Shares of Common Stock. For every three (3) Rights a Stockholder receives, such Stockholder will be entitled to buy one (1) new Share at a subscription price equal to the greater of (i) 102% of NAV of the Common Stock as calculated on the Expiration Date and (ii) 90% of the market price at the close of trading on such date. Each Stockholder will receive one Right for each outstanding Share he or she owns on the Record Date (the "Basic Subscription"). Fractional Shares will not be issued upon the exercise of the Rights. Accordingly, the number of Rights to be issued to a Stockholder as of the Record Date will be rounded up to the nearest whole number of Rights evenly divisible by three. Common Stockholders as of the Record Date may purchase Shares not acquired by other Stockholders in this Rights offering (the "Offering"), subject to certain limitations discussed in this Prospectus. Additionally, if there are not enough unsubscribed Shares to honor all over-subscription requests, the Fund may, in its discretion, issue additional Shares up to 100% of the Shares available in the Offering to honor over-subscription requests. Shares will be issued within the 15-day period immediately following the record date of the Fund's monthly's distribution and stockholders exercising rights will not be entitled to receive such dividend with respect to the shares issued pursuant to such exercise. The Fund conducted a rights offering that expired on December 10, 2010 (the "2010 Offering") and included similar terms and conditions as this Offering. Pursuant to the 2010 Offering, the Fund issued 1,433,827 Shares in fulfillment of Basic Subscription requests, at a subscription price of $8.24 per Share, for a total offering of $11,812,869.
Purpose of the Offering	The Board of Directors has determined that it would be in the best interests of the Fund and its Stockholders to increase the assets of the Fund. The primary reasons include:

· The Basic Subscription will provide existing Stockholders an opportunity to purchase additional Shares at a price that is potentially below market value without incurring any commission or transaction charges.

· Raising more cash will better position the Fund to take advantage of investment opportunities that exist or may arise.

· Increasing the Fund's assets will provide the Fund additional flexibility in maintaining the Distribution Policy (see discussion below). This policy permits Stockholders to receive a predictable level of cash flow and some liquidity periodically with respect to their Common Stock without having to sell Shares.

· Increasing Fund assets may lower the Fund's expenses as a proportion of net assets because the Fund's fixed costs would be spread over a larger asset base. There can be no assurance that by increasing the size of the Fund, the Fund's expense ratio will be lowered.

· Because the Offering will increase the Fund's outstanding Shares, it may increase the number of Stockholders over the long term, which could increase the level of market interest in and visibility of the Fund and improve the trading liquidity of the Shares on the NYSE Amex.

· The Offering is expected to be anti- dilutive to all Stockholders, including those electing not to participate, because the estimated expenses incurred for the Offering will be more than offset by the increase in the net assets of the Fund such that non-participating Stockholders will receive an increase in their net asset value, so long as the number of Shares issued to participating Stockholders is not materially less than a full exercise of the Basic Subscription amount.

Investment Objective and Policies

The Fund’s investment objective is to seek long-term capital appreciation through investment in equity securities of U.S. and non-U.S. companies.

There is no assurance that the Fund will achieve its investment objective. The Fund’s investment objective and some of its investment policies are considered fundamental policies and may not be changed without Stockholder approval. The Statement of Additional Information contains a list of the fundamental and non-fundamental investment policies of the Fund under the heading “Investment Restrictions.”

During periods of adverse market or economic conditions, the Fund may temporarily invest all or a substantial portion of its net assets in cash or cash equivalents.

Investment Strategies

Under normal circumstances, the Fund's portfolio will consist principally of the equity securities of U.S. and non-U.S. companies. The Fund invests in common stocks and may also invest in preferred stocks, rights, warrants and securities convertible into common stocks that are listed on stock exchanges

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or traded over the counter.

In determining which securities to buy for the Fund’s portfolio, the Fund’s investment adviser uses a balanced approach, including “value” and “growth” investing by seeking out companies at reasonable prices, without regard to sector or industry, which demonstrate favorable long-term growth characteristics. Valuation and growth characteristics may be considered for purposes of selecting potential investment securities. In general, valuation analysis is used to determine the inherent value of the company by analyzing financial information such as a company’s price to book, price to sales, return on equity, and return on assets ratios; and growth analysis is used to determine a company’s potential for long-term dividends and earnings growth due to market-oriented factors such as growing market share, the launch of new products or services, the strength of its management and market demand. Fluctuations in these characteristics may trigger trading decisions to be made by the adviser.

Although the Fund has the ability to invest a significant portion of its assets in non-U.S. companies, the Fund has consistently maintained the investment of at least 95% of its assets in U.S. listed companies since June 30, 2001.

The Fund may invest without limitation in other closed-end investment companies and ETFs, provided that the Fund limits its investment in securities issued by other investment companies so that not more than 3% of the outstanding voting stock of any one investment company will be owned by the Fund. As a stockholder in any investment company, the Fund will bear its ratable share of the investment company's expenses and would remain subject to payment of the Fund's advisory and administrative fees with respect to the assets so invested.

The Fund may invest up to 15% of its assets in illiquid U.S. and non-U.S. securities, provided that the Fund may not invest more than 3% of the Fund's assets in the securities of companies that, at the time of investment, had less than a year of operations, including operations of predecessor companies. The Fund will invest only in such illiquid securities that, in the opinion of Fund management, present opportunities for substantial growth over a period of two to five years.

The Fund may, without limitation, hold cash or invest in assets in money market instruments, including U.S. and non-U.S. government securities, high grade commercial paper and certificates of deposit and bankers' acceptances issued by U.S. and non-U.S. banks having deposits of at least $500 million.

The Fund's investment policies emphasize long-term investment in the securities of companies, therefore, the Fund's annual portfolio turnover rate is expected to continue to be relatively low, ranging between 10% and 90%.

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Investment Adviser and Fee	Cornerstone Advisors, Inc. (the "Adviser"), the investment adviser of the Fund, is registered with the SEC as an investment adviser under the Investment Advisers Act of 1940, as amended. As of September 30, 2011, the Adviser managed two other closed-end funds with combined assets with the Fund of $15,358,649 under management. The Adviser is entitled to receive a monthly fee at the annual rate of 1.00% of the Fund's average weekly net assets. See "Management of the Fund."
Administrator and Fund Accounting Agent	Ultimus Fund Solutions, LLC ("Ultimus"), 350 Jericho Turnpike, Suite 206, Jericho, NY 11753, serves as administrator and accounting agent to the Fund. Under the administration agreement with the Fund, Ultimus is responsible for generally managing the administrative affairs of the Fund and is entitled to receive a monthly fee at the annual rate of 0.10% of the Fund's average weekly net assets, subject to a minimum annual fee of $50,000. Under the Fund Accounting Agreement, Ultimus calculates the net asset value per share and maintains the financial books and records of the Fund and is entitled to receive a base fee of $2,500 per month plus an asset based fee of 0.010% of the First $500 million of average daily net assets and 0.005% of such assets in excess of $500 million. See "Management of the Fund."
Closed-End Fund Structure	Closed-end funds differ from open-end management investment companies (commonly referred to as mutual funds) in that closed-end funds do not redeem their shares at the option of the stockholder and generally list their shares for trading on a securities exchange. By comparison, mutual funds issue securities that are redeemable daily at net asset value at the option of the stockholder and typically engage in a continuous offering of their shares. Mutual funds are subject to continuous asset in-flows and out-flows that can complicate portfolio management, whereas closed-end funds generally can stay more fully invested in securities consistent with the closed-end fund's investment objectives and policies. In addition, in comparison to open-end funds, closed-end funds have greater flexibility in the employment of financial leverage and in the ability to make certain types of investments, including investments in illiquid securities. Although the Fund's Common Stock has frequently traded at a premium to its net asset value during the past several years, shares of closed-end funds frequently trade at a discount from their net asset value. In recognition of the possibility that the Fund's Shares might trade at a discount to net asset value and that any such discount may not be in the interest of Stockholders, the Fund's Board of Directors, in consultation with the Adviser, may, from time to time, review possible actions to reduce any such discount, including that the Board of Directors may consider open market repurchases or tender offers for Fund shares. There can be no assurance that the Board of Directors will decide to undertake any of these actions or that, if undertaken, such actions would result in the Fund's shares trading at a price equal to or close to net asset value per share. In addition, the Fund's distribution policy may continue to be an

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effective action to counter a trading discount. See “Distribution Policy.”

The Board of Directors might also consider the conversion of the Fund to an open-end investment company. The Board of Directors believes, however, that the closed-end structure is desirable, given the Fund’s investment objective and policies. Investors should assume, therefore, that it is highly unlikely that the Board of Directors would vote to convert the Fund to an open-end investment company.

Summary of Principal Risks

Investing in the Fund involves risks, including the risk that you may receive little or no return on your investment or that you may lose part or all of your investment. Therefore, before investing you should consider carefully the following principal risks that you assume when you invest in the Fund.

Stock Market Volatility. Stock markets can be volatile. In other words, the prices of stocks can rise or fall rapidly in response to developments affecting a specific company or industry, or to changing economic, political or market conditions. The Fund is subject to the general risk that the value of its investments may decline if the stock markets perform poorly. There is also a risk that the Fund’s investments will underperform either the securities markets generally or particular segments of the securities markets.

Issuer Specific Changes. Changes in the financial condition of an issuer, changes in the specific economic or political conditions that affect a particular type of security or issuer, and changes in general economic or political conditions can affect the credit quality or value of an issuer’s securities. Lower-quality debt securities tend to be more sensitive to these changes than higher-quality debt securities.

Common Stock Risk. The Fund will invest a significant portion of its net assets in common stocks. Common stocks represent an ownership interest in a company. The Fund may also invest in securities that can be exercised for or converted into common stocks (such as convertible preferred stock). Common stocks and similar equity securities are more volatile and more risky than some other forms of investment. Therefore, the value of your investment in the Fund may sometimes decrease instead of increase. Common stock prices fluctuate for many reasons, including changes in investors’ perceptions of the financial condition of an issuer, the general condition of the relevant stock market or when political or economic events affecting the issuers occur. In addition, common stock prices may be sensitive to rising interest rates, as the costs of capital rise for issuers. Because convertible securities can be converted into equity securities, their values will normally increase or decrease as the values of the underlying equity securities increase or decrease. The common stocks in which the Fund will invest are structurally subordinated to preferred securities, bonds and other debt instruments in a company’s capital structure in terms of priority to corporate income and assets and, therefore, will be subject to greater risk than the preferred securities or debt

instruments of such issuers.

Other Investment Company Securities Risk. The Fund invests in the securities of other closed-end investment companies and in ETFs. Investing in other investment companies and ETFs involves substantially the same risks as investing directly in the underlying instruments, but the total return on such investments at the investment company level may be reduced by the operating expenses and fees of such other investment companies, including advisory fees. To the extent the Fund invests a portion of its assets in investment company securities, those assets will be subject to the risks of the purchased investment company's portfolio securities, and a stockholder in the Fund will bear not only his proportionate share of the expenses of the Fund, but also, indirectly, the expenses of the purchased investment company. There can be no assurance that the investment objective of any investment company or ETF in which the Fund invests will be achieved.

Foreign Securities Risk.Investments in securities of non-U.S. issuers involve special risks not presented by investments in securities of U.S. issuers, including the following: less publicly available information about companies due to less rigorous disclosure or accounting standards or regulatory practices; the impact of political, social or diplomatic events, including war; possible seizure, expropriation or nationalization of the company or its assets; possible imposition of currency exchange controls; and changes in foreign currency exchange rates. These risks are more pronounced to the extent that the Fund invests a significant amount of its investments in companies located in one region. These risks may be greater in emerging markets and in less developed countries. For example, prior governmental approval for foreign investments may be required in some emerging market countries, and the extent of foreign investment may be subject to limitation in other emerging countries. With respect to risks associated with changes in foreign currency exchange rates, the Fund does not expect to engage in foreign currency hedging transactions.

Defensive Positions. During periods of adverse market or economic conditions, the Fund may temporarily invest all or a substantial portion of its assets in cash or cash equivalents. The Fund would not be pursuing its investment objective in these circumstances and could miss favorable market developments.

Management Risk. The Fund is subject to management risk because it is an actively managed portfolio. The Fund's successful pursuit of its investment objective depends upon the Adviser's ability to find and exploit market inefficiencies with respect to undervalued securities. Such situations occur infrequently and sporadically and may be difficult to predict, and may not result in a favorable pricing opportunity that allows the Adviser to fulfill the Fund's investment objective. The Adviser's security selections and other investment decisions might produce losses or cause the Fund to underperform when compared to other funds with similar investment goals. If one or

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more key individuals leave the employ of the Adviser, the Adviser may not be able to hire qualified replacements, or may require an extended time to do so. This could prevent the Fund from achieving its investment objective. The Adviser may also benefit from the Offering because its fee is based on the assets of the Fund, which could be perceived as a conflict of interest.

Managed Distribution Risk. Under the managed distribution policy, the Fund makes monthly distributions to Stockholders at a rate that may include periodic distributions of its net income and net capital gains, ("Net Earnings"), or from return-of-capital. For any fiscal year where total cash distributions exceeded Net Earnings (the "Excess"), the Excess would decrease the Fund's total assets and, as a result, would have the likely effect of increasing the Fund's expense ratio. There is a risk that the total Net Earnings from the Fund's portfolio would not be great enough to offset the amount of cash distributions paid to Fund Stockholders. If this were to be the case, the Fund's assets would be depleted, and there is no guarantee that the Fund would be able to replace the assets. In addition, in order to make such distributions, the Fund may have to sell a portion of its investment portfolio, including securities purchased with proceeds from the Offering, at a time when independent investment judgment might not dictate such action. Furthermore, such assets used to make distributions will not be available for investment pursuant to the Fund's investment objective. Sustaining the managed distribution policy could require the Fund to raise additional capital in the future.

Preferred Securities Risk. Investment in preferred securities carries risks including credit risk, deferral risk, redemption risk, limited voting rights, risk of subordination and lack of liquidity. Fully taxable or hybrid preferred securities typically contain provisions that allow an issuer, at its discretion, to defer distributions for up to 20 consecutive quarters. Traditional preferreds also contain provisions that allow an issuer, under certain conditions to skip (in the case of “noncumulative preferreds”) or defer (in the case of “cumulative preferreds”), dividend payments. If the Fund owns a preferred security that is deferring its distributions, the Fund may be required to report income for tax purposes while it is not receiving any distributions. Preferred securities typically contain provisions that allow for redemption in the event of tax or security law changes in addition to call features at the option of the issuer. In the event of a redemption, the Fund may not be able to reinvest the proceeds at comparable rates of return. Preferred securities typically do not provide any voting rights, except in cases when dividends are in arrears beyond a certain time period, which varies by issue. Preferred securities are subordinated to bonds and other debt instruments in a company’s capital structure in terms of priority to corporate income and liquidation payments, and therefore will be subject to greater credit risk than those debt instruments. Preferred securities may be substantially less liquid than many other securities, such as U.S. government securities, corporate debt or common stocks. Dividends paid on preferred securities will generally not qualify for the reduced federal income tax rates

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applicable to qualified dividends under the Code. See “Federal Income Tax Matters.”

Convertible Securities Risk. The value of a convertible security, including, for example, a warrant, is a function of its “investment value” (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its “conversion value” (the security’s worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security’s investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. Generally, the conversion value decreases as the convertible security approaches maturity. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed income security.

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security’s governing instrument. If a convertible security held by the Fund is called for redemption, the Fund will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on the Fund’s ability to achieve its investment objective.

Repurchase Agreement Risk. The Fund could suffer a loss if the proceeds from a sale of the securities underlying a repurchase agreement to which it is a party turns out to be less than the repurchase price stated in the agreement. In addition, repurchase agreements may involve risks in the event of default or insolvency of the seller, including possible delays or restrictions upon the Fund's ability to dispose of the underlying securities.

Managed Distribution Policy

Effective June 25, 2002, the Fund initiated a fixed, monthly distribution to Stockholders. On November 29, 2006, this distribution policy was updated to provide for the annual resetting of the monthly distribution amount per share based on the Fund's net asset value on the last business day in each October. The terms of the distribution policy will be reviewed and approved at least annually by the Fund's Board of Directors and can be modified at their discretion. To the extent that these distributions exceed the current earnings of the Fund, the balance will be generated from sales of portfolio securities held by the Fund, and will be distributed as either short-term or long-term capital gains

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	or a tax-free return-of-capital. To the extent these distributions are not represented by net investment income and capital gains, they will not represent yield or investment return on the Fund's investment portfolio. A return-of-capital distribution reduces the tax basis of an investor's Shares. The Fund plans to maintain this distribution policy even if a return-of-capital distribution would exceed an investor's tax basis and therefore be a taxable distribution. To the extent necessary to meet the amounts distributed under the Fund's managed distribution policy, portfolio securities, including those purchased with proceeds from this Offering, may be sold to the extent adequate income is not available. Sustaining the managed distribution policy could require the Fund to raise additional capital in the future. Although it has no current intention to do so, the Board may terminate this distribution policy at any time, and such termination may have an adverse effect on the market price for the Fund's Shares. The Fund determines annually whether to distribute any net realized long-term capital gains in excess of net realized short-term capital losses, including capital loss carryovers, if any. To the extent that the Fund's taxable income in any calendar year exceeds the aggregate amount distributed pursuant to this distribution policy, an additional distribution may be made to avoid the payment of a 4% U.S. federal excise tax, and to the extent that the aggregate amount distributed in any calendar year exceeds the Fund's taxable income, the amount of that excess may constitute a return-of-capital for tax purposes. Dividends and distributions to Stockholders are recorded by the Fund on the ex-dividend date.
Dividend Reinvestment Plan	Unless a Stockholder elects otherwise, the Stockholder's distributions will be reinvested in additional Shares under the Fund's dividend reinvestment plan. Stockholders who elect not to participate in the Fund's dividend reinvestment plan will receive all distributions in cash paid to the Stockholder of record (or, if the Shares are held in street or other nominee name, then to such nominee). See "Dividend Reinvestment Plan."
Stock Purchases and Tenders	The Board of Directors may consider repurchasing the Fund's Shares in the open market or in private transactions, or tendering for Shares, in an attempt to reduce or eliminate a market value discount from net asset value, if one should occur. There can be no assurance that the Board of Directors will determine to effect any such repurchase or tender or that it would be effective in reducing or eliminating any market value discount.
Custodian and Transfer Agent	U.S. Bank National Association serves as the Fund's custodian and American Stock Transfer and Trust Company serves as the Fund's transfer agent. See "Management of the Fund".

SUMMARY OF FUND EXPENSES

The following table shows Fund expenses as a percentage of net assets attributable to common shares.

Stockholder Transaction Expenses	
Sales load	None
Dividend Reinvestment Plan fees	None
Annual Expenses (as a percentage of net assets attributable to common shares)	
Management fees	1.00%
Other expenses (1)	0.57%
Acquired Fund fees and expenses (2)	0.20%
Total Annual Expenses	1.77%

Example (3)

The following example illustrates the hypothetical expenses that you would pay on a $1,000 investment in common shares, assuming (i) annual expenses of 1.77% of net assets attributable to common shares and (ii) a 5% annual return:

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return	$18	$56	$97	$210

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(1) "Other Expenses" include, among other expenses, administration and fund accounting fees. The Fund has no current intention to borrow money for investment purposes and has adopted a fundamental policy against selling securities short.

(2) The Fund invests in other closed-end investment companies and ETFs (collectively, the "Acquired Funds"). The Fund's stockholders indirectly bear a pro rata portion of the fees and expenses of the Acquired Funds in which the Fund invests. Acquired Fund fees and expenses are based on estimated amounts for the current fiscal year.

(3) The example assumes that the estimated "Other Expenses" set forth in the Annual Expenses table remain the same each year and that all dividends and distributions are reinvested at net asset value. Actual expenses may be greater or less than those assumed. The example further assumes that the Fund uses no leverage, as currently intended. Moreover, the Fund's actual rate of return will vary and may be greater or less than the hypothetical 5% annual return.

The purpose of the above table is to help a holder of common shares understand the fees and expenses that such holder would bear directly or indirectly. The example should not be considered a representation of actual future expenses. Actual expenses may be higher or lower than those shown.

THE FUND

The Fund is a diversified, closed-end management investment company. The Fund was organized as a Maryland corporation on May 1, 1987. The Fund's principal office is located c/o Ultimus Fund Solutions, LLC at 350 Jericho Turnpike, Suite 206, Jericho, NY 11753, and its telephone number is (513) 326-3597.

THE OFFERING

Terms of the Offering. The Fund is issuing to Record Date Stockholders (i.e., stockholders who hold Shares on the Record Date) non-transferable Rights to subscribe for Shares. Each Record Date Stockholder is being issued one non-transferable Right for every one Share owned on the Record Date. The Rights entitle a Record Date Stockholder to acquire one Share at the Subscription Price for every three Rights held. Fractional Shares will not be issued upon the exercise of the Rights. Accordingly, the number of Rights to be issued to a Record Date Stockholder on the Record Date will be rounded up to the nearest whole number of Rights evenly divisible by three.

Rights may be exercised at any time during the Subscription Period which commences on or about December 1, 2011 and ends at 5:00 p.m., New York City time, on December 16, 2011. See "Expiration of the Offering." The right to acquire one additional Share for every three Rights held during the Subscription Period at the Subscription Price is hereinafter referred to as the "Basic Subscription."

In addition to the Basic Subscription, Record Date Stockholders who exercise all of their Rights are entitled to subscribe for Shares which were not otherwise subscribed for by others in the Basic Subscription (the "Additional Subscription Privilege"). If sufficient Shares are not available to honor all requests under the Additional Subscription Privilege, the Fund may, in its discretion, issue additional Shares up to 100% of the Shares available in the Offering (or 2,867,443 Shares for a total of 5,734,886 Shares) (the "Over-Allotment Shares") to honor over-subscription requests, with such Shares subject to the same terms and conditions of this Offering. See "Additional Subscription Privilege" below. For purposes of determining the maximum number of Shares a Stockholder may acquire pursuant to the Offering, broker-dealers whose Shares are held of record by any Nominee will be deemed to be the holders of the Rights that are issued to such Nominee on their behalf. The term "Nominee" shall mean, collectively, CEDE & Company ("Cede"), as nominee for the Depository Trust Company ("DTC"), or any other depository or nominee. Shares acquired pursuant to the Additional Subscription Privilege are subject to allotment, which is more fully discussed below under "Additional Subscription Privilege."

SHARES WILL BE ISSUED WITHIN THE 15-DAY PERIOD IMMEDIATELY FOLLOWING THE RECORD DATE OF THE FUND'S MONTHLY DISTRIBUTION AND STOCKHOLDERS EXERCISING RIGHTS WILL NOT BE ENTITLED TO RECEIVE SUCH DIVIDEND WITH RESPECT TO THE SHARES ISSUED PURSUANT TO SUCH EXERCISE.

Rights will be evidenced by Subscription Certificates. The number of Rights issued to each Record Date Stockholder will be stated on the Subscription Certificates delivered to the Record Date Stockholder. The method by which Rights may be exercised and Shares paid for is set forth below in "Method of Exercising Rights" and "Payment for Shares." A RIGHTS HOLDER WILL HAVE NO RIGHT TO RESCIND A PURCHASE AFTER THE SUBSCRIPTION AGENT HAS RECEIVED PAYMENT. See "Payment for Shares" below.

The Rights are non-transferable and may not be purchased or sold. Rights will expire without residual value at the Expiration Date. The Rights will not be listed for trading on the NYSE Amex, and there will not be any market for trading Rights. The Shares to be issued pursuant to the Offering will be listed for trading on the NYSE Amex, subject to the NYSE Amex being officially notified of the issuance of those Shares.

Purpose of the Offering. At a meeting held on June 28, 2011, the Board approved the Offering and determined that it would be in the best interests of the Fund and its existing Stockholders to increase the assets of the Fund. The primary reasons include:

- The Basic Subscription will provide existing Stockholders an opportunity to purchase additional Shares at a price that is potentially below market value without incurring any commission or transaction charges.

- Raising more cash will better position the Fund to take advantage of investment opportunities that exist or may arise.

- Increasing the Fund's assets will provide the Fund additional flexibility in maintaining the Distribution Policy (see discussion below). This policy permits Stockholders to receive a predictable level of cash flow and some liquidity periodically with respect to their Common Stock without having to sell Shares.

- Increasing Fund assets may lower the Fund's expenses as a proportion of net assets because the Fund's fixed costs would be spread over a larger asset base. There can be no assurance that by increasing the size of the Fund, the Fund's expense ratio will be lowered.

- Because the Offering will increase the Fund's outstanding Shares, it may increase the number of Stockholders over the long term, which could increase the level of market interest in and visibility of the Fund and improve the trading liquidity of the Shares on the NYSE Amex.

- The Offering is expected to be anti-dilutive to all Stockholders, including those electing not to participate, because the estimated expenses incurred for the Offering will be more than offset by the increase in the net assets of the Fund such that non-participating Stockholders will receive an increase in their net asset value, so long as the number of Shares issued to participating Stockholders is not materially less than a full exercise of the Basic Subscription amount.

Board Considerations in Approving the Offering. At a meeting held on June 28, 2011, the Board considered the approval of the Offering. In considering whether or not to approve the Offering, the Board relied on materials and information prepared and presented by the Fund's management at such meeting and discussions at that time. Based on such materials and their deliberations at this meeting, the Board determined that it would be in the best interests of the Fund and its Stockholders to conduct the Offering in order to increase the assets of the Fund available for current and future investment opportunities. In making its determination, the Board considered the various factors set forth in "The Offering - Purpose of the Offering". The Board also considered a number of other factors, including the success of the rights offering conducted by the Fund in 2010 and that the 2010 Offering was anti-dilutive to Stockholders, the ability of the Adviser to invest the proceeds of the Offering, the potential effect of the Offering on the Fund's stock price and conditions to the Fund’s exemptive relief in connection with its managed distribution policy. The Board considered that, during the course of the Fund’s 2010 Offering, the Fund’s market price declined, however the Board noted that the Fund continued at all times during the 2010 Offering and since the 2010 Offering’s conclusion to sell at a premium to NAV, and the market price has approached the level that it was prior to the 2010 Offering. When considering the potential effect of the Offering on the Fund’s stock price, the Board concluded that the impact on the Fund’s price was uncertain and, regardless of the potential impact, the Offering was in the best interest of the Stockholders. As a result of these considerations, the Board determined that it was appropriate and in the best interest of the Fund and its Stockholder to proceed with the proposed 2011 offering, while continuing with the Fund’s managed distribution policy.

Due to market conditions during the third quarter of 2011, the commencement of the Offering was delayed. At a meeting held on November 4, 2011, the Board reaffirmed its considerations regarding the merits of the Offering, considered current market conditions and ratified its authorization to proceed with the Offering at that time. In particular, the Board noted that, despite the volatility of the markets during the prior few months, the Fund’s market price had continued to stay within a reasonable range of the market price prior to the 2010 Offering.

The Board voted unanimously to approve the terms of the Offering. One of the Fund's Directors who voted to authorize the Offering is affiliated with the Adviser and, therefore, could benefit indirectly from the Offering. The other five directors are not "interested persons" of the Fund within the meaning of the 1940 Act. The Adviser may also benefit from the Offering because its fee is based on the assets of the Fund. It is not possible to state precisely the amount of additional compensation the Adviser might receive as a result of the Offering because it is not known how many Shares will be subscribed for and because the proceeds of the Offering will be invested in additional portfolio securities, which will fluctuate in value. It is likely that affiliates of the Adviser who are also stockholders will participate in the Offering along with the other stockholders and, accordingly, will receive the same benefits of acquiring shares as other stockholders.

The Fund may, in the future, choose to make additional rights offerings from time to time for a number of Shares and on terms that may or may not be similar to this Offering. Any such future rights offerings will be made in accordance with the then applicable requirements of the 1940 Act and the Securities Act. If Fund shares begin to trade at a discount, the Board may make a determination whether to discontinue the Offering.

There can be no assurance that the Fund or its Stockholders will achieve any of the foregoing objectives or benefits through the Offering.

The Subscription Price. The Subscription Price for the Shares to be issued under the Offering will be equal to the greater of (i) 102% of NAV per Share as calculated at the close of trading on the Expiration Date or (ii) 90% of the market price per Share at such time. For example, if the Offering were held using the "Estimated Subscription Price" (i.e., an estimate of the Subscription Price based on the Fund's per-share NAV and market price at the end of business on November 4, 2011 ($6.32 and $9.42, respectively), the Subscription Price would be $8.48 per share (90% of $9.42).

Additional Subscription Privilege. If all of the Rights initially issued are not exercised, any Shares for which subscriptions have not been received will be offered, by means of the Additional Subscription Privilege, to Record Date Stockholders who have exercised all of the Rights initially issued to them and who wish to acquire more than the number of Shares for which the Rights held by them are exercisable. Record Date Stockholders who exercise all of their Rights will have the opportunity to indicate on the Subscription Certificate how many unsubscribed Shares they are willing to acquire pursuant to the Additional Subscription Privilege.

If enough unsubscribed Shares remain after the Basic Subscriptions have been exercised, all over-subscription requests will be honored in full. If there are not enough unsubscribed Shares to honor all over-subscription requests, the Fund may, in its discretion, issue additional Shares up to 100% of Shares available in the Offering to honor Additional Subscription Privilege requests (defined above as the "Over-Allotment Shares"), with such Shares subject to the same terms and conditions of this Offering. In the event that the Subscription Price is less than the Estimated Subscription Price, Over-Allotment Shares may be used by the Fund to fulfill any Shares subscribed for under the Basic Subscription. The method by which any unsubscribed Shares or Over-Allotment Shares (collectively, the “Excess Shares”) will be distributed and allocated pursuant to the Additional Subscription Privilege is as follows:

(i) If there are sufficient Excess Shares to satisfy all additional subscriptions by Stockholders exercising their rights under the Additional Subscription Privilege, each such Stockholder shall be allotted the number of Shares which the Stockholder requested.

(ii) If the aggregate number of Shares subscribed for under the Additional Subscription Privilege exceeds the number of Excess Shares, the Excess Shares will be allocated to Record Date Stockholders who have exercised all of their Rights in accordance with their Additional Subscription Privilege request.

(iii) If there are not enough Excess Shares to fully satisfy all Additional Subscription Privilege requests by Record Date Stockholders pursuant to paragraph (2) above, the Excess Shares will be allocated among Record Date Stockholders who have exercised all of their Rights in proportion, not to the number of Shares requested pursuant to the Additional Subscription Privilege, but to the number of Rights exercised by them; provided, however, that no Stockholder shall be allocated a greater number of Excess Shares than such Record Date Stockholder paid for and in no event shall the number of Shares allocated in connection with the Additional Subscription Privilege exceed 100% of the Shares available in the Offering. The formula to be used in allocating the Excess Shares under this paragraph is as follows: (Rights Exercised by over-subscribing Record Date Stockholder divided by Total Rights Exercised by all over-subscribing Record Date Stockholders) multiplied by Excess Shares Remaining.

The percentage of Excess Shares each over-subscriber may acquire will be rounded up to result in delivery of whole Shares (fractional Shares will not be issued).

The forgoing allocation process may involve a series of allocations in order to assure that the total number of Shares available for over-subscription are distributed on a pro-rata basis. The Fund will not offer or sell any Shares which are not subscribed for under the Basic Subscription or the Additional Subscription Privilege. The Additional Subscription Privilege may result in additional dilution of a Stockholder’s ownership percentage and voting rights.

The Fund will not offer or sell any Shares which are not subscribed for under the Basic Subscription or the Additional Subscription Privilege.

Expiration of the Offering. The Offering will expire at 5:00 p.m., New York City time, on the Expiration Date (December 16, 2011), unless extended by the Fund (the "Extended Expiration Date"). Rights will expire on the Expiration Date (or Extended Expiration Date as the case may be) and thereafter may not be exercised.

Method of Exercising Rights. Rights may be exercised by filling in and signing the reverse side of the Subscription Certificate and mailing it in the envelope provided, or otherwise delivering the completed and signed Subscription Certificate to the Subscription Agent, together with payment for the Shares as described below under

"Payment for Shares." Rights may also be exercised through a Rights holder's broker, who may charge the Rights holder a servicing fee in connection with such exercise.

Completed Subscription Certificates must be received by the Subscription Agent prior to 5:00 p.m., New York City time, on the Expiration Date or Extended Expiration Date, as the case may be. The Subscription Certificate and payment should be delivered to the Subscription Agent at the following address:

If by first class mail:	If by mail or overnight courier:
The Colbent Corporation Cornerstone Strategic Value Fund, Inc. Rights Offering Att: Corporate Actions P.O. Box 859208 Braintree, MA 02185-9208	The Colbent Corporation Cornerstone Strategic Value Fund, Inc. Rights Offering Att: Corporation Actions 161 Bay State Drive Braintree, MA 02184

Subscription Agent. The Subscription Agent is The Colbent Corporation, with an address at 161 Bay State Drive, Braintree, MA 02184. The Subscription Agent will receive from the Fund an amount estimated to be $18,000, comprised of a project management fee of $7,500 and the reimbursement for certain expenses related to the Offering estimated at $10,500. INQUIRIES BY ALL HOLDERS OF RIGHTS SHOULD BE DIRECTED TO THE INFORMATION AGENT, THE ALTMAN GROUP AT (800) 581-4001; HOLDERS MAY ALSO CONSULT THEIR BROKERS OR NOMINEES.

Payment for Shares. Record Date Stockholders who wish to acquire Shares in the Basic Subscription or pursuant to the Additional Subscription Privilege must, together with the properly completed and executed Subscription Certificate, send payment for the Shares acquired in the Basic Subscription and any additional Shares subscribed for pursuant to the Additional Subscription Privilege, to the Subscription Agent based on the Estimated Subscription Price of $8.48 per Share. To be accepted, such payment, together with the Subscription Certificate, must be received by the Subscription Agent prior to 5:00 p.m., New York City time, on the Expiration Date (or Extended Expiration Date as the case may be).

If the Estimated Subscription Price is greater than the actual per Share purchase price, the excess payment will be applied toward the purchase of Unsubscribed Shares to the extent that there remain sufficient unsubscribed Shares available after the Basic Subscription and Additional Subscription Privilege allocations are completed. To the extent that sufficient Unsubscribed Shares are not available to apply all of the excess payment toward the purchase of Unsubscribed Shares, available Shares will be allocated in the manner consistent with that described in the section entitled "Additional Subscription Privilege" above.

PAYMENT MUST ACCOMPANY ANY SUBSCRIPTION CERTIFICATE FOR SUCH SUBSCRIPTION CERTIFICATE TO BE ACCEPTED.

Within five (5) business days following the completion of the Expiration Date (or Extended Expiration Date as the case may be), a confirmation will be sent by the Subscription Agent to each Stockholder (or, if the Shares on the Record Date are held by CEDE or any other depository or nominee, to CEDE or such other depository or nominee). The date of the confirmation is referred to as the "Confirmation Date." The confirmation will show (i) the number of Shares acquired pursuant to the Basic Subscription; (ii) the number of Shares, if any, acquired pursuant to the Additional Subscription Privilege; (iii) the per Share and total purchase price for the Shares; and (iv) any additional amount payable by such Stockholder to the Fund (e.g., if the Estimated Subscription Price was less than the

Subscription Price on the Expiration Date) or any excess to be refunded by the Fund to such Stockholder (e.g., if the Estimated Subscription Price was more than the Subscription Price on the Expiration Date). Any additional payment required from a Stockholder must be received by the Subscription Agent prior to 5:00 p.m., New York City time, on the date specified as the deadline for final payment for Shares, and any excess payment to be refunded by the Fund to such Stockholder will be mailed by the Subscription Agent within ten (10) business days after the Confirmation Date. All payments by a Stockholder must be made in United States Dollars by money order or by checks drawn on banks located in the continental United States payable to "Cornerstone Strategic Value Fund, Inc.".

Issuance and delivery of certificates for the Shares subscribed for are subject to collection of funds and actual payment by the subscribing Stockholder.

The Subscription Agent will deposit all checks received by it prior to the final due date into a segregated account pending distribution of the Shares from the Offering. Any interest earned on such account will accrue to the benefit of the Fund and investors will not earn interest on payments submitted nor will interest be credited toward the purchase of Shares.

YOU WILL HAVE NO RIGHT TO RESCIND YOUR SUBSCRIPTION AFTER THE SUBSCRIPTION AGENT HAS RECEIVED THE SUBSCRIPTION CERTIFICATE.

If a Record Date Stockholder who acquires Shares pursuant to the Basic Subscription or the Additional Subscription Privilege does not make payment of any amounts due, the Fund reserves the right to take any or all of the following actions: (i) find other purchasers for such subscribed-for and unpaid-for Shares; (ii) apply any payment actually received by it toward the purchase of the greatest whole number of Shares which could be acquired by such holder upon exercise of the Basic Subscription or the Additional Subscription Privilege; (iii) sell all or a portion of the Shares actually purchased by the holder in the open market, and apply the proceeds to the amounts owed; or (iv) exercise any and all other rights or remedies to which it may be entitled, including, without limitation, the right to set off against payments actually received by it with respect to such subscribed Shares and to enforce the relevant guaranty of payment.

Holders who hold Shares for the account of others, such as brokers, trustees, or depositaries for securities, should notify the respective beneficial owners of the Shares as soon as possible to ascertain the beneficial owners' intentions and to obtain instructions with respect to the Rights. If the beneficial owner so instructs, the record holder of the Rights should complete Subscription Certificates and submit them to the Subscription Agent with the proper payment. In addition, beneficial owners of Shares or Rights held through such a holder should contact the holder and request the holder to effect transactions in accordance with the beneficial owner's instructions.

The instructions accompanying the Subscription Certificates should be read carefully and followed in detail. DO NOT SEND SUBSCRIPTION CERTIFICATES TO THE FUND OR THE ADVISER.

The method of delivery of Subscription Certificates and payment of the Subscription Price to the Subscription Agent will be at the election and risk of the Rights holders, but if sent by mail it is recommended that the certificates and payments be sent by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the Subscription Agent and clearance of payment prior to 5:00 p.m., New York City time, on the Expiration Date. Because uncertified personal checks may take at least five business days to clear, each Record Date Stockholder participating in the Offering is strongly urged to pay, or arrange for payment, by means of a certified or cashier's check or money order.

All questions concerning the timeliness, validity, form and eligibility of any exercise of Rights will be determined by the Fund, whose determinations will be final and binding. The Fund in its sole discretion may waive any defect or irregularity, or permit a defect or irregularity to be corrected within such time as it may determine, or reject the purported exercise of any Right. If the Fund elects in its sole discretion to waive any defect or irregularity, it may do so on a case-by-case basis which means that not all defects or irregularities may be waived, if at all, or waived in the same manner as with other defects or irregularities. Subscriptions will not be deemed to have been received or accepted until all irregularities have been waived or cured within such time as the Fund determines in its sole discretion. Neither the Fund nor the Subscription Agent will be under any duty to give notification of any defect or irregularity in connection with the submission of Subscription Certificates or incur any liability for failure to give such notification.

Delivery of the Shares. The Shares purchased pursuant to the Basic Subscription will be delivered to subscribers in book-entry form as soon as practicable after the corresponding Rights have been validly exercised and full payment for the Shares has been received and cleared. The Shares of Common Stock purchased pursuant to the Additional Subscription Privilege will be delivered to subscribers in book-entry form as soon as practicable after the Expiration Date and after all allocations have been conducted.

Foreign Restrictions. Subscription Certificates will only be mailed to Record Date Stockholders whose addresses are within the United States (other than an APO or FPO address). Record Date Stockholders whose addresses are outside the United States or who have an APO or FPO address will receive written notice of the Offering and those who wish to subscribe to the Offering either in part or in full should contact the Subscription Agent by written instruction no later than three Business Days prior to the Expiration Date. The Fund will determine whether the Offering may be made to any such Record Date Stockholder. If no instructions have been received by the Expiration Date, the Rights of those foreign Record Date Stockholders will expire.

Federal Income Tax Consequences Associated with the Offering. The following is a general summary of the significant federal income tax consequences of the receipt of Rights by a Record Date Stockholder and a subsequent lapse or exercise of such Rights. The discussion is based upon applicable provisions of the Code, the Treasury Regulations promulgated thereunder, and other authorities currently in effect but does not address any state, local, or foreign tax consequences of the Offering. Each Stockholder should consult its own tax advisor regarding specific questions as to federal, state, local, or foreign taxes. Each Stockholder should also review the discussion of certain tax considerations affecting it and the Fund set forth under "Federal Income Tax Matters."

For purposes of the following discussion, the term "Old Share" shall mean a currently outstanding Share with respect to which a Right is issued and the term "New Share" shall mean a newly issued Share that Record Date Stockholders receive upon the exercise of their Rights.

For all Record Date Stockholders:

Neither the receipt nor the exercise of Rights by a Record Date Stockholder will result in taxable income to such stockholder for federal income tax purposes regardless of whether or not the stockholder makes the below-described election which is available under Section 307(b)(2) of the Code (a "Section 307(b)(2) Election").

If the fair market value of the Rights distributed to all of the Record Date Stockholders is more than 15% of the total fair market value of all of the Fund's outstanding Common Stock as of the Record Date, or if a Record Date Stockholder makes a Section 307(b)(2) Election for the taxable year in which such Rights were received, the Record Date Stockholder's federal income tax basis in any Right received pursuant to the Offering will be equal to a portion of the Record Date Stockholder's existing federal income tax basis in the related Old Share. If made, a Section 307(b)(2) Election is effective with respect to all Rights received by a Record Date Stockholder. A Section 307(b)(2) Election is made by attaching a statement to the Record Date Stockholder's federal income tax return for the taxable year of the Record Date (which is the same as the year as when the Rights were received). Record Date Stockholders should carefully review the differing federal income tax consequences described below before deciding whether or not to make a Section 307(b)(2) Election.

For Record Date Stockholders When the Fair Market Value of Rights Distributed Exceed 15% of the Total Fair Market Value of the Fund’s Common Stock or When Making a 307(b)(2) Election:

Lapse of Rights. If the fair market value of rights distributed exceed 15% of the total fair market value of the Common Stock or if a Record Date Stockholder makes a Section 307(b)(2) Election, no taxable loss will be realized for federal income tax purposes if the Record Date Stockholder retains a Right but allows it to lapse without exercise. Moreover, the existing federal income tax basis of the related Old Share will not be reduced if such lapse occurs.

Exercise of Rights. If a Record Date Stockholder exercises a Right, the Record Date Stockholder's existing federal income tax basis in the related Old Share must be allocated between such Right and the Old Share in proportion to their respective fair market values as of the Record Date (effectively reducing the Record Date Stockholder's basis in his Old Share). Upon such exercise of the Record Date Stockholder's Rights, the New Shares received by the Record Date Stockholder pursuant to such exercise will have a federal income tax basis equal to the sum of the basis of such Rights as described in the previous sentence and the Subscription Price paid for the New Shares (as increased by any servicing fee charged to the Record Date Stockholder by his broker, bank or trust company and other similar costs). If the Record Date Stockholder subsequently sells such New Shares (and holds such Shares as capital assets at the time of their sale), the Record Date Stockholder will recognize a capital gain or loss equal to the difference between the amount received from the sale of the New Shares and the Record Date

Stockholder's federal income tax basis in the New Shares as described above. Such capital gain or loss will be long-term capital gain or loss if the New Shares are sold more than one year after the date that the New Shares are acquired by the Record Date Stockholder.

For Record Date Stockholders Not Making a Section 307(b)(2) Election When the Fair Market Value of the Rights Distributed are Less than 15% of the Total Fair Market Value of the Fund's Outstanding Common Stock:

Lapse of Rights. If the fair market value of the Rights distributed are less than 15% of the total fair market value of the outstanding Common Stock and a Record Date Stockholder does not make a Section 307(b)(2) Election for the taxable year in which such Rights were received, no taxable loss will be realized for federal income tax purposes if the Record Date Stockholder retains a Right but allows it to lapse without exercise. Moreover, the federal income tax basis of the related Old Share will not be reduced if such lapse occurs.

Exercise of Rights. If a non-electing Record Date Stockholder exercises his Rights, the federal income tax basis of the related Old Shares will remain unchanged and the New Shares will have a federal income tax basis equal to the Subscription Price paid for the New Shares (as increased by any servicing fee charged to the Record Date Stockholder by his broker, bank or trust company and other similar costs). If the Record Date Stockholder subsequently sells such New Shares (and holds such Shares as capital assets at the time of their sale), the Record Date Stockholder will recognize a capital gain or loss equal to the difference between the amount received from the sale of the New Shares and the stockholder's federal income tax basis in the New Shares as described above. Such capital gain or loss will be long-term capital gain or loss if the New Shares are sold more than one year after the Record Date Stockholder acquires the New Shares through the Offering.

Employee Plan Considerations. Record Date Stockholders that are employee benefit plans subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), including corporate savings and 401(k) plans, Keogh Plans of self-employed individuals and Individual Retirement Accounts ("IRA") (each a "Benefit Plan" and collectively, "Benefit Plans"), should be aware that additional contributions of cash in order to exercise Rights may be treated as Benefit Plan contributions and, when taken together with contributions previously made, may subject a Benefit Plan to excise taxes for excess or nondeductible contributions. In the case of Benefit Plans qualified under Section 401(a) of the Code, additional cash contributions could cause the maximum contribution limitations of Section 415 of the Code or other qualification rules to be violated. Benefit Plans contemplating making additional cash contributions to exercise Rights should consult with their counsel prior to making such contributions.

Benefit Plans and other tax exempt entities, including governmental plans, should also be aware that if they borrow in order to finance their exercise of Rights, they may become subject to the tax on unrelated business taxable income ("UBTI") under Section 511 of the Code. If any portion of an IRA is used as security for a loan, the portion so used is also treated as distributed to the IRA depositor.

ERISA contains prudence and diversification requirements and ERISA and the Code contain prohibited transaction rules that may impact the exercise of Rights. Among the prohibited transaction exemptions issued by the Department of Labor that may exempt a Benefit Plan's exercise of Rights are Prohibited Transaction Exemption 84-24 (governing purchases of shares in investment companies) and Prohibited Transaction Exemption 75-1 (covering sales of securities).

Due to the complexity of these rules and the penalties for noncompliance, Benefit Plans should consult with their counsel regarding the consequences of their exercise of Rights under ERISA and the Code.

Benefit to the Adviser. The Adviser will benefit from the Offering because its fees are based on the average total net assets of the Fund. It is not possible to state precisely the amount of additional compensation the Adviser will receive as a result of the Offering because the proceeds of the Offering will be invested in additional portfolio securities that will fluctuate in value. However, if all Rights are exercised at the Estimated Subscription Price of $8.48, the annual compensation to be received by the Adviser would be increased by approximately $243,101.76. If the Fund issues all of the Over-Allotment Shares, the annual compensation to be received by the Adviser would be increased by an additional $486,203.52. One of the Fund's Directors who voted to approve the Offering is an "interested person" of the Adviser within the meaning of the 1940 Act. This Director, Ralph

Bradshaw, could benefit indirectly from the Offering because of his beneficial interest in the Adviser. The other Directors were aware of the potential benefit to the Adviser (and indirectly to Mr. Bradshaw), but nevertheless concluded that the Offering was in the best interest of the Fund's stockholders.

The Fund may, in the future and at its discretion, choose to make additional rights offerings from time to time for a number of Shares and on terms which may or may not be similar to the Offering. Any such future rights offerings will be made in accordance with the 1940 Act. Under the laws of Maryland, the state in which the Fund is incorporated, under certain circumstances, the Board is authorized to approve rights Offerings without obtaining stockholder approval. The staff of the SEC has interpreted the 1940 Act as not requiring stockholder approval of a rights offering at a price below the then current NAV so long as certain conditions are met, including a good faith determination by the fund's board of directors that such offering would result in a net benefit to the Fund's existing stockholders.

FINANCIAL HIGHLIGHTS

Set forth below is per share operating performance data for a share of Common Stock outstanding, total investment return, ratios to average net assets and other supplemental data for each year indicated. This information has been derived from the financial statements and market price data for the Fund's Common Stock. The financial highlights for the fiscal year ended December 31, 2010 have been audited by Tait, Weller & Baker LLP, independent registered public accounting firm. The financial statements and notes thereto, together with the report of the independent registered public accounting firm, have been incorporated by reference in the SAI and are available without charge by calling collect (513) 326-3597 or by writing to the Fund c/o Ultimus Fund Solutions, LLC, 350 Jericho Turnpike, Suite 206, Jericho, NY 11753. Information as of June 30, 2011 appears in the Fund’s unaudited interim financial statements as filed with the SEC in our most recent stockholder report for the period ended June 30, 2010.

	For the Years Ended December 31,*				
	2010	2009	2008	2007	2006
PER SHARE OPERATING PERFORMANCE					
Net asset value, beginning of year	$8.24	$8.71	$18.12	$21.28	$22.60
Net investment income#	0.06	0.06	0.15	0.16	0.20
Net realized and unrealized gain/(loss) on investments	0.76	1.52	(5.55)	0.96	2.64
Net increase/(decrease) in net assets resulting from operations	0.82	1.58	(5.40)	1.12	2.84
Dividends and distributions to shareholders:					
Net investment income	(0.07)	(0.06)	(0.15)	(0.16)	(0.16)
Net realized gain capital gains	—	—	—	(1.32)	—
Return-of-capital	(1.61)	(2.03)	(4.01)	(3.00)	(4.00)
Total dividends and distributions to shareholders	(1.68)	(2.09)	(4.16)	(4.48)	(4.16)
Capital stock transactions:					
Anti-dilutive effect due to shares issued:					
Rights offering	0.13	—	—	—	—
Reinvestment of dividends and distributions	0.04	0.04	0.15	0.20	—
Total anti-dilutive effect due to shares issued	0.17	0.04	0.15	0.20	—
Net asset value, end of year	$7.55	$8.24	8.71	$18.12	$21.28
Market value, end of year	$8.84	$11.61	$7.62	$20.20	$33.80
Total investment return1	(10.19%)	89.55%	(49.92%)	(29.04%)	45.36%
RATIOS/SUPPLEMENTAL DATA					
Net assets, end of year (000 omitted)	$64,266	$57,447	$59,510	$120,268	$136,344
Ratio of expenses to average net assets, net of fee waivers, if any2,3	1.73%	1.80%	1.40%	1.23%	1.22%
Ratio of expenses to average net assets, excluding fee waivers, if any3,4	1.74%	2.01%	1.54%	1.35%	1.32%
Ratio of expenses to average net assets, net of fee waivers, if any3,4	1.74%	1.95%	1.44%	1.25%	1.25%
	0.77%	0.79%	1.08%	0.86%	0.85%

Ratio of net investment income to average net assets					
Portfolio turnover rate	25.28%	10.81%	13.24%	10.38%	10.59%

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* Effective December 23, 2008, a reverse stock split of 1:4 occurred. All per share amounts have been restated according to the terms of the split.

\# Based on average shares outstanding.

1 Total investment return at market value is based on the changes in market price of a share during the period and assumes reinvestment of dividends and distributions, if any, at actual prices pursuant to the Fund's dividends reinvestment plan. Total investment return does not reflect brokerage commissions.

2 Expenses are net of fees paid indirectly.

3 Expenses do not include expenses of investment companies in which the Fund invests.

4 Expenses exclude the reduction for fees paid indirectly.

Continued	For the Years Ended December 31,*		
	2005	2004	2003
PER SHARE OPERATING PERFORMANCE			
Net asset value, beginning of year	$ 25.92	$27.60	$25.64
Net investment income/(loss)#	0.12	0.20	0.16
Net realized and unrealized gain/(loss) on investments and foreign currency related translation	0.72	2.20	5.76
Net increase/(decrease) in net assets resulting from operations	0.84	2.40	5.92
Dividends and distributions to shareholders:			
Net investment income	(0.16)	(0.20)	(0.16
Net realized gain on investments and foreign currency related transactions	(4.00)	—	—
Return-of-capital	—	(3.96)	(3.80
Total dividends and distributions to shareholders	(4.16)	(4.16)	(3.96
Capital stock transactions:			
Anti-dilutive effect due to capital stock repurchased	—	—	—
Anti-dilutive/(dilutive) effect due to shares issued in reinvestment of dividends and distributions	—	0.08	—
Total capital stock transactions	—	0.08	—
Net asset value, end of year	$ 22.60	$25.92	27.60
Market value, end of year	$ 28.20	$34.04	$36.00
Total investment return5	(1.32%)	8.38%	77.69
RATIOS/SUPPLEMENTAL DATA			
Net assets, end of year (000 omitted)	$ 139,706	$154,690	$26,565

Ratio of expenses to average net assets,
net of fee waivers, if any6

In addition to FluMist, we currently actively market three other products, Synagis, Ethyol and CytoGam, and are developing a broad and diverse pipeline of potential future products. We are focused on developing important new products, particularly vaccines and antibodies that address significant medical needs in the areas of infectious diseases, immunology and oncology.

CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements requires us to make estimates and judgments with respect to the selection and application of accounting policies that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosures of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting estimates have the greatest impact on the preparation of our consolidated financial statements.

Revenue Recognition- We recognize revenue from product sales when there is persuasive evidence that an arrangement exists, delivery has occurred, the price is fixed or determinable and collectibility is reasonably assured. During Q3 2003, we began shipping FluMist to Wyeth, which is contractually responsible for distributing the product to third parties. At the time of shipment, Wyeth is contractually obligated to remit a product transfer payment per dose shipped, which is calculated using an agreed upon formula that consists of several variables, including Wyeth s returns and actual net sales. Actual net sales consists of any amounts actually received by Wyeth for the sale of FluMist less agreed-upon amounts paid or credited by Wyeth related to the sale of the product such as for returns, promotional discounts, rebates, sales taxes and freight. As of September 30, 2003, we concluded that the product transfer price was not determinable, largely due to the lack of sales and returns history for this new product. As a result, we have not recognized the revenue associated with approximately 2.4 million doses shipped to Wyeth during Q3 2003. Further, we have $21.0 million in inventory on the balance sheet representing the carrying value of the 2.4 million doses shipped to Wyeth. During Q3 2003, we have billed Wyeth $29.5 million for the 2.4 million doses, and have received payments from Wyeth of $13.1 million as of September 30, 2003. These payments are reflected on the balance sheet under the caption Advances from Wyeth. At the time we believe the transfer price is determinable, we will record the associated revenue and cost of goods sold.

We receive royalties from licensees, which are based on third-party sales of licensed products or technologies. Royalties are recorded as earned in accordance with the contract terms when third-party results can be reliably measured and collectibility is reasonably assured. We receive royalties from Wyeth based on its sales of FluMist under our worldwide collaborative agreement, as amended. We have not recorded any royalty revenue from Wyeth as of September 30, 2003.

Revenue from non-refundable upfront license fees and certain guaranteed payments where we continue involvement through a development collaboration or an obligation to supply product is recognized ratably over the development or supply period. As of September 30, 2003, we recognized $7.3 million of a $12.5 million supply goal payment for the first influenza season from Wyeth. The remaining $5.2 million has been recorded as deferred revenue to be recognized as the remaining doses are shipped to Wyeth in the fourth quarter.

We may record deferred revenues related to milestone payments and other upfront payments. Deferred revenue for manufacturing obligations is recognized as product is delivered. Deferred revenue associated with performance milestones is recognized based upon the achievement of the milestones, as defined in the respective agreements, as long as the milestones are substantive and at risk. Revenue under R&D cost reimbursement contracts is recognized as the related costs are incurred.

Inventory Capitalization We capitalize inventory costs associated with products prior to regulatory approval and product launch, based on management s judgment of probable future commercial use and net realizable value. We could be required to expense previously capitalized costs related to pre-approval or pre-launch inventory upon a change in such judgment, due to a denial or delay of approval by necessary regulatory bodies, a delay in commercialization, or other potential factors. Conversely, our gross margins may be favorably impacted if some or all of the related production costs were expensed prior to the product being available for commercial sale.

Most of the inventory components for FluMist have expiration dates that range from nine to 24 months. During the last quarter of 2002 and in 2003, we incurred inventoriable costs associated with FluMist manufacturing in anticipation of commercial launch for the 2003/2004 flu season. During the first quarter of 2003, the Company recorded reserves in other operating expenses totaling approximately $19.6 million for inventoriable costs related to FluMist production that, at the time were considered unlikely to be recovered. Further, we have disposed of $18.7 million of fully-reserved inventory related to the 2002/2003 flu season. As of September 30, 2003, we have $103.0 million of FluMist inventory against which we have a reserve of $48.3 million, resulting in a net inventory balance of $54.7 million. With respect to FluMist inventory on hand as of September 30, 2003, we reviewed the following factors to determine the amount of reserves, if any, required to write down the inventory to net realizable value: the expected sales volume; the concentration of viral material in our vaccine; anticipated changes in the manufacturing process; anticipated delays in obtaining FDA lot release for finished vaccine; and other variables associated with product launch efforts.

As a result of the review of FluMist inventory described above, approximately one-half of the annual production costs have been fully reserved. Therefore, gross margins in the fourth quarter of 2003 are expected to be higher than what they would have been had those production costs not been fully reserved.

For our other products, we periodically assess our inventory balances to determine whether net realizable value is below recorded cost. Factors we consider include expected sales volume, production capacity and expiration dates.

Sales Allowances and Other Sales Related Estimates

Reductions of Gross Product Sales

We estimate the amount of sales discounts and sales returns by applying rates determined by our past experience and current discount structure to actual sales for the period. We estimate the aggregate amount of rebates due to government purchasers, recorded as a reduction of gross product sales, based upon historical experience and our best estimate of the proportion of the sales that will be subject to this reimbursement, largely comprised of Medicaid payments to state governments. Because of the seasonal nature of our largest product, Synagis, our sales discounts, returns and rebates fluctuate throughout the year. If our historical trends are not indicative of the future, or our actual sales are materially different from projected amounts, or if our assessments prove to be materially different than actual occurrence, our results could be affected.

During 2003, we adjusted our estimate of rebates due to government purchasers to reflect favorable historical experience. Absent our favorable historical experience and a change in our estimate of the proportion of the sales that are subject to reimbursement, our reserves for rebates due to government purchasers would have been approximately $14.3 million higher for the first nine months of 2003. Allowances for government reimbursements were $10.8 million and $26.2 million as of September 30, 2003 and December 31, 2002, respectively, and are included in accrued expenses in the accompanying balance sheets.

Selling, General & Administrative Expenses

We estimate our co-promotion expense and sales commissions by applying an estimated rate that is based upon an estimate of projected sales for the season to our actual sales for the period.

We estimate the level of bad debts as a percentage of gross trade accounts receivable balances outstanding at the end of the period, based upon our assessment of the concentration of credit risk, the financial condition and environment of our customers and the level of credit insurance we obtain on our customers balances. Because of the seasonal nature of our largest product, Synagis, our accounts receivable balances fluctuate significantly. Accordingly, our allowance for doubtful accounts also fluctuates. Our accounts receivable balances tend to be highest at the end of December and March, while the September balances are somewhat smaller as our selling season is just beginning and the June balances are negligible reflecting the close-out of the prior season. For the nine months ended September 30, 2003, we decreased our reserves for bad debts by approximately $6.3 million, largely as a consequence of the overall reduction in accounts receivable balances. In the three and nine month periods ended September 30, 2003 and 2002, we have reclassified bad debt expense from net sales to selling, general and administrative expense in our Consolidated Statements of Operations.

Investments - We regularly enter into collaborative research and development agreements with strategic partners. As part of the agreements, we may obtain common stock, preferred stock, convertible debt or other debt or equity securities in these strategic partners. These companies may be public or privately held companies. At the time the securities are obtained, we determine if the investment should be accounted for under the cost method, equity method, or consolidation method based upon multiple factors including: percentage ownership of the company; representation on board of directors; participation in policy-making processes; technological dependency; veto rights of partners; our role on key technical or product development committees; revenue dependence; other extraordinary voting rights; and a determination regarding the investee company s primary beneficiary. Each quarter we reevaluate such factors to determine whether continued use of the cost method is appropriate. Investments accounted for under the equity method are adjusted quarterly for the Company s proportionate share of the investee s gains or losses, which may fluctuate significantly from quarter to quarter. Each quarter, we evaluate all of our investments, and recognize an impairment charge in the consolidated statements of operations when a decline in the fair value of an investment falls below its cost value and is judged to be other than temporary. We consider various factors in determining whether we should recognize an impairment charge, including: the length of time and extent to which the fair value has been less than our cost basis; the financial condition and near-term prospects of the issuer; fundamental changes to the business prospects of the investee; share prices of subsequent offerings; and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. Especially with regards to investments in earlier stage, privately held companies, considerable judgment is required in making assessments of fair value.

RESULTS OF OPERATIONS

To present our results in the same manner as we view the performance of the business and the resulting underlying trends, we have presented certain expense categories with and without certain Acquisition-related adjustments, including: the acquired in-process research and development charge; amortization of intangible assets, compensation expense associated with the assumption and vesting of unvested stock options, retention and severance payments; and the amortization of the premium on convertible subordinated notes. Inclusion of such Acquisition-related adjustments is consistent with generally accepted accounting principles (GAAP). Where we exclude such adjustments, we use the term adjusted to describe the results.

Q3 2003 compared to Q3 2002

Revenues Product Sales

(in millions)		**Q3 2003**		**Q3 2002**	**Growth**
Synagis	$	48.6	$	31.4	55%
FluMist	$		$		N/A
Ethyol	$	20.6	$	20.5	%
Other Products	$	13.1	$	8.9	47%
	$	82.3	$	60.8	35%

For Q3 2003, product sales grew 35% to $82.3 million as compared to $60.8 million in Q3 2002, primarily due to increased sales of Synagis.

Synagis - Synagis accounted for approximately 59% and 52% of our product sales in Q3 2003 and Q3 2002, respectively. We achieved a 31% increase in domestic Synagis sales to $35.4 million for 2003, up from $27.0 million in 2002. This strong growth was driven primarily by an increase in unit sales. A price increase which took effect in June of 2003 was offset by an increase in sales allowances. We record Synagis international product sales when we ship product to AI, and based on Abbott International s (AI s) sales price to customers, as defined in our agreement. AI is our exclusive distributor of Synagis outside of the United States. Our reported international sales of Synagis tripled from $4.4 million in Q3 2002 to $13.2 million in Q3 2003, largely due restocking of depleted inventories by AI reflecting increased demand for the product.

Ethyol - Ethyol accounted for approximately 25% of our product sales in Q3 2003 versus 34% in Q3 2002. Worldwide Ethyol sales remained consistent at $20.6 million in Q3 2003, as compared to $20.5 million in Q3 2002. This was due to the combination of a domestic price increase which was offset by an increase in sales allowances and a decrease in domestic unit sales, largely due to the depletion of wholesaler inventories to accommodate end-user demand. Sales to our international partner, Schering-Plough Corporation (Schering) also remained consistent from Q3 2002 to Q3 2003. We record Ethyol international product sales based on a percentage of Schering s end-user sales, as defined in our agreement.

Other Products - Sales of other products in Q3 2003, which include sales of CytoGam, NeuTrexin, RespiGam, and by-products that result from the CytoGam manufacturing process, increased $4.2 million, or 47% from Q3 2002. The increase is due to a 47% increase in CytoGam sales. We believe this increase was largely the result of an increase in wholesaler inventory levels during the third quarter of 2003.

Forward-looking commentary - Due to the significant contribution of Synagis, we believe our revenues and operating results will reflect for the foreseeable future the seasonality of that product s use to prevent RSV disease, which occurs primarily during the winter months. In addition, this seasonality will be compounded by FluMist, which was recently approved by the FDA, and is expected to be sold primarily during the third and fourth quarters of the year, the most common time for yearly influenza vaccination. The high concentration of product sales in a portion of the year exaggerates the adverse consequences on our sales of any manufacturing or supply delays, any sudden loss of inventory, any inability to satisfy product demand, or of any unsuccessful sales or marketing strategies during the Synagis and FluMist selling seasons. The level of future product sales will depend on several factors, including, but not limited to: potential limitations on pricing and profitability by government or third-party payors; availability of finished product inventory; commercialization of competitive products; and the degree of acceptance of our products in the marketplace.

During Q3 2003, we began shipping FluMist to Wyeth, but we have not recorded any transfer payment revenues. As of September 30, 2003, we concluded that the product transfer price was not determinable, largely due to the lack of sales and returns history for this new product. As of September 30, 2003, we billed Wyeth $29.5 million for 2.4 million doses shipped. Along with Wyeth, we are currently evaluating and implementing certain promotional rebate and discount programs, which may reduce actual net sales and might impact the time at which the product transfer price will be determinable. At the time we believe the transfer price has become determinable, we will record associated revenue and cost of goods sold.

Revenues Other Revenues

Other revenues increased $3.7 million to $17.1 million for Q3 2003 compared to $13.4 million in Q3 2002, primarily due to increased revenues under collaborative agreements. As of September 30, 2003, we recognized $7.3 million of a $12.5 million supply goal payment for the first influenza season from Wyeth. In addition, we recorded $5.0 million in milestone revenues associated with the inclusion of FluMist in the American Academy of Pediatrics *Influenza Vaccine Implementation Information for 2003/2004*. These increases are partially offset by the impact of last year s nonrecurring payments totaling $9.0 million, which was for the sale of excess production capacity to a third party.

Forward-looking commentary We anticipate the level of other revenues for the fourth quarter of 2003 to increase significantly largely due to milestone and royalty payments associated with the commercialization of FluMist. We have not recorded any royalty revenue from Wyeth as of September 30, 2003, but anticipate recording royalty revenue during the fourth quarter of 2003. We also plan to recognize the remaining $5.2 million of a $12.5 million supply goal payment for the first influenza season from Wyeth as the remaining FluMist doses relating to that supply goal payment are shipped to Wyeth in the fourth quarter of 2003. The level of contract revenues in future periods will depend primarily upon the extent to which we enter into other collaborative contractual arrangements, if any, and the extent to which we achieve certain milestones provided for in existing agreements. Future revenues from the sale of excess production capacity will vary depending on the extent to which we enter into these types of arrangements, and are not expected to be significant for 2003 or thereafter.

Based on current estimates of costs to complete, the expected timing of revenues to be recognized in the future as we fulfill certain obligations under our collaborative agreement with Schering, for which we have deferred a portion of the up-front and milestone payments received under the contingency adjusted performance model, is as follows: $0.1 million in the fourth quarter of 2003; $0.4 million in 2004; and $0.4 million in 2005.

Cost of Sales

Cost of sales for Q3 2003 increased 35% to $30.1 million from $22.3 million in Q3 2002, due principally to an increase in product sales volumes. Gross margins on product sales were 63% in both Q3 2003 and Q3 2002 as a result of increases in gross margins on all products that were offset by the impact of higher unplanned scrap costs.

Forward-looking commentary We expect that gross margin may vary significantly from quarter to quarter, based on changes in the product mix due to seasonality. We expect that, on an annual basis, our gross margin percentage for 2003 should be slightly lower than 2002, due to the launch of FluMist.

Research and Development Expenses

(in millions)

Q3 2003	Q3 2002

Historical	Acquisition-Related Adjustments	Adjusted	Historical	Acquisition-Related Adjustments	Adjusted
$ 52.7	$ (0.3)	$ 52.4	$ 31.8	$ (1.1)	$ 30.7

Research and development expenses of $52.7 million in Q3 2003 increased 66% from $31.8 million in Q3 2002. Excluding Acquisition-related adjustments in both periods, research and development expenses for Q3 2003 were $52.4 million, up 71% over Q3 2002. The increase is primarily due to payments related to accessing rights to data and developmental opportunities for two technologies. In July 2003, the Company agreed to make a $10.0 million payment to Critical Therapeutics, Inc. as a part of a newly established collaboration to co-develop biologic products targeting a novel pro-inflammatory cytokine to treat severe inflammatory diseases. In connection with the September 30, 2003 supplemental agreement with Wyeth, MedImmune agreed to pay $10.0 million for data from the completed international phase 3 studies for a liquid formulation of FluMist. This data may have the potential to accelerate the evolution of MedImmune s long-range plans for its intranasally delivered flu vaccine program in the United States.

Forward-looking commentary - For the remainder of 2003, we anticipate having continued year-over-year growth in our research and development expenditures, in part due to clinical trials for Vitaxin and Ethyol.

Selling, General, and Administrative Expenses

(in millions)

Q3 2003 **Q3 2002**

Historical	Acquisition-Related Adjustments	Adjusted	Historical	Acquisition-Related Adjustments	Adjusted
$ 53.4	$ (2.0)	$ 51.4	$ 52.8	$ (2.7)	$ 50.1

Selling, general and administrative (SG&A) expenses increased slightly to $53.4 million in Q3 2003 compared to $52.8 million in Q3 2002. Excluding Acquisition related-adjustments, adjusted SG&A expenses for Q3 2003 were $51.4 million, up 3% over $50.1 million in Q3 2002, due primarily to increased co-promotion expenses for Synagis associated with the product s domestic sales growth which were offset by a decrease in the provision for bad debts and the impact of settling a contractual dispute in 2002.

Other Operating Expenses

(in millions)

Q3 2003	**Q3 2002**

Historical	Acquisition-Related Adjustments	Adjusted	Historical	Acquisition-Related Adjustments	Adjusted
$ 1.9	$ ( )	$ 1.9	$ 24.1	$ (3.4)	$ 20.7

Other operating expenses, which reflect manufacturing start-up costs and other manufacturing-related costs, were $1.9 million in Q3 2003 compared to $24.1 million in Q3 2002. Adjusted other operating expenses were $1.9 million for Q3 2003, compared to $20.7 million in Q3 2002. The decrease is due to the shift in the costs of FluMist manufacturing that are capitalized in inventory this year, but were expensed as other operating costs in last year s quarter.

Interest Income and Expense

We earned interest income of $14.5 million for Q3 2003, compared to $13.3 million in Q3 2002, reflecting higher cash balances available for investment, net of a decrease in short-term interest rates that decreased the overall portfolio yield. Interest expense for Q3 2003, net of amounts capitalized, was $3.0 million, up from $2.3 million in Q3 2002, reflecting a higher long term debt balance due to the issuance of $500 million of our convertible senior notes in July 2003.

Gain (Loss) on Investment Activities

We realized a $1.2 million gain on investment activities during Q3 2003 as compared to a loss incurred in Q3 2002 of $10.6 million. The 2003 period includes a gain on the sale of common stock, net of minor losses recorded as our portion of minority investees operating results as required by the equity method of accounting. The Q3 2002 loss consists primarily of impairment write-downs due to the decline in the fair value of certain of our publicly traded equity investments and other investments in private companies below their cost basis that were judged to be other than temporary and minor losses recorded as our portion of minority investees operating results as required by the equity method of accounting.

Taxes

We recorded a benefit for income taxes of $9.6 million for Q3 2003, resulting in an effective tax rate of 37.0%. Comparatively, we recorded an income tax benefit of $20.1 million for Q3 2002, resulting in an effective tax rate of 35.7%. The increase in the estimated effective tax rate between 2003 and 2002 is primarily due to a decrease in estimated credits available for research and development activities, including credits earned for Orphan Drug status of certain research and development activities, relative to the growth in earnings. These credits will vary from year to year depending on the activities of the Company.

Net Loss

(in millions)

Q3 2003	Q3 2002

Historical	Acquisition-Related Adjustments	Adjusted	Historical	Acquisition-Related Adjustments	Adjusted
$ 16.4	$ (0.8)	$ 15.6	$ 36.3	$ (4.5)	$ 31.8

Net loss for Q3 2003 was $16.4 million, or $0.07 per basic and diluted share, compared to a net loss for Q3 2002 of $36.3 million or $0.14 per share. Excluding the after-tax impact of the Acquisition-related adjustments totaling $0.8 million for Q3 2003, and $4.5 million for Q3 2002, adjusted net loss for Q3 2003 was $15.6 million, or $0.06 per basic and diluted share, compared to an adjusted net loss for Q3 2002 of $31.8 million or $0.13 per share.

Shares used in computing basic and diluted earnings per share on a GAAP and adjusted basis for Q3 2003 were 249.4 million, while shares used for computing basic and diluted earnings per share on a GAAP and adjusted basis for Q3 2002 were 250.8 million. The decrease in share count reflects our purchase of 5.9 million shares of treasury stock during Q3 2003 in accordance with our share buy back program, which was initiated in July 2003. We do not believe inflation had a material effect on our financial statements.

Forward-looking commentary - For the remainder of the year and on an annualized basis, we expect to generate net earnings per diluted share in 2003. The level of net earnings will depend on many factors, including, but not limited to, the degree of acceptance of our products in the marketplace and adequate product supply to meet demand. As a result of our share repurchase program, we expect that shares used for computing basic and diluted shares for the remainder of the year will continue to decrease slightly.

YTD 2003 compared to YTD 2002

Revenues Product Sales

(in millions)	**YTD 2003**	**YTD 2002**	**Growth**
Synagis	$ 490.8	$ 357.4	37%
FluMist	$	$	NA
Ethyol	71.5	55.6	29%
Other Products	31.7	26.9	18%
	$ 594.0	$ 439.9	35%

For YTD 2003, product sales grew 35% to $594.0 million as compared to $439.9 million in YTD 2002, primarily due to a 37% increase in sales of Synagis to $490.8 million and by a 29% increase in sales of Ethyol to $71.5 million.

Synagis - Synagis accounted for approximately 83% versus 81% of our product sales for YTD 2003 and YTD 2002, respectively. We achieved a 32% increase in domestic Synagis sales to $451.0 million for YTD 2003, up from $341.6 million in YTD 2002. This strong growth was driven primarily by an increase in unit sales that contributed 26 of the 32 percentage points and an increase in price that contributed 6 points. Our reported international sales of Synagis more than doubled to $39.8 million in YTD 2003 compared to $15.8 million in YTD 2002, largely due to an almost four-fold increase in units sold to AI. We believe the growth is due to AI replenishing their depleted inventory levels as well as increased product demand by end users. Also contributing to international Synagis sales growth is the additional amount due from AI in YTD 2003 compared to YTD 2002, calculated as the difference between the contractually stipulated transfer price and our share of AI s sales price to end-users. Sales growth was also aided by the impact of a weaker U.S. dollar.

Ethyol - Ethyol accounted for approximately 12% and 13% of our product sales in YTD 2003 and YTD 2002, respectively. Worldwide Ethyol sales grew 29% to $71.5 million in YTD 2003, as compared to $55.6 million in YTD 2002. This growth was driven by a number of contributing factors, including: an increase in domestic unit sales that contributed 14 of the 29 percentage points; an increase in price that contributed 9 points, and a decrease in sales reserves that contributed 6 points.

Revenues Other Revenues

Other revenues increased 83% to $52.5 million for YTD 2003 compared to $28.8 million in YTD 2002, largely due to an increase in revenue recorded under collaborative agreements, partially offset by the impact of $11.9 million in non-recurring revenues from the sale of excess production capacity to a third party in 2002. Other revenues for YTD 2003 include approximately $25.0 million in milestone payments for the approval of FluMist and for the inclusion of FluMist in the American Academy of Pediatrics *Influenza Vaccine Implementation Information for 2003/2004*. Also, as of September 30, 2003, we recognized $7.3 million of a $12.5 million supply goal payment for the first influenza season from Wyeth. The remaining $5.2 million has been recorded as deferred revenue to be recognized as the remaining doses are shipped to Wyeth in the fourth quarter. Other revenue for 2003 also includes $7.5 million for exceeding $100 million in end-user sales of Synagis outside the U.S. during a single respiratory syncytial virus (RSV) season.

Cost of Sales

Cost of sales for YTD 2003 increased 32% to $156.1 million from $117.8 million for YTD 2002. Gross margins on product sales were 74% for YTD 2003, compared to 73% for YTD 2002, due to higher margins, particularly for Synagis, which are largely a result of lower sales allowances that increased net product sales. This favorable impact was partially offset by higher royalties payable to ALZA Corporation on Ethyol and higher unplanned scrap costs.

Research and Development Expenses

(in millions)

YTD 2003	YTD 2002

	Acquisition-Related			Acquisition-Related	
Historical	Adjustments	Adjusted	Historical	Adjustments	Adjusted
$ 112.3	$ (2.4)	$ 109.9	$ 110.4	$ (5.7)	$ 104.8

Research and development expenses of $112.3 million in YTD 2003 increased 2% from $110.4 million in YTD 2002. Excluding Acquisition-related adjustments in both periods, research and development expenses for YTD 2003 were $109.9 million, up 5% from YTD 2002. The increase is largely due to the payments associated with gaining access to new data and technologies, partially offset by the completion of several late-stage clinical trials by the end of 2002, including Phase 2 clinical trials with siplizumab, and the Phase 3 Synagis clinical trial in congenital heart disease patients that led to the approval of an expanded indication by the FDA in September 2003.

Selling, General, and Administrative Expenses

(in millions)

YTD 2003	YTD 2002

	Acquisition-Related			Acquisition-Related	
Historical	**Adjustments**	**Adjusted**	**Historical**	**Adjustments**	**Adjusted**
$ 220.4	$ (6.2)	$ 214.2	$ 196.9	$ (8.6)	$ 188.2

Selling, general and administrative (SG&A) expenses increased 12% to $220.4 million in YTD 2003 compared to $196.9 million in YTD 2002. Excluding Acquisition- related adjustments, adjusted SG&A expenses for YTD 2003 were $214.2 million, up 14% over $188.2 million in YTD 2002, due primarily to increases in co-promotion expenses for Synagis, partially offset by a decrease in bad debt expense and the impact of settling a contractual dispute in 2002.

Other Operating Expenses

(in millions)

YTD 2003	**YTD 2002**

Historical	Acquisition-Related Adjustments	Adjusted	Historical	Acquisition-Related Adjustments	Adjusted
$ 24.8	$ (3.2)	$ 21.6	$ 68.1	$ (14.4)	$ 53.7

Other operating expenses, which reflect manufacturing start-up costs and other manufacturing-related costs, decreased to $24.8 million in YTD 2003 from $68.1 million in YTD 2002. Adjusted other operating expenses were $21.6 million for YTD 2003, compared to $53.7 million in YTD 2002. The decrease is due to the shift in the costs of FluMist manufacturing that are in inventory this year, but were expensed as other operating costs in the prior year.

In-Process Research and Development

We incurred charges of $1,179.3 million in the first quarter of 2002 for the write-off of purchased in-process research and development in conjunction with the Acquisition. The write-off represented the fair value of purchased in-process technologies at the acquisition date, calculated as the sum of probability-adjusted commercial scenarios. This method was based upon management s estimates of the probability of FDA approval and commercial success for FluMist.

Interest Income and Expense

We earned interest income of $41.8 million for YTD 2003, compared to $37.2 million in YTD 2002, reflecting higher cash balances available for investment, net of a decrease in short-term interest rates that lowered the overall portfolio yield. Interest expense for YTD 2003, net of amounts capitalized, was $6.4 million, down from $7.0 million in YTD 2002. This decrease is largely due to interest expense capitalized in connection with several large construction projects currently undertaken by the Company, including construction of the new corporate headquarters in Maryland, and manufacturing facilities in Pennsylvania and the U.K., partially offset by the impact of the issuance of $500 million of our convertible senior notes in July 2003.

Gain (Loss) on Investment Activities

We incurred a gain on investment activities of $0.8 million for YTD 2003, compared to a loss of $10.7 million in YTD 2002. The 2003 period includes a gain on the sale of common stock, net of minor losses recorded as our portion of minority investees operating results as required by the equity method of accounting. The YTD 2002 loss consists primarily of impairment write-downs and minor losses recorded as our portion of minority investees operating results as required by the equity method of accounting.

Taxes

We recorded income tax expense of $62.6 million for YTD 2003, resulting in an effective tax rate of 37.0%. Comparatively, we recorded an income tax benefit of $1.7 million for YTD 2002, resulting in an effective tax rate of 35.2% that excluded a write-off of in-process research and development purchased during the first quarter of 2002, which was not deductible for tax purposes.

The increase in the estimated effective tax rate between 2003 and 2002 is primarily due to a reduction in the estimated credits available for research and development activities, including credits earned for

Orphan Drug status of certain research and development activities in 2003, relative to our earnings growth. These credits will vary from year to year depending on the activities of the Company.

Net Earnings / (Loss)

(in millions)

YTD 2003	**YTD 2002**

Historical	Acquisition-Related Adjustments	Adjusted	Historical	Acquisition-Related Adjustments	Adjusted
$ 106.6	$ 6.2	$ 112.8	$ (1,182.6)	$ 1,197.0	$ 14.4

Net earnings for YTD 2003 were $106.6 million, or $0.42 basic and diluted earnings per share compared to a net loss for YTD 2002 of $1.2 billion or $4.75 per share. Excluding the after-tax impact of the Acquisition-related adjustments totaling $6.2 million for YTD 2003, and $1.2 billion for YTD 2002, adjusted net earnings for YTD 2003 and YTD 2002 were $112.8 million and $14.4 million, respectively. Adjusted earnings per share for YTD 2003 were $0.45 basic and $0.44 diluted. Adjusted earnings per share for YTD 2002 were $0.06 basic and diluted.

Shares used in computing basic and diluted earnings per share for YTD 2003 were 251.0 million and 254.7 million, respectively, while shares used for computing basic and diluted earnings per share for YTD 2002 were 249.1 million. Shares used in computing basic and diluted earnings per share on an adjusted basis were 251.0 million and 254.7 million, respectively, for YTD 2003 and 249.1 million and 251.7 million, respectively, for YTD 2002.

We do not believe inflation had a material effect on our financial statements.

LIQUIDITY AND CAPITAL RESOURCES

Sources and uses of cash - Cash and marketable securities were $1,712.8 million at September 30, 2003 versus $1,423.1 million at December 31, 2002, an increase of 20%. The increase in cash is primarily due to our issuance of $500 million in convertible senior notes in July 2003, offset by our purchase of $218.9 million of the Company s common stock, as well as cash generated by the Company s ongoing business operations. Working capital increased to $632.0 million at September 30, 2003 from $476.8 million at December 31, 2002, primarily due to an increase in cash as a result of our convertible debt offering, net of a decrease in trade accounts receivable, caused by the seasonal nature of Synagis. As of September, the Synagis selling season is just beginning and sales and accounts receivable have not yet peaked as compared to seasonally high accounts receivable balances in December and March.

Operating Activities

Net cash provided by operating activities increased to $97.5 million in YTD 2003 as compared to $43.2 million in YTD 2002, primarily as the result of net earnings for the period, the use of deferred tax assets to offset current tax liabilities, and cash received from Wyeth for the transfer of FluMist in preparation for the FluMist selling season. These increases are partially offset by increases in inventory balances (including approximately $21 million related to FluMist doses transferred to Wyeth), and decreases in accrued expenses and product royalties payable as amounts paid for co-promotion expense and royalties increased year-over-year, reflecting the increase in net sales of Synagis.

Investing Activities

Cash used for investing activities during YTD 2003 amounted to $164.1 million, as compared to $132.5 million in YTD 2002. Cash used for investing activities in YTD 2003 included net additions to our investment portfolio of $72.4 million; capital expenditures totaling $74.9 million, primarily for the construction of our new corporate headquarters, and the expansion of our FluMist manufacturing and filling and packaging facilities in Speke, England and Philadelphia, Pennsylvania; and minority interest investments in strategic partners totaling $16.8 million through our venture capital subsidiary.

Financing Activities

Financing activities provided $287.9 million in cash for YTD 2003, as compared to $36.5 million in YTD 2002. Approximately $36.0 million was received upon the exercise of employee stock options in YTD 2003, as compared to $40.9 million received in YTD 2002, reflecting increased stock option exercises by employees of MedImmune Vaccines in 2002 subsequent to the Acquisition. We received a net of $489.5 million in connection with the issuance of senior convertible debt, and we used $218.9 million in cash to purchase treasury stock under our share repurchase plan initiated in July 2003. We also used $14.1 million to retire a portion of our 5 ¼% convertible subordinated notes and we paid down other debt in YTD 2003 in the amount of $4.5 million, as compared to YTD 2002 paydowns of $4.4 million.

In July 2003, the Company completed the issuance of $500 million of 1% convertible senior notes due 2023. Net proceeds to the Company were $489.5 million, net of expenses, underwriters discounts and commissions. At the time of issuance, we stated our intent to use a portion of the proceeds from the convertible senior notes to repurchase shares of our common stock under the stock repurchase program, and for general corporate purposes, which may include the retirement of existing debt obligations, and possible acquisitions or other external growth opportunities. As of September 30, 2003, we have repurchased and retired $13.8 million principal amount of the 5 ¼% convertible notes at a cost of $14.1 million. A gain of $0.3 million was recorded in accordance with the transaction.

In July 2003, our Board of Directors authorized the repurchase, over a two-year period, of up to $500 million of the Company s common stock in the open market or in privately negotiated transactions, pursuant to terms management deems appropriate and at such times it may designate. Under the stock repurchase program, we repurchased 5.9 million shares of our common stock at an average cost of $37.05 per share through September 30, 2003. The Company also entered into a 10b5-1 trading plan to repurchase shares in the open market during those periods each quarter when trading in our common stock is restricted under our insider trading policy. Of the shares repurchased, approximately 0.3 million shares were purchased under the 10b5-1 trading plan. As of November 5, 2003, we had purchased 0.3 million additional shares at an average cost of $33.04 per share. The Company will hold repurchased shares as treasury shares and intends to use them for general corporate purposes, including but not limited to acquisition-related transactions and for issuance upon exercise of outstanding stock options.

Forward-looking commentary The Company currently generates cash from operations primarily from product sales, and expects to continue generating cash from these sources. The Company believes that its existing funds and cash generated from operations are adequate to satisfy its working capital and capital expenditure requirements in the foreseeable future. The Company may raise additional capital in the future to take advantage of favorable conditions in the market or in connection with the Company s development activities.

We expect to have approximately $155 million in capital expenditures during 2003. Construction of the first phase of the new corporate headquarters facility and pilot plant, as well as major construction projects at our facilities in Pennsylvania and in England, will be funded from cash generated from operations and investments on hand. We expect to take occupancy of the first phase of our new corporate headquarters, a complex of approximately 220,000 square feet, in early 2004. At that time, we expect to sublease a portion of our existing space in Gaithersburg, which is leased through 2006. There can be no guarantee that we will be successful in subleasing the space.

During June 2003, we entered into a research and development collaboration with Micromet, a private German biotechnology company. Together with Micromet, we plan to develop MT103 for B cell tumors, such as non-Hodgkin s Lymphoma. We also plan to develop novel drug candidates using Micromet s proprietary Bi-Specific T cell Engager (BiTE) platform technology. During July 2003, we made an upfront payment of $10.0 million to Critical Therapeutics to acquire an exclusive, worldwide license for technology associated with the HMGB-1 technology. We will develop the commercial production process for any and all potential drug products resulting from the collaboration. In conjunction with these collaborations, we are obligated to pay up to an aggregate of $178.5 million for various milestone payments, subject to the achievement of specified clinical, regulatory, and sales milestones, and fund certain research and development costs. Additionally, we are obligated to pay royalties on any future sales, if any, of products resulting from the collaborations. In connection with the collaborations, our venture capital subsidiary made minority interest investments in Micromet in Q3 2003 and in Critical Therapeutics in October 2003.

Effective for the upcoming RSV season, we reduced the number of U.S. specialty distributors in our Synagis network by approximately 85%. In addition, we reduced the number of Synagis wholesalers and home health care agencies that we will use. The changes were made to achieve a higher level of service to patients via contractual requirements for downstream service related to Synagis. The selection criteria used in this process should also mitigate risks associated with a higher concentration of credit among fewer creditors.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We believe our primary market risk as of September 30, 2003 is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, and equity prices. Market risk exposure exceeds that as of December 31, 2002 due to the increase in the size of our investment portfolio.

Expenditures relating to our manufacturing operations in England and the Netherlands are paid in local currency. We have not hedged our expenditures relating to these manufacturing operations; therefore, foreign currency exchange rate fluctuations may result in increases or decreases in the amount of expenditures recorded. Additionally, certain of our distribution agreements outside the United States provide for us to be paid based upon sales in local currency. As a result, changes in foreign currency exchange rates could adversely affect the amount we expect to collect under these agreements.

During July 2003, we issued $500 million of our convertible senior notes due 2023. These notes bear interest at 1.0% per annum payable semi-annually in arrears. Beginning with the six-month interest period commencing July 15, 2006, if the average trading price of these notes during specified periods equals or exceeds 120% of the principal amount of such notes, we will pay contingent interest equal to 0.175% per six-month period of the average trading price per $1,000 of principal amount of these notes during such periods. As a result, if the market value of these notes appreciates significantly in the future, we could be obligated to pay significant amounts of contingent interest beginning in 2006.

We regularly enter into collaborative research and development agreements with strategic partners, primarily through our venture capital subsidiary, MedImmune Ventures, Inc. As part of those agreements, we may obtain common stock, preferred stock, convertible debt or other debt or equity securities of these strategic partners. Our investment holdings were valued at $28.3 million as of September 30, 2003 and are expected to increase in the future as MedImmune Ventures continues to invest in accordance with its investment strategy. These investments are subject to fluctuations from market value changes in stock prices, and in 2002 we recorded charges related to the write-down of certain investments for other than temporary impairments of approximately $10.7 million. We have not recorded any write-downs for other than temporary impairments for 2003. In accordance with our investment strategy, we intend to liquidate our holdings in certain equity securities in our portfolio, over a period of approximately one year, now that our business objectives have been reached. To hedge the risk of market fluctuations, we have entered into equity derivative contracts which have been designated as cash flow hedges. We have not incurred any material gains or losses on these hedge instruments since entering into these arrangements during September and October, 2003.

For other information regarding the Company s market risk exposure, please refer to Part II, Item 7A., Quantitative and Qualitative Disclosures About Market Risk of the Company s Annual Report on Form 10-K for the year ended December 31, 2002.

ITEM 4. CONTROLS AND PROCEDURES

Based on an evaluation of the Company s disclosure controls and procedures in connection with the Company s filing of this quarterly report on Form 10-Q for Q3 2003, our management, with the participation of our principal executive officers and principal financial officers, namely our Vice Chairman and Chief Executive Officer; President and Chief Operating Officer; Senior Vice President and Chief Financial Officer; and Vice President and Controller; has concluded that the Company s disclosure controls and procedures were effective as of September 30, 2003.

Based on an evaluation of changes in the Company s internal control over financial reporting that occurred during Q3 2003, our management, with the participation of our principal executive officers and principal financial officers, namely our Vice Chairman and Chief Executive Officer; President and Chief Operating Officer; Senior Vice President and Chief Financial Officer; and Vice President and Controller; has concluded that there were no changes in the Company s internal control over financial reporting during Q3 2003 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. **LEGAL PROCEEDINGS**

Information with respect to legal proceedings is included in Note 13 of Part I, Item 1 Consolidated Financial Statements, and is incorporated herein by reference and should be read in conjunction with the related disclosure previously reported in the Company s Annual Report on Form 10-K for the year ended December 31, 2002.

ITEM 2. **CHANGES IN SECURITIES AND USE OF PROCEEDS - NONE**

ITEM 3. **DEFAULTS UPON SENIOR SECURITIES - NONE**

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

ITEM 5. **OTHER INFORMATION NONE**

ITEM 6. **EXHIBITS AND REPORTS ON FORM 8-K**

Exhibits:

10.26.3	Third Amendment to the Distribution Agreement between MedImmune, Inc. and Abbott International dated July 1, 2003.
10.195	Master Amendment Agreement between MedImmune, Inc. and Wyeth dated September 30, 2003
31.1	Certification pursuant to 18 USC Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification pursuant to 18 USC Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3	Certification pursuant to 18 USC Section 1350, as adopted pursuant to Section 302 of the

	Sarbanes-Oxley Act of 2002.
31.4	Certification pursuant to 18 USC Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished as permitted by Item 601(b)(32)(ii) of Regulation S-K. This Exhibit 32 is not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and is not and should not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

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(b) Reports on Form 8-K:

Report Date	**Event Reported**
July 10, 2003	MedImmune Announces Proposed $500 Million Convertible Notes Offering
July 24, 2003	MedImmune Reports Record Revenues for 2003 Six-Month Period and Second Quarter.
August 14, 2003	MedImmune Announces Addition of Dr. David Baltimore, Ph.D. to Board of Directors

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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 hereunto duly authorized.

	MEDIMMUNE, INC. (Registrant)
Date: November 7, 2003	/s/ Gregory S. Patrick Gregory S. Patrick Senior Vice President and Chief Financial Officer Principal Financial Officer
Date: November 7, 2003	/s/ Lota S. Zoth Lota S. Zoth Vice President and Controller Principal Accounting Officer

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