IMMUNOMEDICS INC
Form 10-K
August 29, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS

PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

(Mark one)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2006.

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____.

Commission file number: 0-12104

IMMUNOMEDICS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**61-1009366**
(State of incorporation)	**(I.R.S. Employer Identification No.)**
300 American Road, Morris Plains, New Jersey	**07950**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (973) 605-8200

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $0.01 par value	NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

Series G Junior Participating Preferred Stock, $0.01 par value

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

Indicate by check whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes ¨ No x

The aggregate market value of the registrant s common stock held by non-affiliates computed by reference to the price at which the common stock was last sold as of December 31, 2005 was $140,600,859. The number of shares of the registrant s common stock outstanding as of August 22, 2006 was 57,538,031.

Documents Incorporated by Reference:

Certain information required in Part III of this Annual Report on Form 10-K will be set forth in, and incorporated from the registrant s Proxy Statement for the 2006 Annual Meeting of Stockholders, which will be filed by the registrant with the Securities and Exchange Commission not later than 120 days after the end of the registrant s fiscal year ended June 30, 2006.

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PART I

Item 1. ***Business***

Introduction

Immunomedics, Inc. (the Company, we, our, or us) is a biopharmaceutical company focused on the development of monoclonal antibody-based products for the targeted treatment of cancer, autoimmune and other serious diseases. We have developed a number of advanced proprietary technologies that allow us to create humanized antibodies that can be used either alone in unlabeled, or naked form, or conjugated with radioactive isotopes, chemotherapeutics or toxins, in each case to create highly targeted agents. Using these technologies, we have built a pipeline of therapeutic product candidates that utilize several different mechanisms of action. We have recently licensed our lead product candidate, epratuzumab, to UCB, S.A. (UCB) for the treatment of all autoimmune disease indications (see Strategic Partnering and Relationships). We have retained the rights for epratuzumab in oncology indications for which UCB has been granted a buy-in option. UCB has development, manufacture and commercialization rights, worldwide, and is responsible for the two pivotal Phase III trials evaluating epratuzumab for the treatment of patients with moderate and severe lupus. At present, there is no cure for lupus and no new lupus therapy has been approved in the U.S. in the last 40 years. We believe that our portfolio of intellectual property, which includes 108 issued patents in the United States and more than 250 other issued patents worldwide, is essential to protecting our product candidates and technologies.

Therapeutic Product Candidates

We currently have antibody product candidates in clinical development targeting B-cell non-Hodgkin s lymphoma (NHL), other B-cell medicated diseases and various solid tumors. All of our therapeutic product candidates are humanized antibodies, which means that the portion of the antibody derived from mouse (murine) DNA sequences is generally less than 10%.

We believe that each of our antibodies has therapeutic potential either when administered alone or when conjugated with therapeutic radioisotopes (radiolabeled), chemotherapeutics or other toxins to create unique and potentially more effective treatment options. The attachment of various compounds to antibodies is intended to allow the delivery of these therapeutic agents to tumor sites with greater precision than conventional radiation therapy or chemotherapeutic approaches. This treatment method is designed to reduce the total exposure of the patient to the therapeutic agents, which ideally minimizes debilitating side effects. We are currently focusing our efforts on unlabeled, or naked antibodies and antibodies conjugated with drugs or toxins, and on the use of radioisotopes, such as Yttrium-90, sometimes referred to as Y-90, and Iodine-131, sometimes referred to as I-131.

We also have a number of other product candidates that target solid tumors and hematologic malignancies and other diseases in various stages of pre-clinical development, although it is too early to assess which of these, if any, will merit further evaluation in clinical trials. In an effort to permit an effective use of our resources, our clinical development focus has been reduced to three different antibodies in a limited number of indications.

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The table below summarizes the status of our current therapeutic product candidates in clinical development, which assumes we will obtain adequate financing to continue these trials of which there is no assurance:

Program and Product Candidate	*Description/Target Antigen*	*Disease Indication*	*Development Status*
CD22 Program: Epratuzumab			
IMMU-103	Unlabeled CD22 antibody	Non-Hodgkin s lymphoma (NHL)	Phase II clinical trials completed
IMMU-102	Y-90-labeled CD22 antibody	Non-Hodgkin s lymphoma	Phase I/II clinical trials ongoing
CD20 Program			
IMMU-106	Unlabeled CD20 antibody	Non-Hodgkin s lymphoma	Phase I/II clinical trial ongoing
PAM4 Program			
IMMU-107	Y-90-labeled PAM4 antibody	Pancreatic cancer	Phase I/II clinical trial ongoing

CD22 Program: Epratuzumab

Our most advanced therapeutic product candidate, IMMU-103, is an unlabeled humanized antibody which targets an antigen, known as CD22, found on the surface of B-lymphocytes, a type of white blood cells. Our humanized CD22 antibody has been shown not to evoke any substantial anti-epratuzumab antibodies in NHL patients, even after repeated dosing, making it a potentially good candidate for treating patients with a chronic, autoimmune diseases.

In October 2004, updated clinical results of epratuzumab in patients with systemic lupus erythematosus (SLE) were presented at the 68th annual scientific meeting of American College of Rheumatology/Association of Rheumatology Health Professionals. The objective of the open label, single-center study was to evaluate the safety, tolerability, lack of immunogenicity and early evidence of efficacy of epratuzumab, which was administered as a single agent every other week, for a total of four doses. A scoring system called BILAG (British Isle Lupus Assessment Group) was used to measure the level of disease activity in these patients prior to, and at several time points post administration of epratuzumab. Patients with mild to moderate SLE activity (defined by Global BILAG scores of 6-12 prior to treatment) were enrolled. A high BILAG score indicates increased disease activity.

SLE assessments after treatment demonstrated consistent clinical improvement, with decreased global BILAG scores for all fourteen enrolled patients compared to the pre-therapy scores. Specifically, nine out of fourteen patients (64%) had lowered their pre-treatment global BILAG scores by 50% or more, twenty-four hours post-therapy. Furthermore, six of the seven patients who had returned for their six-month check-up retained clinical benefit. In all patients, the treatment was well tolerated with infusions completed in about one hour, and no evidence of reactions or immunogenicity.

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Based on these positive results, we submitted an application to the U.S. Food and Drug Administration (FDA) for Fast Track designation and in January 2005, received notice from the agency granting epratuzumab Fast Track Product designation for the treatment of patients with moderate and severe SLE. The fast track programs of the FDA are designed to facilitate drug development and to expedite the review of new drugs that are intended to treat serious or life threatening conditions, and that demonstrate the potential to address unmet medical needs. As such, the fast track designation allows for close and frequent interaction with the agency. A designated fast track drug may also be considered for priority review with a shortened review time, rolling submission and accelerated approval if applicable.

In May and June 2005, we initiated two pivotal Phase III clinical trials to further evaluate the safety and efficacy of epratuzumab for the treatment of patients with moderate and severe SLE. These pivotal trials are designed as randomized, double-blinded, placebo-controlled, multi-center studies using the BILAG index to monitor and assess disease activity. The trials have been named ALLEVIATE or Alleviate Lupus Affliction with Epratuzumab and Validate its Autoimmune Safety and Efficacy. One trial, ALLEVIATE A, is for patients with severe SLE flares, and the second trial, ALLEVIATE B, is for patients with moderately active SLE.

SLE is a serious autoimmune disease affecting approximately 1.5 million Americans, according to the Lupus Foundation of America. In the U.S., women with SLE outnumber men by a ratio of nine to one, and 80% of female patients develop lupus between the ages of 15 and 45. At present, there is no cure for lupus and no new lupus drug has been approved in the U.S. for nearly 40 years. Lupus most often results in chronic inflammation and pain affecting various parts of the body, especially the skin, joints, blood, and kidneys. The disease can be serious and life threatening. Current treatments include corticosteroids, nonsteroidal anti-inflammatory drugs, immunosuppressives, and antimalarials.

A second autoimmune disease that we have evaluated with epratuzumab is Sjögren s syndrome, a disease that currently affects between 2 to 4 million Americans. We presented results from our open-label, non-randomized, two-center Phase I/II trial in June 2005, at the European League Against Rheumatism (EULAR) Annual European Congress of Rheumatology. Seventeen patients with primary Sjögren s syndrome were enrolled in this study to assess feasibility, safety, and early evidence of efficacy. Over an eight-week period, patients received 360 mg/m^2 of epratuzumab every two weeks for a total of four doses. Fourteen patients received all four infusions without reactions, with a median infusion time of fifty minutes. One patient discontinued the third infusion due to an acute infusion reaction, but completed the fourth infusion with no further reaction.

Patients reported improvements in their clinical signs and symptoms that include: dry eyes, dry mouth, fatigue, tender joints, tender points, tear and salivary flow. Specifically, twenty-four hours after the last treatment, symptomatic improvements ranging from 100% of patients experiencing tender joints to 33% of patients with salivary flow were observed. Moreover, when these patients were evaluated twelve weeks post therapy, 86% of patients who showed tender joints improvement retained clinical benefit, as did 20% of patients with increased salivary flow. Follow-up in these patients is ongoing.

Epratuzumab seems to show activity causing a mild decrease in the number of circulating B-lymphocytes, thus perhaps reducing the risk of infection. Consistent with our past clinical experience with the antibody, we have found a reduction of 50% to 60% in circulating B-cells in the patients enrolled in both the SLE and Sjögren s syndrome trials. These data suggest that B-cell modulation may be the primary mechanism of action of epratuzumab, and that complete depletion of B-cells is not necessary to provide a clinical benefit.

Epratuzumab has also demonstrated good safety, tolerability, and clinical efficacy in more than 340 patients with non-Hodgkin s lymphoma. Results from our clinical trials in patients with NHL have been published in *The Journal of Clinical Oncology* and *Clinical Cancer Research.*

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On May 9, 2006 we entered into a Development, Collaboration and License Agreement (the UCB Agreement) with UCB, providing UCB an exclusive worldwide license to develop, manufacture, market and sell epratuzumab for the treatment of all autoimmune disease indications. Under the terms of the UCB Agreement, we retain the rights to develop epratuzumab in the field of oncology, and UCB has an option to acquire development and commercialization rights to epratuzumab with respect to cancer indications at anytime prior to the first commercial sales thereof. If UCB exercises its buy-in right with respect to epratuzumab in the field of oncology, UCB will reimburse us for the development cost actually incurred, plus a buy-in fee. Under the terms of the UCB Agreement, we received initial cash payments totaling $38 million from UCB, which includes a $25 million upfront payment, plus a $13 million reimbursement for development costs of epratuzumab related to our clinical development of epratuzumab in patients with certain autoimmune conditions prior to the date of the UCB Agreement.

We determined that all elements under the UCB Agreement should be accounted for as a single unit of accounting under EITF 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables.* In accordance with SAB No. 104 (Topic 13, *Revenue Recognition)*, deferral of revenue is appropriate regarding nonrefundable, upfront fees received in single unit of accounting arrangements. As we have continuing obligations under the UCB Agreement, we recorded the $38 million payment as deferred revenue. We are recognizing this deferred revenue over our best estimate of the period of time required to fulfill our obligations under the UCB Agreement. Accordingly, we recognized $1,520,000 as License Fee Revenues during the 2006 fiscal year, with the remaining balance recorded as Deferred Revenue in the balance sheet that currently is being amortized through November 2009.

While the clinical results to date have been encouraging, we are not able to determine when, if ever, epratuzumab will be approved for sale in the U. S. or anywhere else. Even if it is approved, there can be no assurance that it will be commercially successful or that we will ever receive revenues equal to our financial investment in this product candidate.

CD20 Program

Similar to CD22, CD20 is an antigen that is expressed on B-lymphocytes. Rituximab is a chimeric antibody (comprised of one-third mouse and two-thirds human protein) that binds to the CD20 antigen. IMMU-106 is our humanized CD20 antibody (90-95% human and the remainder mouse) constructed of binding sites to CD20, which makes it very similar to rituximab in affinity and potency. IMMU-106 is currently in Phase I/II clinical trials in patients with NHL. We believe our Company is the first to bring a humanized CD20 antibody into clinical testing. We also believe that this humanized CD20 antibody may be less immunogenic than those with increased mouse protein, and therefore, may be more appropriate to use in patients where repeated dosing would be required, or patients with well preserved immune systems (e.g., patients with autoimmune diseases).

PAM4-Y-90 Program

PAM4 or IMMU-107 is our solid tumor therapeutic product candidate. It is a humanized monoclonal antibody highly specific for pancreatic cancer. Preclinical studies in mice with transplanted human pancreatic cancer have demonstrated that the antibody labeled with Y-90, has activity by itself as well as in combination with gemcitabine, a radiosensitizing chemotherapeutic that is commonly used to treat this disease. In fact, the combination appeared to be more effective than either IMMU-107 or gemcitabine alone. A dose-escalation Phase I/II study is currently ongoing for patients with pancreatic cancer. We intend to also evaluate IMMU-107 in combination with gemcitabine in future clinical trials.

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CD22-Y-90 Program

IMMU-102 (Y-90-labeled epratuzumab) is our radiolabeled CD22 antibody product candidate being evaluated in patients with NHL. Radioimmunotherapy (RAIT) combines the targeting power of monoclonal antibodies with the cell-damaging ability of localized radiation. When infused into a patient, these radiation-carrying antibodies circulate in the body until they locate and bind to the surface of specific cells, and then deliver their cytotoxic radiation more directly too the cells. This therapy, unlike chemotherapy, mainly selects cancer cells, has fewer side effects, and may be administered on an outpatient basis.

Current RAIT treatments for NHL such as tositumomab and ibritumomab tiuxetan are radiolabeled murine antibodies targeting the CD20 antigen on the surface of mature B-lymphocytes and B-lymphocyte tumors. Epratuzumab is a humanized monoclonal antibody that targets the CD22 antigen on B-lymphocytes. The internalizing property of epratuzumab is well suited for delivering radiation from the potent radioisotope, yttrium-90, selectively and locally to lymphoma cells that express the CD22 antigen. Moreover, because epratuzumab is humanized, IMMU-102 can potentially be administered to patients repeatedly in smaller doses than the regimens used by tositumomab and ibritumomab tiuxetan. Researchers found that splitting the dose over two or three fractions made it tolerable to patients while delivering higher radioactivity to tumor cells. We continue to evaluate IMMU-102 in a Phase I/II dose-escalation trial being conducted in Europe. This clinical trial is examining the safety and efficacy of IMMU-102 in patients with indolent or aggressive NHL who have had a relapse of disease following standard chemotherapy.

CEA Program

We have developed another solid tumor therapeutic product candidate that targets an antigen known as carcinoembryonic antigen, or CEA. The CEA antigen is abundant at the site of virtually all cancers of the colon and rectum, and is associated with many other solid tumors, such as breast and lung cancers. We are not currently conducting clinical trials with our CEA antibody, or IMMU-111 however, we are providing clinical supplies for an investigator-sponsored Phase II clinical trial in Germany, evaluating repeat dosing in patients with resected liver metastases of colorectal cancer.

IMMU-111, our I-131-labeled CEA antibody, has been tested in a single-center, Phase II trial in Europe in patients with proven metastatic colorectal cancer after surgical resection of their liver metastases. Twenty-three patients who underwent surgery for liver metastases of colorectal cancer received a dose of 40 60 mCi/m^2 of IMMU-111. Safety, disease-free survival and overall survival were determined and compared retrospectively to similar control patients treated at the same institution and in a similar timeframe, but without receiving IMMU-111. At the 41st Annual Meeting of the American Society of Clinical Oncology in May 2005, we reported that, with a median follow-up of 64 months, median overall survival on 19 assessable patients from the first liver resection was 68.0 months vs. 31.0 months for the control group. Disease-free survival for IMMU-111 patients had a median of 18.0 months vs. 12.0 months for the controls. Five-year survival was 51.3% for the IMMU-111 and 7.4% for the control groups. We believe that these initial results with IMMU-111 are encouraging, and will need to be confirmed in future prospectively randomized trials comparing those receiving IMMU-111 with patients receiving standard care.

IMMU-100, the unlabeled form of our CEA antibody, also called Labetuzumab, has completed a Phase I/II dose-escalation trial in patients with colorectal or breast cancer. This trial was performed to demonstrate the safety of administering repeated high doses of the unlabeled CEA antibody so that future trials could examine unlabeled antibody combined with chemotherapy in various solid tumors. This is because preclinical results suggested that this antibody is capable of enhancing the effects of certain cancer drugs. Currently, we have no clinical studies ongoing with the naked CEA antibody.

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Our Y-90-labeled CEA antibody, IMMU-101, has completed two multicenter Phase I trials in patients with advanced colorectal or pancreatic cancer. Results from these studies, involving 15-18 patients each, showed tumor targeting, acceptable normal organ radiation doses, and defined the maximum tolerated dose for a single administration.

CD74 Program

CD74 is a rapidly internalizing type-II transmembrane chaperone molecule associated with MHC class II. It actively directs transport from the cell surface to an endosomal compartment and as such is a unique target for antibody-drug immunoconjugate therapy. We have observed high expression of CD74 in human non-Hodgkin s lymphoma and multiple myeloma clinical specimens and cell lines, and have developed IMMU-115, a naked humanized antibody, targeting the CD74 antigen. In preclinical studies, IMMU-115 has demonstrated activity in animal models of non-Hodgkin s lymphoma and multiple myeloma with doses as low as 25µg. Benefits were greater in the myeloma model, in which median survival time was increased more than 4.5-fold. We plan to begin Phase I/II clinical trials with IMMU-115 in patients with multiple myeloma in the next several months.

IMMU-110 is the CD74 antibody conjugated with the cancer drug, doxorubicin. This antibody was chosen as our first drug immunoconjugate because of its rapid internalization into CD74-expressing cells. Preclinical in vitro results demonstrated that IMMU-110 binds specifically to CD74-expressing non-Hodgkin s lymphoma and multiple myeloma cell lines with sub-nanomolar affinity, and produces a cytotoxicity level approaching that of free doxorubicin. No significant difference was observed between the drug immunoconjugate and the naked antibody in their pharmacokinetic and biodistribution profiles. *In vivo* efficacy studies in human NHL and multiple myeloma animal models, demonstrated that IMMU-110, given as a single injection, was efficacious with doses as low as 35µg and administration as late as ten days after tumor cell inoculation. Antibody-targeted selective delivery of anticancer drugs against antigens expressed on cancer cells can potentially improve the therapeutic index of anticancer drugs.

Diagnostic Imaging Products

We have transitioned our focus away from the development of diagnostic imaging products in order to accelerate the development of our therapeutic product candidates. Consistent with our de-emphasis on our diagnostic business, during the 2006 fiscal year we ceased commercialization of CEA-Scan. We will continue to be manufacture and commercialize LeukoScan in territories where regulatory approvals have been granted. Furthermore, as of June 30, 2006, research and development into diagnostic product candidates was no longer a material portion of our business.

LeukoScan

LeukoScan® uses a mouse monoclonal antibody fragment that first targets and then binds to a type of white blood cell known as a granulocyte. These cells are associated with a potentially wide range of infectious and inflammatory diseases.

Research and Development Programs

We have historically invested heavily in our research and development programs, spending approximately $22,781,000 for these programs during fiscal year ended June 30, 2006, $27,028,000 for these programs during the fiscal year ended June 30, 2005 and $21,934,000 for these programs during the fiscal year ended June 30, 2004. We intend to continue to commit funds for product development, however, in the future UCB will assume the expenses related to the SLE clinical trials. The above discussion is a brief summary of our principal research and development programs as of August 11, 2006.

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Other Antibody-Directed Therapy Approaches

Our majority owned subsidiary, IBC Pharmaceuticals, Inc. (IBC), has been working since 1999 on the development of novel cancer radiotherapeutics using patented pre-targeting technologies with proprietary, bi-specific antibodies. This pre-targeting technique involves the administration of an unlabeled antibody to the patient on day one, followed by the administration of a separate radionuclide or other therapeutic, conjugated to a peptide, a few days later. This delay permits the patient s body to eliminate antibodies, which have not bound to the disease site and are therefore superfluous. A second recognition group is then attached, either to the radionuclide or therapeutic drug, such that the radionuclide or drug is localized to the antibody pre-targeted to the tumor site. Using such methods in pre-clinical human tumor models, target-to-blood uptake ratios of radionuclide have been improved by up to forty times compared to the use of antibodies radiolabeled in the conventional manner. While this advantage is somewhat offset by the greater complexity involved in multiple administration and timing of reagents, after achieving promising results from animal studies on this technology, we have decided to continue clinical studies in France using Iodine-131 as the therapeutic agent and a bi-specific antibody having our humanized anti-CEA antibody.

A Phase I clinical trial, which has defined the maximum tolerated dose of the I-131 peptide, and the optimal dose of the bispecific CEA antibody and the interval between the unlabeled chemically conjugated bispecific antibody and the labeled peptide, has been completed in France. Evidence of good tolerability and disease stabilization were reported for this trial at scientific meetings, including the June 2004 51st Annual Meeting of the Society of Nuclear Medicine. Based on the positive outcome of the Phase I study, a multicenter Phase II study in patients with medullary thyroid cancer (MTC) has been initiated and will be supported, assuming that there is adequate financing available to fund this trial. The primary objective of this study is to confirm feasibility and safety, and to assess efficacy in this rare disease with very limited therapeutic options.

Preclinical studies by IBC continue for the development of new bispecific antibodies (fusion proteins) and peptides for improved targeting and treatment strategies, including multiple binding-arms for the tumor-targeting antibody and new carrier peptides that allow attachment of different kinds of therapeutic and diagnostic isotopes. Some of these results have been published in prominent cancer journals, such as Cancer Research and Clinical Cancer Research, and also at cancer conferences, such as the 2004 Annual Meeting of the American Association for Cancer Research. One or more of these new forms of each of the two reagents are being studied and tested for potential further clinical development. We believe that this new pre-targeting system may constitute the next generation of cancer radioimmunotherapy, and may also be applicable for the more targeted delivery of cancer drugs.

Peptides

During the past year, we continued to refine our proprietary methods for the radiolabeling of peptides with technetium-99m (Tc-99m) to the point where we are now capable of producing these peptides at clinical-scale levels using single-vial kits. These methods will be generally applicable to the preparation of radioconjugates and will enable rapid evaluation of different peptide-receptor systems. In related work, similar synthetic methods have also been used to prepare peptide conjugates that can be radiolabeled with Iodine-124, Gallium-68 (Ga-68), Indium-111 and Yttrium-90, which are being applied to the bi-specific pre-targeting technology that is being developed through IBC. We believe that these developments may allow for the introduction of a new class of diagnostic imaging agents using both traditional gamma-emitting isotopes, such as Tc-99m, and positron-emitting isotopes, such as I-124 and Ga-68, particularly since pre-targeting methods being developed with IBC are showing very high tumor/normal tissue ratios.

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Dock-and-Lock Platform Technology

We have developed a new platform technology, named the Dock-and-Lock (DNL) method, which has the potential for making a considerable number of bioactive molecules of increase complexity. The initial validation of the DNL method was provided by the successful generation of a series of trivalent bispecific binding proteins consisting of two identical antibody-Fab fragments tethered site-specifically to a different Fab fragment via a pair of distinct linker modules found in nature. The first of such trimeric Fab-based proteins, TF2, has been produced in high yields and shown to be a superior pretargeting agent for imaging CEA-positive human tumor xenografts in mice, thus these stably tethered multifunctional structures of defined composition made by the dock and lock method may be used for cancer targeting. More recent preclinical results obtained with TF2 also demonstrate excellent visualization of micrometastases in the lungs using positron-emisison tomography (PET) scanning.

The DNL method judiciously combines conjugation chemistry and genetic engineering to enable not only the creation of novel human therapeutics, but potentially also the construction of improved recombinant products over those currently on the market. Therefore, in the near term, we plan to demonstrate its commercial potential by producing new versions of several successful biotechnology products with enhanced potency and better bioavailability. Meanwhile, the versatile and modular DNL method may allow us to expand the existing product portfolios to include multivalent, multispecific antibodies, immunodrugs, and various types of vaccines for preclinical and clinical development.

Patents and Proprietary Rights

Our Patents

We have accumulated a sizeable portfolio of patents and patent applications in the course of our business, which we believe constitutes a very valuable business asset. Some of these patents relate to our diagnostic imaging products and product candidates, while others relate to our therapeutic product candidates. Still others relate to our technologies and other discoveries for which no product candidate has yet been identified. While the issuance of a patent does not in itself assure us that our intellectual property rights will remain secure, we believe that we have taken all reasonable steps necessary to protect our technologies and inventions from misappropriation by others. As of August 11, 2006, this portfolio included 108 issued U.S. patents. In addition, as of such date the portfolio included more than 250 issued foreign patents, with a number of U.S. and foreign patent applications pending. We are aware of certain issued patents, as well as other patents pending, which are owned by competitors of ours and, to the extent they are determined to contain valid and enforceable claims, could result in a legal determination that our products or technologies are infringing. This would result in our needing to obtain a license under such patents, which might not be available on commercially reasonable terms, if at all. While we do not presently believe that this will impair in any material respect our ability to operate our business and commercialize our therapeutic product candidates, we cannot assure you that it will not adversely affect our business.

Our Licenses

We have obtained licenses from various parties for rights to use proprietary technologies and compounds. Included in the foregoing discussion of patents is one U.S. patent and foreign counterparts, to which we have a right pursuant to an exclusive license granted by Dr. David M. Goldenberg, our Chairman and Chief Strategic Officer. We also have certain rights with respect to patents and patent applications owned by the Center for Molecular Medicine and Immunology, or CMMI, by virtue of a license agreement between CMMI and us. Dr. Goldenberg is the founder, President and member of the Board of Trustees of CMMI. In addition, we have certain rights with respect to patents and patent applications assigned solely to the National Institutes of Health (NIH) or jointly to NIH and us, as well as

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with respect to certain patent applications assigned to the University of Massachusetts. We also acquired rights to patents and patent applications assigned or licensed to IBC by virtue of our acquisition of a controlling interest in IBC.

In July 1998, we signed a license agreement with Dako A/B to license our worldwide patents for specific anti-CEA monoclonal antibodies, which Dako markets for *in vitro* use. In June 2002, we entered into a non-exclusive license to Daiichi Pure Chemicals Co. under these patents, which included an up-front payment of $825,300. In addition, we recorded royalty income of $300,000 for the year ended June 30, 2006, $250,000 for the year ended June 30, 2005 and $183,000 for the year ended June 30, 2004.

It is our policy to vigorously defend our intellectual property rights where appropriate. Accordingly, at any time, and from time to time, we may be engaged in licensing discussions with other parties that we believe may be infringing our patents or other intellectual property rights.

Our Trademarks

The mark IMMUNOMEDICS is registered in the U.S. and 36 foreign countries and a European Community Trademark has been granted. Our logo is also registered in the U.S. and in two foreign countries. The mark IMMUSTRIP is registered in the U.S. and Canada. The mark CEA-SCAN is registered in the U.S. and 21 foreign countries, and a European Community Trademark has been granted. The mark LEUKOSCAN is registered in the U.S. and 11 foreign countries, and a European Community Trademark has been granted. The mark LYMPHOSCAN is registered in the U.S. and nine foreign countries, and a European Community Trademark has been granted. The mark CEA-CIDE is registered in the U.S. and 14 foreign countries, and a European Community Trademark has been granted. The mark LYMPHOCIDE is registered in the U.S., and a European Community Trademark has been granted. In addition, we have applied for registration in the U.S. for several other trademarks for use on products now in development or testing, and for corresponding foreign and/or European Community Trademarks for certain of those marks.

Our Trade Secrets

We also rely upon unpatented trade secrets, and we cannot assure you that others will not independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets or disclose such technology, or that we can meaningfully protect such rights. We require our employees, consultants, outside scientific collaborators, sponsored researchers and other advisers to execute confidentiality agreements upon the commencement of employment or consulting relationships with us. These agreements provide that all confidential information developed or made known to the individual during the course of the individual s relationship with us is to be kept confidential and not disclosed to third parties except in specific circumstances. In the case of our employees, the agreement provides that all inventions conceived by such employees shall be our exclusive property. There can be no assurance, however, that these agreements will provide meaningful protection or adequate remedies for our trade secrets in the event of unauthorized use or disclosure of such information.

Third Party Rights

Our success also depends in part on our ability to gain access to third party patent and proprietary rights and to operate our business without infringing on third party patent rights. We may be required to obtain licenses to patents or other proprietary rights from third parties to develop, manufacture and commercialize our product candidates. Licenses required under third-party patents or proprietary rights may not be available on terms acceptable to us, if at all. If we do not obtain the required licenses, we could encounter delays in product development while we attempt to redesign products or methods or we could be unable to develop, manufacture or sell products requiring these licenses at all.

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Strategic Partnering and Relationships

UCB S.A.

On May 9, 2006 we entered into the UCB Agreement providing UCB an exclusive worldwide license to develop, manufacture, market and sell epratuzumab, our humanized CD22 antibody, for the treatment of all autoimmune disease indications. Under the terms of the UCB Agreement, we retain the rights to develop epratuzumab in the field of oncology, and UCB has an option to acquire development and commercialization rights to epratuzumab with respect to cancer indications at anytime prior to the first commercial sales thereof. If UCB exercises its buy-in right with respect to epratuzumab in the field of oncology, UCB will reimburse us for the development cost actually incurred, plus a buy-in fee.

Under the terms of the UCB Agreement, we received initial cash payments from UCB totaling $38 million, which includes a $25 million upfront payment, plus a $13 million reimbursement for development costs of epratuzumab related to our clinical development of epratuzumab in patients with certain autoimmune conditions prior to the date of the UCB Agreement. As we have continuing obligations under the UCB Agreement we recorded the $38 million payment as deferred revenue. We are recognizing this deferred revenue over our best estimate of the period of time required to fulfill our obligations under the UCB Agreement. Accordingly, we recognized $1.5 million as License Fee Revenues during the 2006 fiscal year, with the remaining balance recorded as Deferred Revenue that currently is being amortized through November 2009.

In addition, we are entitled to receive regulatory milestone payments, which could aggregate to a maximum of up to $145 million in cash payments and $20 million in equity investments. These milestone payments are dependent upon specific achievements in the regulatory approval process under the UCB Agreement. We will also receive product royalties based upon a percentage of aggregate annual net sales during the product royalty term, which percentage is subject to reduction under certain circumstances. In addition, we are entitled to receive sales bonuses of up to $135 million upon annual net sales reaching certain target levels. There can be no assurance that these regulatory or sales achievements will be met and therefore there can be no assurance that the Company will receive such future payments.

The UCB Agreement calls for the creation of a global autoimmune guidance committee, with equal representation by UCB and us, to plan and oversee the conduct and progress of the development and commercialization of epratuzumab. UCB has the deciding vote on the committee. UCB will be solely responsible for the development, manufacturing and commercialization of epratuzumab for the treatment of all autoimmune indications and for the continuation of ongoing clinical trials in SLE, with Immunomedics responsible for supplying epratuzumab for the completion of clinical trials relating to SLE. We are also obligated to manufacture and supply epratuzumab, if needed and at UCB s request, for the initial commercial launch of epratuzumab for the treatment of SLE and for certain future clinical trials if necessary. The manufacturing requirements are limited by our present production capacity. UCB will have sole responsibility for all clinical development, regulatory filings and related submissions, as well as all commercialization activities with respect to epratuzumab in all autoimmune indications.

The UCB Agreement commenced on May 9, 2006 and shall terminate in accordance with the terms thereof or by mutual written consent, unless UCB decides to cease all development and commercialization of epratuzumab pursuant to the UCB Agreement. Either Immunomedics or UCB has the right to terminate the UCB Agreement by notice in writing to the other party upon or after any material breach of the UCB Agreement by the other party, if the other party has not cured the breach within 60 days after written notice to cure has been given, with certain exceptions.

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Other Collaborations

We conduct research on a number of our programs in collaboration with a not-for-profit organization called The Center for Molecular Medicine and Immunology, or CMMI, and its clinical unit, the Garden State Cancer Center. CMMI performs contracted pilot and pre-clinical trials in scientific areas of importance to us and also conducts basic research and pre-clinical evaluations in a number of areas of potential interest to us. Dr. David M. Goldenberg, our Chairman of the Board and Chief Strategic Officer, is the President and a Trustee of CMMI.

In fiscal 2006 the Company received a Phase I Grant Award from the National Institute of Health for a six-month period. The award for $134,000 is entitled An Anti-CD74 MAb-drug Conjugate for B-Cell Malignancies. The objective of this Small Business Innovative Research (SBIR) investigation is to determine if a doxorubicin (dox) conjugate of the humanized, anti-CD74, monoclonal antibody, hLL1, would be a suitable agent for subsequent development for a clinical Phase I trial against CD74-positive B cell malignancies. Project feasibility will be documented with a scaled-up preparation of dox-hLL1 conjugate and demonstration of its therapeutic efficacy in an animal model of human multiple myeloma.

Also in fiscal 2006 we received a Phase I Grant Award from the National Institute of Health for a six-month period. The award for $134,000 is entitled F-18 labeled Peptides for Pretargeted PET Imaging of Pancreatic Cancer. The objective of this SBIR investigation is to develop a pancreatic cancer imaging method that uses F-18 labeled peptide in conjunction with bispecific antibody pretargeting, for improved early diagnosis of the disease. With pretargeting methodology already well-established, the goal of the SBIR Phase I feasibility will be to identify a practical synthetic method to radiolabel the targeting peptide, containing two haptens, with 4-F-18 fluorobenzaldehyde.

In 2005 we received a Phase I Grant Award from the National Institute of Health for a six-month period. The $134,000 award was entitled Tetravalent bispecific fusion antibody for Immunotherapy . The objectives of this SBIR investigation is to develop a tetravalent bispecific fusion protein derived from two different humanized antibodies against human CD22 and CD20, and to explore the potentials of utilizing this tetravalent bispecific antibody (bsAb) as a single agent for treatment of patients with B-cell cancers to further improve the efficacy, safety, and convenience of the combination therapy. In Phase I, the fusion bsAb will be engineered by recombinant technology and expressed in a mammalian cell line, and high-level bsAb-producing clones suitable for industrial scale production will be developed. In this preliminary stage of a new drug development, the physical, biochemical, and immunological properties of the recombinant bsAb will be thoroughly characterized. In addition, in vitro and in vivo characteristics of the bsAb against malignant B-cells will be evaluated.

In 2004 we received two SBIR Phase I Grant Awards from the National Cancer Institute, one for $86,000, and one for $100,000, each budgeted for a six-month period. The first award, entitled Molecular Imaging by Affinity Enhancement PET will be applied to investigate the use of bispecific antibodies and gallium-68-radiolabeled bivalent peptides for specific targeting of disease and possible improved detection using positron emission tomography, or PET. The combination of bispecific antibodies with rapidly targeting and systemically clearing low molecular weight gallium-68-radiolabeled agents, married to the sensitivity of PET detection techniques, may lead to an entire new class of disease-specific imaging agents. The second award, entitled Minimal Disease Radioimmunotherapy of Colorectal Cancer, will be applied to study the potential treatment of colorectal cancer using a humanized, high affinity, anti-CEA humanized monoclonal antibody, hMN-14, and an intracellularly-trapped residualizing form of iodine-131 radionuclide. This iodine-131-radiolabeled antibody, produced using our proprietary radioiodination technology, is designed to solve the problem of *in vivo* deiodination associated with directly radioiodinated MAbs, and thereby deliver an enhanced dose of radiation to targeted tumor cells.

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We also collaborate with numerous other academic and research centers. Our academic collaborators have included such institutions as the Erasme University Hospital, Brussels, Belgium; University of Nijmegen, The Netherlands; INSERM, Nantes, France; University of Göttingen, Germany; University of Marburg, Germany; New York Presbyterian Hospital Cornell Medical College; University of Massachusetts; Fox Chase Cancer Center; and Brigham & Women s Hospital-Harvard Medical School. We believe these ongoing research efforts will identify new and improved products and techniques for diagnosing and treating various cancers and infectious diseases.

Government Regulation

Regulatory Compliance

Our research and development activities, including testing in laboratory animals and in humans, our manufacture of antibodies, as well as the handling, labeling and storage of the product candidates that we are developing, are all subject to stringent regulation, primarily by the FDA in the U. S. and by comparable authorities in other countries. If for any reason we are unable to comply with applicable requirements there will likely occur various adverse consequences, including one or more delays in approval, or even the refusal to approve, product licenses or other applications, the suspension or termination of clinical investigations, the revocation of approvals previously granted, as well as fines, criminal prosecution, recall or seizure of products, injunctions against shipping products and total or partial suspension of production and/or refusal to allow us to enter into governmental supply contracts.

The process of obtaining requisite FDA approval is costly and time consuming even in the best of circumstances. For a new human drug or biological product to be marketed in the United States, current FDA requirements include: (i) the successful conclusion of pre-clinical tests to gain preliminary information on the product s safety; (ii) the filing with the FDA of an Investigational New Drug, or IND, to conduct human clinical trials for drugs or biologics; (iii) the successful completion of human clinical investigations to establish the safety and efficacy of the product candidate for its intended indication; and (iv) the filing and then acceptance and approval by the FDA of a New Drug Application, or NDA, for a drug product, or a Biological License Application, or BLA, for a biological product, in either case to allow commercial distribution of the drug or biologic.

Among the conditions for an NDA or a BLA approval is the requirement that the applicable manufacturing, clinical, pharmacovigilance, quality control and manufacturing procedures conform on an ongoing basis with current Good Clinical Practices, or GCP, current Good Manufacturing Practices, or GMP, and computer information system validation standards. Before approval of a BLA, the FDA will perform a pre-licensing inspection of clinical sites, manufacturing facilities and the related quality control records to determine its compliance with these requirements. To assure compliance, applicants must continue to expend time, money and effort in the area of training, production and quality control. After the applicant is licensed for the manufacture of any product, manufacturers are subject to periodic inspections by the FDA. We will also face similar inspections coordinated by the European Medicine Agency, or EMEA, by inspectors from particular European Union member states that conduct inspections on behalf of the European Union.

The drug approval process is similar in other countries and is also regulated by specific agencies in each geographic area. Approval by the FDA does not ensure approval in other countries. In addition, even if we can obtain drug approval in other countries, it may require considerable more time to obtain such approval in the U. S. In European Union countries, Canada, and Australia, regulatory requirements

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and approval processes are similar in principle to those in the U. S. and can be as rigorous, costly and uncertain. Additionally, depending on the type of drug for which an applicant is requesting approval, there are currently two potential tracks for marketing approval in European Union countries: mutual recognition and the centralized procedure. These review mechanisms may ultimately lead to approval in all European Union countries, but each method grants all participating countries some decision-making authority in product approval.

Orphan Drug Act

To date, we have successfully obtained Orphan Drug designation by the FDA under the Orphan Drug Act of 1983 for IMMU-107 epratuzumab PAM4 and labetuzumab (IMMU-100). There can be no assurance, however, that our competitors will not receive approval of other different drugs or biologics for treatment of the diseases for which our products and product candidates are targeted.

Other Regulatory Considerations

We are also subject to regulation under the Occupational Safety and Health Act, the Toxic Substances Control Act, the Resource Conservation and Recovery Act, The Clean Air Act, and other current and potential future federal, state, or local regulations. Our research and development activities involve the controlled use of hazardous materials, chemicals, biological materials and various radioactive compounds. We believe that our procedures comply with the standards prescribed by state and federal regulations; however, the risk of injury or accidental contamination cannot be completely eliminated.

We are subject to the U.S. Foreign Corrupt Practices Act, which prohibits corporations and individuals from engaging in certain activities to obtain or retain business or to influence a person working in an official capacity. Under this act, it is illegal to pay, offer to pay, or authorize the payment of anything of value to any foreign government official, government staff member, political party or political candidate in an attempt to obtain or retain business or to otherwise influence a person working in an official capacity. Our present and future business has been and will continue to be subject to various other laws and regulations.

Pricing Controls

The levels of revenues and profitability of biopharmaceutical companies may be affected by the continuing efforts of government and third party payers to contain or reduce the costs of health care through various means. For example, in certain foreign markets, pricing reimbursement or profitability of therapeutic and other pharmaceutical products is subject to governmental control. In the U. S., there have been, and we expect that there will continue to be, a number of federal and state proposals to implement similar governmental pricing control. While we cannot predict whether any such legislative or regulatory proposals will be adopted, the adoption of such proposals could have a material adverse effect on our business, financial condition and profitability.

Third Party Reimbursement

In addition, in the U. S. and elsewhere, sales of therapeutic and other pharmaceutical products are dependent in part on the availability of reimbursement to the consumer from third party payers, such as government and private insurance plans. Third party payers are increasingly challenging the prices charged for medical products and services. We cannot assure you that any of our products will be considered cost effective and that reimbursement to the consumer will be available or will be sufficient to allow us to sell our products on a competitive and profitable basis.

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Competition

Competition in the biopharmaceutical industry is intense and based significantly on scientific and technological factors such as the availability of patent and other protection for technology and products, the ability to commercialize technological developments and the ability to obtain governmental approval for testing, manufacturing and marketing. We compete with specialized biopharmaceutical firms in the U.S., Europe and elsewhere, as well as a growing number of large pharmaceutical companies. A number of companies, including Biogen Idec, Genentech, Glaxo SmithKline, Hoffmann-LaRoche, Human Genome Sciences, Ligand Pharmaceuticals, Millennium Pharmaceuticals, Protein Design Laboratories, Genmab, Medarex, Amgen, Bristol-Myers Squibb and Schering AG, are engaged in the development of therapeutic autoimmune and oncology products. Many of these companies have significantly greater financial, technical and marketing resources than we do. Many major pharmaceutical companies have developed or acquired internal biotechnology capabilities or made commercial arrangements with other biopharmaceutical companies. These companies, as well as academic institutions, governmental agencies and private research organizations, also compete with us in recruiting and retaining highly qualified scientific, technical and professional personnel and consultants. Our ability to compete successfully with other companies in the biopharmaceutical field will also depend to a considerable degree on the continuing availability of capital to us.

We are aware of certain products under development or manufactured and commercialized by competitors that are used for the prevention, diagnosis or treatment of certain diseases that we have targeted for product development. In addition, we are aware of several companies that have potential antibody or other product candidates that target the same antigen as our lead product candidate, epratuzumab, as well as various other biopharmaceutical products that are likely to compete directly with our product candidates.

We expect that our products under development and in clinical trials will address major markets within the cancer and autoimmune disease sectors. Our competition will be determined in part by the potential indications for which drugs are developed and ultimately approved by regulatory authorities. Additionally, the timing of market introduction of some of our potential products or of competitors products may be an important competitive factor. Accordingly, the relative speed with which we can develop products, complete pre-clinical testing, clinical trials and approval processes and supply commercial quantities to market are expected to be important competitive factors. We expect that competition among products approved for sale will be based on various factors, including product efficacy, safety, reliability, availability, price, availability of reimbursement, patent position, manufacturing capacity and capability, distribution capability and government action. We cannot assure you that we will be able to compete successfully in any of these areas, and our inability to compete would materially and adversely affect our business prospects.

Marketing, Sales and Distribution

At present we have only limited marketing and sale capabilities as we focus our efforts on developing our therapeutic product candidates. We will continue to manufacture and market LeukoScan using our nuclear medicine technicians to work with our sales force and provide technical support directly to customers. We also have agreements with third parties to market LeukoScan® that provide customer support and distribution of the products.

Our European operations are headquartered in Darmstadt, Germany. We have also established sales representation in most major European markets. We service other markets through the appointment of local organizations that provide sales and marketing support as well as local product redistribution. In October 2001, we entered into a Distribution Agreement with Logosys Logistik GmbH. Under this agreement, Logosys packages and distributes LeukoScan® in the European Union since January 2002. We will continue to evaluate future arrangements and opportunities with respect to other products we may develop in order to optimize our profits and our distribution, marketing and sales capabilities.

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Manufacturing

We have completed the construction of a large-scale bioreactor facility at our Morris Plains, New Jersey location. This facility will be used for the production of all of our therapeutic product candidates for clinical trials, and potentially in commercial quantities as well. We are continuing the process validation, involving the production of antibodies for current and future clinical trials.

We manufacture LeukoScan® for commercial sale at our facility in Morris Plains. The Committee on Proprietary Medicinal Products of the European Commission approved the manufacturing facility and product manufacturing processes for LeukoScan in May 1998. In April 2005 we entered into an agreement with BAG GmbH, Lich, Germany for the final formulation, fill and lyophilization of LeukoScan. We also perform antibody processing and purification of all our therapeutic product candidates at this facility. We have scaled-up our antibody purification and fragmentation manufacturing processes for our diagnostic imaging agents to permit us to produce commercial levels of product. Our purification area consists of four independent antibody-manufacturing suites, several support areas, and quality control laboratories. As part of the UCB Agreement we are responsible for the manufacture of epratuzumab for the completion of the ongoing clinical trials relating for SLE, and if requested by UCB (and within our production capacity) to manufacture and supply the initial commercial launch of epratuzumab for the treatment of SLE and for certain future clinical trials for another autoimmune disease indication, if necessary.

Reliance on Third Parties

We currently rely on third parties to supply raw materials and to perform certain end-stage portions of the manufacturing process for our diagnostic imaging products (LeukoScan®). We do not currently have the resources necessary to perform these processes, and if our third party suppliers were to become unwilling or unable to do so for any reason, we would be unable to deliver these products to customers until we entered into an agreement with another qualified manufacturer. This could cause substantial delays in customer deliveries and adversely affect our results of operations.

On May 9, 2006 we entered into an agreement with UCB for the worldwide licensing of epratuzumab for the treatment of all autoimmune diseases. As part of the agreement, UCB will have the responsibility for all clinical development, regulatory filing and related submissions, as well as all commercialization activities with respect to epratuzumab in all autoimmune indications.

On June 1, 2005 we entered into an agreement with PPD Development LP (PPD), a clinical research organization, to manage the Phase III clinical trials for SLE. Upon the execution of the UCB Agreement, UCB assumed all responsibilities for the SLE clinical trials. PPD has assumed similar duties and responsibilities with UCB for the SLE clinical trials.

Manufacturing Regulatory Considerations

In addition to regulating and auditing human clinical trials, the FDA regulates and inspects equipment, facilities and processes used in the manufacturing of such products prior to providing approval to market a product. If after receiving clearance from the FDA, a material change is made in manufacturing equipment, location, or process, additional regulatory review may be required. We must also adhere to current Good Manufacturing Practice and product-specific regulations enforced by the FDA through its facilities inspection program. The FDA also conducts regular, periodic visits to re-inspect equipment, facilities, and processes following the initial approval. If, as a result of these inspections, the FDA determines that our equipment, facilities or processes do not comply with applicable FDA regulations and conditions of product approval, the FDA may seek civil, criminal or administrative sanctions and/or remedies against us, including the suspension of our manufacturing operations.

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Leuko-Scan® and certain of our other imaging agents are derived from the fluids produced in mice. Regulatory authorities, particularly in Europe, have expressed concerns about the use of these fluids for the production of monoclonal antibodies. These regulatory authorities may determine that our quality control procedures for these products are inadequate. In the event we have to discontinue the use of mouse fluids, we may not have the resources at the time to acquire the necessary manufacturing equipment and expertise that we will need to make the changes in our development programs.

Employees

As of August 11, 2006, we employed 106 persons on a full-time basis, of whom 19 were in research and development departments, 14 of whom were engaged in clinical research and regulatory affairs, 50 of whom were engaged in operations and manufacturing and quality control, and 23 of whom were engaged in finance, administration, sales and marketing. Of these employees, 35 hold M.D., Ph.D. or other advanced degrees. We believe that while we have been successful to date in attracting skilled and experienced scientific personnel, competition for such personnel continues to be intense and there can be no assurance that we will continue to be able to attract and retain the professionals we will need to grow our business. Our employees are not covered by a collective bargaining agreement, and we believe that our relationship with our employees is excellent.

Corporate Information

We were incorporated in Delaware in 1982. Our principal offices are located at 300 American Road, Morris Plains, New Jersey 07950. Our telephone number is (973) 605-8200. In addition to our majority-owned subsidiary, IBC, we also have two foreign subsidiaries, Immunomedics B.V. in The Netherlands and Immunomedics GmbH in Darmstadt, Germany, to assist us in managing sales and marketing efforts and coordinating clinical trials in Europe. Our web address is www.immunomedics.com. We have not incorporated by reference into this Annual Report on Form 10-K the information on our website, and you should not consider it to be a part of this document.

Our reports that have been filed with the Securities and Exchange Commission (SEC) are available on our website free of charge, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Forms 3,4 and 5 filed on behalf of directors and executive officers and any amendments to such reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act). Copies of this Annual Report on Form 10-K may also be obtained without charge electronically or by paper by contacting Investor Relations, Immunomedics, Inc., 300 American Road, Morris Plains, New Jersey 07950 or by calling (973) 605-8200.

In addition, we make available on our website (i) the charters for the committees of the Board of Directors, including the Audit Committee, Compensation Committee and Nominating and Board Governance Committee, and (ii) the Company s Code of Business Conduct and Ethics (the Code of Ethics) governing its directors, officers and employees. Within the time period required by the SEC, we will post on our website any modifications to the Code of Ethics, as required by the Sarbanes-Oxley Act of 2002.

The public may also read and copy the materials we file with the SEC at its Public Reference Room at 450 Fifth Street NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a web site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC.

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Item 1A. ***Risk Factors***

Factors That May Affect Our Business and Results of Operations

Our business is subject to certain risks and uncertainties, each of which could materially adversely affect our business, financial condition, cash flows and results of operations.

Risks Relating to Our Business, Operations and Product Development

We have a long history of operating losses and it is likely that our operating expenses will continue to exceed our revenues for the foreseeable future.

We have incurred significant operating losses since our formation in 1982, and have never earned a profit since that time. As of June 30, 2006, we had an accumulated deficit of approximately $204,000,000, including net losses of $28,764,000 and $26,758,000 for the years ended June 30, 2006 and 2005, respectively. In May 2006, we entered into an agreement with UCB, granting UCB the exclusive, worldwide license to develop, manufacture, market and sell epratuzumab, our humanized CD22 antibody, for all autoimmune disease indications. The only significant product sales we have earned to date have come from the limited sales of our two diagnostic imaging products in Europe and, to a lesser degree, the U. S.. We had previously licensed epratuzumab to Amgen in 2001, which agreement was terminated in April 2004. In addition, we have made the strategic decision to de-emphasize sales of our diagnostic products and focus on our therapeutic pipeline. We have never had product sales of any therapeutic product. We expect to continue to experience significant operating losses as we invest further in our research and development activities while simultaneously attempting to develop and commercialize our other therapeutic product candidates. If we are unable to develop commercially viable therapeutic products, it is likely that we will never achieve significant revenues or become profitable, either of which would jeopardize our ability to continue as a going concern.

Our most advanced therapeutic product candidates are still only in the clinical development stage, and will require us to raise capital in the future in order to fund further expensive and time-consuming studies before they can even be submitted for final regulatory approval.

Our most advanced therapeutic product candidates are still in the clinical development stage and will not be available for commercial sale any time soon, if ever. In order to complete the clinical development process for each of our product candidates, it will be necessary to invest significant financial resources, and devote a great deal of time and effort, just to reach the point where an application for final FDA or foreign regulatory approval can be submitted. In addition, we will need to raise additional capital to finance the costly process of obtaining approval for any of our current products should we get to that stage of product development.

Clinical trials involve the administration of a product candidate to patients who are already extremely ill, making patient enrollment often difficult and expensive. Moreover, even in ideal circumstances where the patients can be enrolled and then followed for the several months or more required to complete the study, the trials can be suspended, terminated or otherwise fail for any number of reasons, including:

later-stage clinical trials may raise safety or efficacy concerns not readily apparent in earlier trials;

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- unforeseen difficulties in manufacturing the product candidate in compliance with all regulatory requirements and in the quantities needed to complete the trial may be cost-prohibitive;

- during the long trial process, alternative therapies may become available which make further development of the product candidate impracticable; and

- if we are unable to obtain the additional capital we need to fund all of the clinical trials we foresee, we may forced to cancel or otherwise curtail some important trials.

Any failure or substantial delay in successfully completing clinical trials for our product candidates, particularly the ongoing trials for our most advanced product candidate, epratuzumab, could severely harm our business and results of operation.

Once the clinical development process has been successfully completed, our ability to derive revenues from the sale of therapeutics will depend upon our first obtaining FDA as well as foreign regulatory approvals, all of which are subject to a number of unique risks and uncertainties.

Even if we are able to demonstrate the safety and efficacy of our product candidates in clinical trials, if we fail to gain timely approval to commercialize our product candidates from the FDA and other foreign regulatory authorities, we will be unable to generate the revenues we will need to build our business. These approvals may not be granted on a timely basis, if at all, and even if and when they are granted they may not cover all the indications for which we seek approval. For example, while we may develop a product candidate with the intention of addressing a large, unmet medical need, the FDA may only approve the use of the drug for indications affecting a relatively small number of patients, thus greatly reducing the market size and our potential revenues. The approvals may also contain significant limitations in the form of warnings, precautions or contraindications with respect to conditions of use, which could further narrow the size of the market. Finally, even after approval can be obtained, we may be required to recall or withdraw a product as a result of newly discovered safety or efficacy concerns, either of which would have a materially adverse effect on our business and results of operations.

In order to become a profitable biopharmaceutical company, we will need to raise significant amounts of additional capital. Because it can be difficult for a small-cap company like ours to raise equity capital on acceptable terms, we cannot assure you that we will be able to obtain the necessary capital when we need it, or on acceptable terms, if at all.

Even if our technologies and product candidates are superior, if we lack the capital needed to bring our future products to market, we will never be successful. We have obtained the capital necessary to fund our research and development programs to date primarily from the following sources:

- $38,000,000 from UCB under the May 2006 agreement to license the rights to develop, manufacture and commercialize epratuzumab for the treatment of all autoimmune disease indications;

- Approximately $237,000,000 from the public and private sale of our debt and equity securities through June 30, 2006;

- $18,000,000 from Amgen under our epratuzumab licensing agreement, which was terminated in 2004; and

- limited product sales of CEA-Scan® and LeukoScan®, licenses, grants and interest income from our investments.

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With the UCB Agreement and the receipt of the initial payments related thereto we will have sufficient funds for our research and development programs through at least the next twelve months. We intend to continue expending substantial capital on our research and development programs. We will need to raise additional capital in order to obtain the necessary regulatory approvals and then commercialize our other therapeutic products. Our capital requirements are dependent on numerous factors, including:

- the rate at which we progress our research programs and the number of product candidates we have in pre-clinical and clinical development at any one time;
- the cost of conducting clinical trials involving patients in the United States, Europe and possibly elsewhere;
- our need to establish the manufacturing capabilities necessary to produce the quantities of our product candidates we project we will need;
- the time and costs involved in obtaining FDA and foreign regulatory approvals;
- the cost of first obtaining, and then defending, our patent claims and other intellectual property rights;
- the success of UCB in meeting the clinical development and commercial milestones for epratuzumab; and
- our ability to enter into licensing and other collaborative agreements to help off-set some of these costs.

There may be additional cash requirements for many reasons, including, but not limited to, changes in our research and development plans, the need for unexpected capital expenditures or costs associated with any acquisitions of other businesses, assets or technologies that we may choose to undertake. If we deplete our existing capital resources, we will be required to either obtain additional capital quickly, or else significantly reduce our operating expenses and capital expenditures, either of which could have a material adverse effect on us.

Our ability to raise future capital on acceptable terms will depend not only upon our operating performance, but also on conditions in the public and private debt and equity markets, as well as the overall performance of other companies in the biopharmaceutical and biotechnology sectors. Financing may not be available to us when we need it on terms we find acceptable, if at all. Furthermore, the terms of any such debt or equity financing may include covenants which limit our future ability to manage the business, contain preferences, privileges and rights superior to those enjoyed by holders of our common stock or cause substantial dilution to our existing stockholders.

If we cannot successfully and efficiently manufacture the compounds that make up our products and product candidates, our ability to sell products and conduct clinical trials will be impaired.

Our ability to conduct our pre-clinical and clinical research and development programs depends, in large part, upon our ability to manufacture our proprietary compounds in accordance with FDA and other regulatory requirements. While we have completed construction on the major expansion of our manufacturing facilities in New Jersey in anticipation of our current and future needs, we have no historical experience in manufacturing these compounds in significant quantities, and we may not be able to do so in the quantities and with the degree of purity that is required. We also have contractual obligations to produce certain quantities of epratuzumab within our existing capacity constraints. Any interruption in manufacturing at this site, whether by natural acts or otherwise, would significantly and adversely affect our operations, and delay our research and development programs.

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We are dependent upon UCB, for the final development and commercialization of epratuzumab for the treatment of autoimmune disease indications worldwide, and they may not be successful.

We have licensed the exclusive worldwide rights of our most advanced therapeutic compound, epratuzumab, to UCB. As a result, UCB is solely responsible, and we are depending upon it, for completing the clinical development of epratuzumab, obtaining all necessary regulatory approvals, and then commercializing and manufacturing the compound for sale. If UCB does not fully perform its responsibilities under our agreement, or if the ongoing clinical trials being conducted by UCB are not successful or are terminated by UCB for any other reason, our ability to commercialize this product candidate in the future, as well as other product candidates we have in development which are closely related to epratuzumab, would be severely jeopardized. In such event, it is likely we would never receive any of the milestone payments or royalties that we are eligible to receive under our agreement with UCB, and our ability to fund the development and testing of our other product candidates would be adversely affected.

Our future success will depend upon our ability to first obtain and then adequately protect our patent and other intellectual property rights, as well avoiding the infringement of the rights of others.

Our future success will be highly dependent upon our ability to first obtain and then defend the patent and other intellectual property rights necessary for the commercialization of our product candidates. We have filed numerous patent applications on the technologies and processes that we use in the U.S. and certain foreign countries. Although we have obtained a number of issued U.S. patents to date, the patent applications owned or licensed by us may not result in additional patents being issued. Moreover, these patents may not afford us the protection we need against competitors with similar technologies or products.

The successful development of therapeutic products frequently requires the application of multiple technologies that may be subject to the patent or other intellectual property rights of third parties. Although we believe it is likely we will need to license technologies and processes from third parties in the ordinary course of our business, we are not currently aware of any material conflict involving our technologies and processes with any valid patents or other intellectual property rights owned or licensed by others. In the event that a third party were to claim such a conflict existed, they could sue us for damages as well as seek to prevent us from commercializing our product candidates. It is possible that a third party could successfully claim that our products infringe on their intellectual property rights. Uncertainties resulting from the litigation and continuation of patent litigation or other proceedings could have a material adverse effect on our ability to compete in the marketplace. Any patent litigation or other proceeding, even if resolved in our favor, would require significant financial resources and management time. Some of our competitors may be able to sustain these costs more effectively than we can because of their substantially greater financial and managerial resources. If a patent litigation or other proceeding is resolved unfavorably to us, we may be enjoined from manufacturing or selling our products without a license from the other party, in addition to being held liable for significant damages. We may not be able to obtain any such license on commercially acceptable terms, if at all.

In addition to our reliance on patents, we attempt to protect our proprietary technologies and processes by relying on trade secret laws, nondisclosure and confidentiality agreements and licensing arrangements with our employees and other persons who have access to our proprietary information. These agreements and arrangements may not provide meaningful protection for our proprietary technologies and processes in the event of unauthorized use or disclosure of such information. In addition, our competitors may independently develop substantially equivalent technologies and processes or otherwise gain access to our trade secrets or technology, either of which could materially and adversely affect our competitive position.

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We face substantial competition in the biotechnology industry and may not be able to compete successfully against one or more of our competitors.

The biotechnology industry is highly competitive, particularly in the area of diagnostic and therapeutic oncology products. In recent years, there have been extensive technological innovations achieved in short periods of time, and it is possible that future technological changes and discoveries by others could result in our products and product candidates quickly becoming uncompetitive or obsolete. A number of companies, including Biogen Idec, Genentech, Glaxo SmithKline, Hoffmann-LaRoche, Human Genome Sciences, Ligand Pharmaceuticals, Millennium Pharmaceuticals, Protein Design Laboratories, Genmab, Medarex, Amgen, Bristol-Myers Squibb and Schering AG, are engaged in the development of therapeutic autoimmune and oncology products. Many of these companies have significantly greater financial, technical and marketing resources than we do. In addition, many of these companies have more established positions in the pharmaceutical industry and are therefore better equipped to develop, commercialize and market oncology products. Even some smaller competitors may obtain a significant competitive advantage over us if they are able to discover or otherwise acquire patentable inventions, form collaborative arrangements or merge with larger pharmaceutical companies.

We expect to face increasing competition from universities and other non-profit research organizations. These institutions carry out a significant amount of research and development in the field of antibody-based technologies, and they are increasingly aware of the commercial value of their findings. As a result, they are demanding greater patent and other proprietary rights, as well as licensing and future royalty revenues.

We may be liable for contamination or other harm caused by hazardous materials that we use in the operations of our business.

In addition to laws and regulations enforced by the FDA, we are also subject to regulation under various other foreign, federal, state and local laws and regulations. Our manufacturing and research and development programs involve the controlled use of viruses, hazardous materials, chemicals and various radioactive compounds. The risk of accidental contamination or injury from these materials can never be completely eliminated, and if an accident occurs we could be held liable for any damages that result, which could exceed our available resources.

The nature of our business exposes us to significant liability claims, and our insurance coverage may not be adequate to cover any future claims.

The use of our compounds in clinical trials and any future sale exposes us to liability claims that could be substantial. These claims might be made directly by healthcare providers, medical personnel, patients, consumers, pharmaceutical companies and others selling or distributing our compounds. While we currently have product liability insurance that we consider adequate for our current needs, we may not be able to continue to obtain comparable insurance in the future at an acceptable cost, if at all. If for any reason we cannot maintain our existing or comparable liability insurance, our ability to clinically test and market products could be significantly impaired. Moreover, the amount and scope of our insurance coverage, as well as the indemnification arrangements with third parties upon which we rely, may be inadequate to protect us in the event of a successful product liability claim. Any successful claim in excess of our insurance coverage could materially and adversely affect our financial condition and operating results.

The loss of any of our key employees could adversely affect our operations.

We are heavily dependent upon the talents of Dr. Goldenberg, our Chief Strategic Officer and Ms. Sullivan, our President and Chief Executive Officer, as well as certain other key personnel. If

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Dr. Goldenberg, Ms. Sullivan or any of our other key personnel were to unexpectedly leave our company, our business and results of operations could be materially and adversely affected. In addition, as our business grows we will need to continue to attract additional management and scientific personnel. Competition for qualified personnel in the biotechnology and pharmaceutical industries is intense, and we may not be successful in our recruitment efforts. If we are unable to attract, motivate and retain qualified professionals, our operations could be materially and adversely affected.

Certain potential for conflicts of interest, both real and perceived, exist which could result in expensive and time-consuming litigation.

Certain members of our senior management and Board of Directors have relationships and agreements, both with us as well as among themselves and their respective affiliates, which create the potential for both real, as well as perceived, conflicts of interest. These include Dr. David M. Goldenberg, our Chairman and Chief Strategic Officer, Ms. Cynthia L. Sullivan, our President and Chief Executive Officer, (who is also the wife of Dr. Goldenberg), and certain companies with which we do business, including the Center for Molecular Medicine and Immunology, also known as the Garden State Cancer Center, or CMMI. For example, Dr. Goldenberg is the President and a Trustee of CMMI, a not-for-profit cancer research center that we use to conduct certain research activities. In fiscal year 2006, we reimbursed CMMI $62,000 for expenses incurred relating to research contracts, in addition to providing CMMI with $2,000 for research activities conducted on our behalf. Further, Dr. Goldenberg s employment agreement with us permits him to devote more of his time working for CMMI than for us, and other key personnel of our Company also have responsibilities to both CMMI and us.

As a result of these and other relationships, the potential for both real and perceived conflicts of interest exists and disputes could arise over the allocation of funds, research projects and ownership of intellectual property rights. In addition, in the event that we become involved in stockholder litigation regarding these potential conflicts, we might be required to devote significant resources and management time defending the company from these claims, which could adversely affect our results of operations.

Given that autoimmune and cancer therapeutics such as the ones we are developing can cost upwards of $20,000 per treatment, even if our product candidates become available for sale it is likely that federal and state governments, insurance companies and other payers of health care costs will try to first limit the use of these drugs to certain patients, and may be reluctant to provide a level of reimbursement that permits us to earn a significant profit on our investment, if any.

Our ability to successfully commercialize therapeutic products will depend, in significant part, on the extent to which hospitals can obtain appropriate reimbursement levels for the cost of our products and related treatment. Third-party payers are increasingly challenging the prices charged for diagnostic and therapeutic products and related services. In addition, legislative proposals to reform health care or reduce government insurance programs may result in lower prices or the actual inability of prospective customers to purchase our products. Furthermore, even if reimbursement is available, it may not be available at price levels sufficient for us to realize a positive return on our investment.

Risks Related to Government Regulation of our Industry

Our industry and we are subject to intense regulation from the U.S. Government and such other governments and quasi-official regulatory bodies where our products are and product candidates may be sold.

These governmental and other regulatory risks include:

Clinical development is a long, expensive and uncertain process, delay and failure can occur at any stage of our clinical trials;

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Our clinical trials are dependent on patient enrollment and regulatory approvals, we do not know whether our planned trials will begin on time, or at all, or will be completed on schedule or at all;

The FDA or other regulatory authorities do not approve a clinical trial protocol or place a clinical trial on hold;

If the clinical development process is completed successfully, our ability to derive revenues from the sale of therapeutics will depend on our first obtaining FDA or other comparable foreign regulatory approvals, each of which are subject to unique risks and uncertainties;

There is no assurance that we will receive FDA or corollary foreign approval for any of our product candidates for any indication; we are subject to government regulation for the commercialization of our product candidates;

We have not received regulatory approval in the United States or any foreign jurisdiction for the commercial sale of any of our product candidates; and

We may be liable for contamination or other harm caused by hazardous materials used in the operations of our business.

Risks Related to Our Securities

Our common stock may be delisted from the NASDAQ Global Market (NASDAQ).

If the bid price of our common stock falls below $1.00 for an extended period, or we are unable to continue to meet NASDAQ s listing maintenance standards for any other reason, our common stock could be delisted from the NASDAQ. In recent months, the bid price on our common stock has been below $2.00.

If our stock is not accepted for listing on the NASDAQ, we will make every possible effort to have it listed on the Over the Counter Bulletin Board (the OTC Bulletin Board). If our common stock were to be traded on the OTC Bulletin Board, the Securities Exchange Act of 1934, as amended, and related Securities and Exchange Commission (SEC) rules would impose additional sales practice requirements on broker-dealers that sell our securities. These rules may adversely affect the ability of stockholders to sell our common stock and otherwise negatively affect the liquidity, trading market and price of our common stock.

If our common stock would not be able to be traded on the OTC Bulletin Board, we would make every effort to have it available for trading on the National Quotation Bureau s Pink Sheets (Pink Sheets). The Pink Sheets market consists of security firms who act as market makers in the stocks, usually, of very small companies. The bid and asked prices are not quoted electronically, but are quoted daily in hard copy which is delivered to firms that subscribe. Stocks that trade in the Pink Sheets are usually not as liquid as those that trade in electronic markets and, often time, the difference between the bid and the asked prices are substantial. As a result, if our common stock were traded on the Pink Sheets, there would likely be a further negative affect on the liquidity, trading market and price of our common stock even compared to that we might suffer if we were traded on the OTC Bulletin Board.

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As a result of the above, we cannot assure you that our common stock will be listed on a national securities exchange, a national quotation service, the OTC Bulletin Board or the Pink Sheets or, if it is to be listed, whether or not there would be an interruption in the trading of our common stock. We believe that the listing of our stock on a recognized national trading market, such as the NASDAQ, is an important part of our business and strategy. Such a listing helps our stockholders by providing a readily available trading market with current quotations. Without that, stockholders may have a difficult time getting a quote for the sale or purchase of our stock, the sale or purchase of our stock would likely be made more difficult and the trading volume and liquidity of our stock would likely decline. The absence of such a listing may adversely affect the acceptance of our common stock as currency or the value accorded it by other parties. In that regard, listing on a recognized national trading market will also affect the company s ability to benefit from the use of its operations and expansion plans, including for use in licensing agreements, joint ventures, the development of strategic relationships and acquisitions, which are critical to our business and strategy and none of which is currently the subject of any agreement, arrangement or understanding, with respect to any future financing or strategic relationship it may undertake. The delisting from NASDAQ would result in negative publicity and would negatively impact our ability to raise capital in the future.

If we were delisted from the NASDAQ, we may become subject to the trading complications experienced by Penny Stocks in the over-the-counter market.

Delisting from the NASDAQ GMS may depress the price of our common stock such that we may become a penny stock. The SEC generally defines a penny stock as an equity security that has a market price of less than $5.00 per share or an exercise price of less than $5.00 per share, subject to specific exemptions. The market price of our common stock is currently less than $5.00 per share. Penny Stock rules require, among other things, that any broker engaging in a purchase or sale of our securities provide its customers with: (i) a risk disclosure document, (ii) disclosure of market quotations, if any, (iii) disclosure of the compensation of the broker and its salespersons in the transaction and (iv) monthly account statements showing the market values of our securities held in the customer s accounts.

A broker would be required to provide the bid and offer quotations and compensation information before effecting the transaction. This information must be contained on the customer s confirmation. Generally, brokers are less willing to effect transactions in penny stocks due to these additional delivery requirements. These requirements may make it more difficult for stockholders to purchase or sell our common stock. Because the broker, not us, prepares this information, we would not be able to assure that such information is accurate, complete or current.

Conversion of our 5% Senior Convertible Notes (5% Notes) and exercise of our Warrants will dilute the ownership interest of existing stockholders and could adversely affect the market price of our common stock.

The conversion of some or all of our 5% Notes and Warrants will dilute the ownership interests of existing stockholders. Any sales in the public market of the common stock issuable upon such conversion and exercise could adversely affect prevailing market prices of our common stock. In addition, the existence of the 5% Notes and Warrants may encourage short selling by market participants. During the 2006 fiscal year $7,370,000 of our 5% Notes and related make-whole interest liabilities were converted into 3,142,798 shares of common stock. In addition 267,924 shares of common stock was issued in payment of accrued interest for the 5% Notes which was due May 1, 2006.

Our 5% Notes and Warrants have full-ratchet anti-dilution protection which will cause additional dilution to stockholders if triggered.

The conversion price of our 5% Notes and exercise price of our Warrants are subject to adjustment for issuances of common stock and common stock equivalents at prices less than the

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applicable conversion price and exercise price, respectively, which means such conversion and exercise prices are automatically reduced to the lower price. In the event the anti-dilution protections of the 5% Notes and Warrants are triggered, stockholders would suffer immediate dilution. The holders of the 5% Notes who convert their 5% Notes will also receive on the date of conversion a payment equal to the amount of contractual interest, up to and including the maturity date of the 5% Notes less interest actually previously paid, known as the make-whole interest payment.

Our indebtedness and debt service obligations may adversely affect our cash flow.

As of June 30, 2006, our debt service obligation on the 5% Notes was $30,305,000, which is due April 30, 2008. We intend to fulfill our current debt service obligations, including repayment of the principal from cash generated by our operations and from our existing cash and investments, as well as the proceeds from potential licensing agreements and additional financing from equity or debt transactions. If we are unable to generate sufficient cash to meet these obligations and need to use existing cash or liquidate investments in order to fund our current debt service obligations, including repayment of the principal, we may have to delay or curtail research and development programs.

We may add additional lease line to finance capital expenditures and may obtain additional long-term debt and line of credit. If we issue other debt securities in the future, our debt service obligations will increase further.

Our indebtedness could have significant additional negative consequences, including, but not limited to:

- requiring the dedication of a substantial portion of our expected cash flow from operations to service our indebtedness, thereby reducing the amount of our expected cash flow available for other purposes, including capital expenditures;
- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional financing;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete; and
- placing us at a possible competitive disadvantage to less leveraged competitors and competitors that have better access to capital resources.

We may not have the ability to raise the funds necessary to finance any required redemptions of our outstanding 5% Notes, which might constitute a default by us.

If a Designated Event (as the term is defined in the Indenture under which the 5% Notes were issued) occurs prior to maturity, we may be required to redeem all or part of the 5% Notes. We may not have enough funds to pay the redemption price for all tendered 5% Notes. Although the indenture governing the 5% Notes allows us in certain circumstances to pay the applicable redemption prices in shares of our common stock, if a Designated Event were to occur, we may not have sufficient funds to pay the redemption prices for all the 5% Notes tendered.

We have not established a sinking fund for payment of our outstanding 5% Notes, nor do we anticipate doing so. In addition, any future credit agreements or other agreements relating to our indebtedness may contain provisions prohibiting redemption of our outstanding 5% Notes under certain circumstances, or expressly prohibit our redemption of our outstanding 5% Notes upon a Designated Event or may provide that a Designated Event constitutes an Event of Default under that agreement. If a Designated Event occurs at a time when we are prohibited from purchasing or redeeming our 5% Notes, we could seek the consent of our lenders to redeem our outstanding 5% Notes or attempt to refinance this debt. If we do not obtain consent, we would not be permitted to purchase or redeem our outstanding 5% Notes, including the offered 5% Notes. Our failure to redeem tendered 5% Notes would constitute an

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Event of Default under the Indenture, which might constitute a default under the terms of our other indebtedness. As a result, we may not be able to fulfill our obligations under the 5% Notes and our stockholders could lose all or part of their investment.

Our outstanding convertible notes, options and warrants may adversely affect our ability to consummate future equity-based financings due to the dilution potential to future investors.

Due to the number of shares of common stock we are obligated to issue pursuant to outstanding convertible notes, options and warrants, potential investors may not purchase our future equity offerings at market price because of the potential dilution such investors may suffer as a result of the exercise of the outstanding convertible notes, options and warrants.

Our outstanding 5% Notes and related Warrants may adversely affect our ability to consummate future equity-based financings due to the restrictive covenants contained in the Indenture pursuant to which the 5% Notes were issued and Warrant Agreement under which the Warrants were issued.

Holders of our 5% Notes have certain rights that may inhibit our ability to raise additional capital. Those rights include (a) full-ratchet anti-dilution protection in the event we sell securities at a price lower than the applicable conversion or exercise price of the 5% Notes or Warrants and (b) the right to pro rata participation in any future financing.

The market price of our common stock has fluctuated widely in the past, and is likely to continue to fluctuate widely based on a number of factors, many of which are beyond our control.

The market price of our common stock has been, and is likely to continue to be, highly volatile. Furthermore, the stock market generally and the market for stocks of relatively small biopharmaceutical companies like ours have from time to time experienced, and likely will again experience, significant price and volume fluctuations that are unrelated to actual operating performance.

From time to time, stock market analysts publish research reports or otherwise comment upon our business and future prospects. Due to a number of factors, we may fail to meet the expectations of securities analysts or investors and our stock price would likely decline as a result. These factors include:

- announcements by us, any future alliance partners or our competitors of clinical results, technological innovations, product sales, new products or product candidates and product development timelines;
- the formation or termination of corporate alliances;
- developments or disputes concerning our patent or other proprietary rights, and the issuance of patents in our field of business to others;
- government regulatory action;
- period-to-period fluctuations in the results of our operations; and
- developments and market conditions for emerging growth companies and biopharmaceutical companies, in general.

In addition, Internet chat rooms have provided forums where investors make predictions about our business and prospects, oftentimes without any real basis in fact, that readers may trade on.

In the past, following periods of volatility in the market prices of the securities of companies in our industry, securities class action litigation has often been instituted against those companies. If we face such litigation in the future, it would result in substantial costs and a diversion of management s attention and resources, which could negatively impact our business.

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Our principal stockholder can significantly influence all matters requiring the approval by our stockholders.

As of June 30, 2006, Dr. Goldenberg, our Chairman and Chief Strategic Officer, together with certain members of his family including Ms. Cynthia L. Sullivan, our President and Chief Executive Officer, who is Dr. Goldenberg s wife, and other affiliates, controlled the right to vote approximately 15.1% of our fully diluted common stock. As a result of this voting power, Dr. Goldenberg has the ability to significantly influence the outcome of substantially all matters that may be put to a vote of our stockholders, including the election of our directors.

We have adopted anti-takeover provisions that may frustrate any unsolicited attempt to acquire our Company or remove or replace our directors and executive officers.

Provisions of our certificate of incorporation, our by-laws and Delaware corporate law could make it more difficult for a third party to acquire control of our Company in a transaction not approved by our Board of Directors. For example, we have adopted a stockholder rights plan that makes it more difficult for a third party to acquire control of our Company without the support of our Board of Directors. In addition, our Board of Directors may issue up to ten million shares of preferred stock and determine the price, rights, preferences and privileges, including voting and conversion rights, of these shares without any further vote or action by our stockholders. The issuance of preferred stock could have the effect of delaying, deterring or preventing an unsolicited change in control of our company, or could impose various procedural and other requirements that could make it more difficult for holders of our common stock to effect certain corporate actions, including the replacement of incumbent directors and the completion of transactions opposed by the incumbent Board of Directors. The rights of the holders of our common stock would be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future.

We are also subject to Section 203 of the Delaware General Corporation Law (DGCL), which prohibits us from engaging in a business combination with any interested stockholder (as defined in Section 203 of the DGCL) for a period of three years from the date the person became an interested stockholder, unless certain conditions are met.

There are limitations on the liability of our directors, and we may have to indemnify our officers and directors in certain instances.

Our certificate of incorporation limits, to the maximum extent permitted under Delaware law, the personal liability of our directors for monetary damages for breach of their fiduciary duties as directors. Our bylaws provide that we will indemnify our officers and directors and may indemnify our employees and other agents to the fullest extent permitted by law. These provisions may be in some respects broader than the specific indemnification provisions under Delaware law. The indemnification provisions may require us, among other things, to indemnify such officers and directors against certain liabilities that may arise by reason of their status or service as directors or officers (other than liabilities arising from willful misconduct of a culpable nature), to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified and to obtain directors and officers insurance. Section 145 of the DGCL provides that a corporation may indemnify a director, officer, employee or agent made or threatened to be made a party to an action by reason of the fact that he or she was a director, officer, employee or agent of the corporation or was serving at the request of the corporation, against expenses actually and reasonably incurred in connection with such action if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. Delaware law does not permit a corporation to eliminate a director s duty of care and the provisions of our certificate of incorporation have no effect on the availability of equitable remedies, such as injunction or rescission, for a director s breach of the duty of care.

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We believe that our limitation of officer and director liability assists us to attract and retain qualified employees and directors. However, in the event an officer, a director or the board of directors commits an act that may legally be indemnified under Delaware law, we will be responsible to pay for such officer(s) or director(s) legal defense and potentially any damages resulting therefrom. Furthermore, the limitation on director liability may reduce the likelihood of derivative litigation against directors, and may discourage or deter stockholders from instituting litigation against directors for breach of their fiduciary duties, even though such an action, if successful, might benefit our stockholders and us. Given the difficult environment and potential for incurring liabilities currently facing directors of publicly-held corporations, we believe that director indemnification is in our and our stockholders best interests because it enhances our ability to attract and retain highly qualified directors and reduce a possible deterrent to entrepreneurial decision-making.

Nevertheless, limitations of director liability may be viewed as limiting the rights of stockholders, and the broad scope of the indemnification provisions contained in our certificate of incorporation and bylaws could result in increased expenses. Our board of directors believes, however, that these provisions will provide a better balancing of the legal obligations of, and protections for, directors and will contribute positively to the quality and stability of our corporate governance. Our board of directors has concluded that the benefit to stockholders of improved corporate governance outweighs any possible adverse effects on stockholders of reducing the exposure of directors to liability and broadened indemnification rights.

We are exposed to potential risks from recent legislation requiring companies to evaluate controls under Section 404 of the Sarbanes-Oxley Act.

The Sarbanes-Oxley Act requires that we maintain effective internal controls over financial reporting and disclosure controls and procedures. Among other things, we must perform system and process evaluation and testing of our internal controls over financial reporting to allow management to report on, and our independent registered public accounting firm to attest to, our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Compliance with Section 404 requires substantial accounting expense and significant management efforts. Our testing, or the subsequent review by our independent registered public accounting firm, may reveal deficiencies in our internal controls that would require us to remediate in a timely manner so as to be able to comply with the requirements of Section 404 each year. If we are not able to comply with the requirements of Section 404 in a timely manner each year, we could be subject to sanctions or investigations by the SEC, the NASDAQ GMS or other regulatory authorities that would require additional financial and management resources and could adversely affect the market price of our common stock.

We do not intend to pay dividends on our common stock. Until such time as we pay cash dividends our stockholders must rely on increases in our stock price for appreciation.

We have never declared or paid dividends on our common stock. We intend to retain future earnings to develop and commercialize our products and therefore we do not intend to pay cash dividends in the foreseeable future. Until such time as we determine to pay cash dividends on our common stock, our stockholders must rely on increases in our common stock s market price for appreciation.

Item 1B. ***Unresolved Staff Comments***

None.

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Item 2. ***Properties***

Our headquarters is located at 300 American Road, Morris Plains, New Jersey 07950, where we lease approximately 74,000 square feet of commercial office space. In November 2001, we renewed the lease for an additional term of 20 years expiring in October 2021 at a base annual rate of $545,000, which rate is fixed for the first five years and increases thereafter every five years. The November 2001 renewal includes an additional 15,000 square feet of space. Our manufacturing, regulatory, medical, research and development laboratories, and our finance, marketing and executive offices are currently located in this facility. In 2003, we completed the construction and equipping of a 7,500 square-foot, commercial-scale manufacturing facility within our Morris Plains headquarters, which consists of four independent antibody manufacturing suites, several support areas, and a quality control laboratory. See Item 1 Business, Manufacturing. In addition, our European subsidiary, Immunomedics GmbH, leases executive office space in Darmstadt, Germany.

Item 3. ***Legal Proceedings***

F. Hoffmann-LaRoche

On December 22, 2003, the Dutch Supreme Court, in a case brought by us, held that the Dutch part of our European patent for highly specific monoclonal antibodies against the cancer marker, carcinoembryonic antigen (CEA), was valid. Our claim of infringement was not finally decided by the Dutch Supreme Court. Among other things, the Supreme Court held that the Court of Appeal which had ruled that Roche had infringed our European Patent had not given Roche sufficient opportunity to comment on an expert opinion filed by us in which it was stated that Roche s CEA test kit did satisfy a criterion that is generally satisfied for specific antibodies that bind to CEA. We have argued that the Dutch court should enforce the European Patent for all European countries for which the European Patent was validated, since Roche sold the same product in each country. The Dutch Supreme Court repeated the reasoning of the Dutch District Court that the Brussels Convention should be interpreted to permit cross-border enforcement of European patents where a related group of companies sells the same product in countries where that same patent has been validated. The Dutch Supreme Court referred this issue to the European Court of Justice (ECJ) to provide a final interpretation of the Brussels Convention on this point. On January 27, 2005, the ECJ heard oral arguments in the case, and took the matter under consideration. No further notifications have been received regarding this litigation to present.

We believe that the CEA patents that are the subject of our infringement action have been infringed, and we believe that the Company will prevail in the litigation, although no assurances can be given in this regard. To the extent that Roche contests or challenges our patents, or files appeals or further nullity actions, there can be no assurance that significant costs for defending such patents may not be incurred.

On May 19, 2004 and July 20, 2004, Roche filed nullity actions in German and United Kingdom courts, respectively, challenging our patents relating to an improved method of disease therapy in combination with cytotoxic agents, wherein cytokines are used to prevent, mediate or reverse radiation-induced, drug-induced or antibody-induced toxicity, especially to hematopoietic cells. On December 1, 2004, we agreed to settle the United Kingdom patent litigation by surrendering the United Kingdom patent. In accordance with United Kingdom legal rules, Roche made an application for payment of its attorney s fees and other costs to the court. We agreed on a resolution with Roche, which was subsequently settled. The related charges for this litigation were included in the General and Administrative expenses in the Statement of Operations. In the German action we are defending the patent with amended claims and believes that it will prevail in such action. The German Patent Court has scheduled oral proceedings for March 2007.

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Cytogen, Inc. and C.R. Bard Inc.

In September 2004 a patent infringement suit with Cytogen, Inc. and C.R. Bard was settled for an undisclosed amount without any admission of fault or liability. In connection with the settlement, we settled legal fees associated with the suit with the attorneys representing it in the case. We recorded in other income a litigation settlement gain in the amount of $1,111,750, which includes the reversal of legal fees previously accrued for this patent suit. The specific amount of the settlement, however, is undisclosed in accordance with the terms of the parties settlement agreement.

Willow Bay Associates, LLC

In 2000, a now-defunct finance broker filed suit against us in the United States District Court for the District of Delaware. In the case, the plaintiff claimed that it is entitled to damages in the form of brokerage commissions for breach of an alleged confidentiality and non-circumvention contract. The suit against us was dismissed on summary judgment, but subsequently reinstated. Trial was held in late January 2004, and post-trial submissions were filed in March. On August 4, 2006 the Court rendered its judgment in our favor and against Willow Bay Associates, LLC. There is no liability to us as a result of this decision.

From time to time we are a party to various claims and litigation arising in the normal course of business. We believe that the outcome of such claims and litigation will not have a material adverse effect on our financial position and results of operations.

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matter was submitted to a vote of our security holders during the fourth quarter of fiscal year 2006.

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PART II

Item 5. Market For Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Price and Dividend Information

Our common stock is quoted on the NASDAQ Global Market under the symbol IMMU. The following table sets forth, for the last two fiscal years, the high and low sales prices for our common stock, as reported by the NASDAQ Global Market:

Fiscal Quarter Ended	High	Low
September 30, 2004	$ 4.95	$ 2.25
December 31, 2004	3.64	2.60
March 31, 2005	3.88	2.37
June 30, 2005	2.55	1.65
September 30, 2005	$ 2.29	$ 1.65
December 31, 2005	2.97	1.63
March 31, 2006	3.50	2.27
June 30, 2006	3.49	2.31

As of August 22, 2006, the closing sales price of our common stock on the NASDAQ Global Market was $1.95. As of August 22, 2006, there were approximately 671 stockholders of record of our common stock and, according to our estimates, approximately 15,081 beneficial owners of our common stock. We have not paid dividends on our common stock since inception and do not plan to pay cash dividends in the foreseeable future. We currently intend to retain earnings, if any, to finance our growth.

Sale of Unregistered Securities

None

Securities Authorized for Issuance Under Equity Compensation Plans

Information regarding our equity compensation plans as of June 30, 2006, is disclosed in Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Issuer Purchases of Equity Securities

None.

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Item 6. ***Selected Financial Data***

The following table sets forth our consolidated financial data as of and for each of the five fiscal years ended June 30, 2006. The selected consolidated financial data as of and for each of the five years ended June 30, 2006, have been derived from our audited consolidated financial statements. The consolidated financial statements for the years ended June 30, 2006, 2005 and 2004 are included elsewhere in this Annual Report on Form 10-K. The information below should be read in conjunction with the consolidated financial statements (and notes thereon) and Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.

	Fiscal year ended June 30,				
	2006	2005	2004	2003	2002
	(In thousands, except per share amounts)				
Statements of Operations					
Revenues	$ 4,353	$ 3,813	$ 4,306	$ 13,719	$ 14,287
Cost and expenses	28,903	32,514	27,299	23,533	20,985
Litigation settlement		1,112			
Changes in fair value of warrants liability	(270)	939			
Interest (expenses) income net	(4,507)	(599)	285	1,087	2,069
Minority interest	90	110	89	88	
Foreign currency transaction (loss) gain	(17)	(4)	30	85	(323)
Loss before income tax benefit	(29,254)	(27,143)	(22,589)	(8,554)	(4,952)
Income tax benefit	490	385	234	680	1,205
Net loss	(28,764)	(26,758)	(22,355)	(7,874)	(3,747)
Preferred stock dividends					
Net loss allocable to common stockholders	$ (28,764)	$ (26,758)	$ (22,355)	$ (7,874)	$ (3,747)
Net loss per common share	$ (0.52)	$ (0.50)	$ (0.45)	$ (0.16)	$ (0.08)
Weighted average shares outstanding	55,263	53,684	49,886	49,878	49,652
Balance Sheets					
Cash, cash equivalents and marketable securities(1)	$ 41,827	$ 15,485	$ 13,479	$ 23,796	$ 44,788
Restricted securities(1)	2,550	18,126	5,101	6,376	
Total assets	55,878	47,923	32,089	45,130	54,951
Long-term debt	29,525	36,743	13,826	5,101	
Stockholders (deficit) equity(2)	$ (18,675)	$ (1,263)	$ 11,584	$ 33,667	$ 41,096

(1) Approximately $14,300,000 of restricted cash became available for use by the Company during the first quarter of fiscal year 2006 as a result of August 19, 2005 Special Shareholder s Meeting authorizing an additional 40,000,000 shares of common stock.

(2) We have never paid cash dividends on our common stock. In August, 2005 the Company received shareholder approval to authorize an additional 40,000,000 shares of common stock.

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Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The SEC encourages companies to disclose forward-looking information so that investors can better understand a company s future prospects and make informed investment decisions. This Annual Report on Form 10-K contains such forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be made directly in this Annual Report, and they may also be made a part of this Annual Report by reference to other documents filed with the Securities and Exchange Commission (SEC), which is known as incorporation by reference .

Words such as may, anticipate, estimate, expects, projects, intends, plans, believes and words and terms of similar substance used in connection with any discussion of future operating or financial performance, are intended to identify forward-looking statements. All forward-looking statements are management s present expectations of future events and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. These risks and uncertainties include, among other things: our inability to further identify, develop and achieve commercial success for new products and technologies; the possibility of delays in the research and development necessary to select drug development candidates and delays in clinical trials; the risk that clinical trials may not result in marketable products; the risk that we may be unable to obtain additional capital through strategic collaborations, licensing, convertible debt securities or equity financing in order to continue our research and development programs as well as secure regulatory approval of and market our drug candidates; our dependence upon pharmaceutical and biotechnology collaborations; the levels and timing of payments under our collaborative agreements; uncertainties about our ability to obtain new corporate collaborations and acquire new technologies on satisfactory terms, if at all; the development of competing products; our ability to protect our proprietary technologies; patent-infringement claims; and risks of new, changing and competitive technologies and regulations in the United States and internationally. Please also see the discussion of risks and uncertainties under Item 1A. Risk Factors Factors That May Affect Our Business and Results of Operations in this Annual Report.

In light of these assumptions, risks and uncertainties, the results and events discussed in the forward-looking statements contained in this Annual Report or in any document incorporated by reference might not occur. Stockholders are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Annual Report or the date of the document incorporated by reference in this Annual Report as applicable. We are not under any obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise except as may be required by applicable law. All subsequent forward-looking statements attributable to the Company or to any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

Overview

We are a biopharmaceutical company focused on the development of monoclonal, antibody-based products for the targeted treatment of cancer, autoimmune and other serious diseases. We have developed a number of advanced proprietary technologies that allow us to create humanized antibodies that can be used either alone in unlabeled, or naked, form, or conjugated with radioactive isotopes, chemotherapeutics or toxins, in each case to create highly targeted agents. Using these technologies, we have built a broad pipeline of therapeutic product candidates that utilize several different mechanisms of action. We believe that our portfolio of intellectual property, which includes 108 issued patents in the U.S. and approximately 250 other issued patents worldwide, protects our product candidates and technologies.

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We have transitioned our focus away from the development of diagnostic imaging products in order to accelerate the development of our therapeutic product candidates. Consistent with our de-emphasis on our diagnostic business, we no longer commercialize CEA-Scan®. LeukoScan® will continue to be manufactured and commercialized by us in territories where regulatory approvals have been granted. Furthermore, as of June 30, 2006, research and development into diagnostic product candidates was no longer a material portion of our business.

From inception in 1982 until June 30, 2006, we had an accumulated deficit of approximately $203.8 million and have never earned a profit. In the absence of increased revenues from the sale of current or future products and licensing activities (the amount, timing, nature or source of which cannot be predicted), our losses will continue as we continue to conduct our research and development activities. These activities are budgeted to expand over time and will require further resources if we are to be successful. As a result, our operating losses are likely to be substantial over the next several years.

The development and commercialization of successful therapeutic products is subject to numerous risks and uncertainties including, without limitation, the following:

- the type of therapeutic compound under investigation and nature of the disease in connection with which the compound is being studied;
- our ability, as well as the ability of our partners, to conduct and complete clinical trials on a timely basis;
- the time required for us to comply with all applicable federal, state and foreign legal requirements, including, without limitation, our receipt of the necessary approvals of the U.S. Food and Drug Administration;
- the financial resources available to us during any particular period; and
- many other factors associated with the commercial development of therapeutic products outside of our control.

Research and Development

As of June 30, 2006, we employed 19 professionals in our research and development departments and 14 professionals in our pre-clinical and clinical research departments. In addition to salaries and benefits, the other costs associated with research and development include the costs associated with producing biopharmaceutical compounds, laboratory equipment and supplies, the costs of conducting clinical trials, legal fees and expenses associated with pursuing patent protection, as well as facilities costs. We have spent approximately $22.8 million, $27.0 million and $21.9 million in the aggregate for the fiscal years ended June 30, 2006, 2005 and 2004 respectively on research and development expenses.

With the completion in fiscal year 2003 of the manufacturing expansion to support our research and development efforts and prepare for future commercialization of our product candidates, we believe that our facilities are adequate to support our research and development activities for the next few years without the need for any material capital expenditures.

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At any one time our scientists are engaged in the research and development of multiple therapeutic compounds. Because we do not track expenses on the basis of each individual compound under investigation, but rather aggregate research and development costs for accounting purposes, it is not possible for investors to analyze and compare the expenses associated with unsuccessful research and development efforts for any particular fiscal period, with those associated with compounds that are determined to be worthy of further development. This may make it more difficult for investors to evaluate our business and future prospects.

Therapeutics

We believe that each of our antibodies has therapeutic potential either when administered alone or when conjugated with therapeutic radioisotopes (radiolabeled), chemotherapeutics or other toxins to create unique and potentially more effective treatment options. The attachment of various compounds to antibodies is intended to allow the delivery of these therapeutic agents to tumor sites with greater precision than conventional radiation therapy or chemotherapeutic approaches. This treatment method is designed to reduce the total exposure of the patient to the therapeutic agents, which ideally minimizes debilitating side effects. We are currently focusing our efforts on unlabeled, or naked antibodies and antibodies conjugated with drugs or toxins, and to lesser extent on the use of radioisotopes, such as Yttrium-90, sometimes referred to as Y-90, and Iodine-131, sometimes referred to as I-131.

Epratuzumab

Our most advanced therapeutic product candidate, IMMU-103, is an unlabeled humanized antibody which targets an antigen, known as the CD22 marker, found on the surface of B-lymphocytes, a type of white blood cells. Since B-lymphocytes are involved in the production of autoantibodies, we reasoned that epratuzumab might show activity in the treatment of autoimmune diseases by affecting B-cell levels and function. Our humanized CD22 antibody has been shown not to evoke any substantial anti-epratuzumab antibodies in NHL patients, even after repeated dosing, making it a good candidate for treating patients with a chronic, non-malignant disease.

In October 2004, updated clinical results of epratuzumab in patients with SLE were presented at the 68th annual scientific meeting of American College of Rheumatology/Association of Rheumatology Health Professionals. The objective of this open label, single-center study was to evaluate the safety, tolerability, lack of immunogenicity and early evidence of efficacy of epratuzumab, which was administered as a single agent every other week, for a total of four doses. A scoring system called BILAG (British Isle Lupus Assessment Group) was used to measure the level of disease activity in these patients prior to, and, at several time points, post administration of epratuzumab. Patients with mild to moderate systemic lupus erythematosus (SLE) activity (defined by Global BILAG scores of 6-12 prior to treatment) were enrolled. A high BILAG score indicates increased disease activity.

SLE assessments after treatment demonstrated consistent clinical improvement, with decreased global BILAG scores for all fourteen enrolled patients compared to the pre-therapy scores. Specifically, nine out of fourteen patients (64%) had lowered their global BILAG scores by 50% or more twenty-four hours post-therapy. Furthermore, six of the seven patients who had returned for their six-month check-up retained clinical benefit. In all patients, the treatment was well tolerated with infusions completed in about one hour, and no evidence of reactions or immunogenicity.

Based on these positive results, we submitted an application with the U.S. Food and Drug Administration (FDA) for Fast Track designation and in January 2005, received notice from the agency granting epratuzumab Fast Track Product designation for the treatment of patients with moderate and severe SLE. The fast track programs of the FDA are designed to facilitate drug development and to expedite the review of new drugs that are intended to treat serious or life threatening conditions, and that

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demonstrate the potential to address unmet medical needs. As such, the fast track designation allows for close and frequent interaction with the agency. A designated fast track drug may also be considered for priority review with a shortened review time, rolling submission, and accelerated approval if applicable.

In May 2005, we initiated two pivotal Phase III clinical trials to further evaluate the safety and efficacy of epratuzumab for the treatment of patients with moderate and severe SLE. These pivotal trials are randomized, double-blinded, placebo-controlled, multi-center studies using the BILAG index to monitor and assess disease activity. The trials have been named ALLEVIATE or Alleviate Lupus Affliction with Epratuzumab and Validate its Autoimmune Safety and Efficacy. One trial, ALLEVIATE A, is for patients with severe SLE flares, and the second trial, ALLEVIATE B, is for patients with moderately active SLE. With the consummation of the UCB Agreement, future costs incurred related to these clinical trials are the responsibility of UCB.

SLE is a serious autoimmune disease affecting approximately 1.5 million Americans, according to the Lupus Foundation of America. In the U.S., women with SLE outnumber men by a ratio of nine to one, and 80% of female patients develop lupus between the ages of 15 and 45. At present, there is no cure for lupus and no new lupus drug has been approved in the U.S. for nearly 40 years. Lupus most often results in chronic inflammation and pain affecting various parts of the body, especially the skin, joints, blood, and kidneys. The disease can be serious and life threatening. Current treatments used in medical practice include corticosteroids, nonsteroidal anti-inflammatory drugs, immunosuppressives, and antimalarials.

Another autoimmune indication that we are targeting with epratuzumab is Sjögren s syndrome, a disease that currently affects between 2 to 4 million Americans. We presented results from our open-label, non-randomized, two-center Phase I/II trial in June, 2005, at the European League Against Rheumatism (EULAR) Annual European Congress of Rheumatology. Fifteen patients with primary Sjögren s syndrome were enrolled in this study to assess feasibility, safety, and early evidence of efficacy. Over an eight-week period, patients received 360 mg/m^2 of epratuzumab every two weeks for a total of four doses. Fourteen patients received all four infusions without reactions with a median infusion time of fifty minutes. One patient discontinued the third infusion due to an acute infusion reaction, but completed the fourth infusion with no further reaction.

Patients reported improvements in their clinical signs and symptoms that include: dry eyes, dry mouth, fatigue, tender joints, tender points, tear and salivary flow. Specifically, twenty-four hours after the last treatment, symptomatic improvements ranging from 100% of patients experiencing tender joints to 33% of patients with salivary flow were observed. Moreover, when these patients were evaluated twelve weeks post therapy, 86% of patients who showed tender joints improvement retained clinical benefit, as did 20% of patients with increased salivary flow. A final evaluation is planned for six months after the last epratuzumab dose.

Epratuzumab seems to show activity without causing a drastic drop in the number of circulating B-lymphocytes, thus perhaps reducing the risk of infection. Consistent with our past clinical experience with the antibody, we have found a reduction of 50% to 60% in circulating B-cells in the patients enrolled in both the SLE and Sjögren s syndrome trials. This data suggests that B-cell modulation may be the primary mechanism of action of epratuzumab, and that complete depletion of B-cells is not necessary to provide a clinical benefit.

IMMU-103 has also demonstrated good safety, tolerability, and clinical efficacy in more than 340 patients with non-Hodgkin s lymphoma, resulting in reports published in *The Journal of Clinical Oncology* and *Clinical Cancer Research.*

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While the clinical results to date have been encouraging, we are not able to determine when, if ever, epratuzumab will be approved for sale in the U.S. or anywhere else. Even if it is approved, there can be no assurance that it will be commercially successful or that we will ever receive revenues equal to our financial investment in this product candidate.

Other Therapeutic Product Candidates

We also have in development a solid tumor therapeutic product candidate that targets an antigen known as carcinoembryonic antigen, or CEA. The CEA antigen is abundant at the site of virtually all cancers of the colon and rectum and is associated with many other solid tumors, such as breast and lung cancers. A Phase II trial has been completed in Europe for IMMU-111 (hCEA-I-131) in patients with proven or suspected metastatic colorectal cancer who failed chemotherapy. We believe that the initial results with IMMU-111 are encouraging. This Phase I/II trial with IMMU-101 (hCEA-Y-90) has completed enrollment in the United States and in Europe in patients with advanced colorectal and pancreatic cancers. We are not currently conducting clinical trials with our CEA antibody, however, we are providing clinical supplies for an investigator sponsored Phase II clinical trial in Germany, evaluating repeat dosing with IMMU-111.

We also are commencing clinical trials with IMMU-106 (anti-CD20) for the treatment of certain autoimmune diseases. We are currently conducting clinical trials in patients with non-Hodgkin s lymphoma with IMMU-106, and we are conducting clinical trials with IMMU-107 (for use in targeting anti-MUC 1 antibody) for pancreatic cancer therapy. In addition to these three product candidates, we have several others in pre-clinical development.

Diagnostics

We have transitioned our focus away from the development of diagnostic imaging products in order to accelerate the development of our therapeutic product candidates. Consistent with our de-emphasis on our diagnostic business, we no longer commercialize CEA-Scan®. We will continue to manufacture and commercialize LeukoScan® in territories where regulatory approvals have been granted. Furthermore, as of June 30, 2006, research and development into diagnostic product candidates was no longer a material portion of our business.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the U.S., which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. The following discussion highlights what we believe to be the critical accounting policies and judgments made in the preparation of these consolidated financial statements.

Revenue Recognition

We account for revenue arrangements that include multiple deliverables in accordance with Emerging Issues Task Force No. 00-21, *Accounting for Revenue Arrangements with Multiple Arrangements* (EITF 00-21). EITF 00-21 addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. In applying the guidance, revenue arrangements with multiple deliverables can only be considered as separate units of accounting if: a) the delivered item has value to the customer on a standalone basis, b) there is objective and reliable evidence of the fair value of the undelivered items and c) if the right of return exists, delivery of the undelivered items is considered probable and substantially in the control of the vendor. If these criteria are not met, the revenue elements must be considered a single unit of accounting for purposes of revenue recognition.

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We have concluded that the UCB Agreement should be accounted for as a single unit of accounting and are amortizing the $38 million payment received over the expected obligation period which is currently estimated to end in November 2009. If the obligation period estimate should change in the future, whether due to delays or acceleration of the UCB s clinical trials, this may affect the amortization period estimated to end in November 2009.

Contract revenue from collaborative research agreements is recorded when earned based on the performance requirements of the contract. Revenue from non-refundable upfront license fees and certain guaranteed payments where we continue involvement through collaborative development are deferred and recognized as revenue over the period of continuing involvement. We estimate the period of continuing involvement based on the best available evidential matter available to us at each reporting period. If our estimated time frame for continuing involvement changes, this change in estimate could impact the amount of revenue recognized in future periods.

Revenue is recognized for royalties based on license sales of our product (CEA-Scan®) in Japan and in Europe. Royalties are recognized as earned in accordance with the contractual terms when royalty from licenses can be reliably measured and collectablity is reasonably assured.

Revenue from product sales is recorded when there is persuasive evidence that an arrangement exists, delivery has occurred, the price is fixed and determinable and collectability is reasonably assured. Allowances, if any, are established for uncollectible amounts, estimated product returns and discounts. Since allowances are recorded based on management s estimates, actual amounts may be different in the future.

Foreign Currency Risks

Since Immunomedics operates in countries outside of the U.S., it is exposed to various foreign currency risks that arise from the nature of the contracts Immunomedics executes with its customers, since, from time to time, contracts are denominated in a currency different than the particular Immunomedics subsidiary s local currency. These risks are generally applicable only to a portion of the contracts executed by our foreign subsidiaries providing clinical services.

We are exposed to foreign currency risk resulting from the passage of time between the invoicing of customers and affiliates under these contracts and the ultimate collection of customer payments against such invoices. Because the contract is denominated in a currency other than the subsidiary s local currency, Immunomedics recognizes a receivable at the time of invoicing for the local currency equivalent of the foreign currency invoice amount. Changes in exchange rates from the time the invoice is prepared and payment from the customer is received will result in Immunomedics receiving either more or less in local currency than the local currency equivalent of the invoice amount at the time the invoice was prepared and the receivable established. This difference is recognized by us as a foreign currency transaction gain or loss, as applicable, and is reported in other expense (income) in our Consolidated Statements of Operations. In addition, for intercompany transactions for which settlement is planned or anticipated in the foreseeable future, the related foreign currency transaction gains or losses, as applicable, are reported in other expenses (income) in our Consolidated Statement of Operations.

In addition, our consolidated financial statements are denominated in U.S. dollars. Accordingly, changes in exchange rates between the applicable foreign currency and the U.S. dollar will affect the translation of each foreign subsidiary s financial results into U.S. dollars for purposes of reporting our

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consolidated financial results. The process by which each foreign subsidiary s financial results are translated into U.S. dollars is as follows: income statement accounts are translated at average exchange rates for the period; balance sheet asset and liability accounts are translated at end of period exchange rates; and equity accounts are translated at historical exchange rates. Translation of the balance sheet in this manner affects the stockholders equity account, referred to as the cumulative translation adjustment account. This account exists only in the foreign subsidiary s U.S. dollar balance sheet and is necessary to keep the foreign balance sheet stated in U.S. dollars in balance. To date such cumulative translation adjustments have not been material to the Company s consolidated financial position.

Stock Based Compensation

Prior to July 1, 2005, we granted stock options to our employees at an exercise price equal to the fair value of the underlying shares of common stock at the date of grant and accounted for these stock option grants in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees,* and related interpretations. Under APB Opinion No. 25, when stock options are issued with an exercise price equal to the market price of the underlying stock on the date of grant, no compensation expense is recognized in the income statement. However, for purposes of disclosure only, we estimate the fair value of stock options through the use of option-pricing models. In determining the values to use in our option-pricing model, we make several subjective estimates about the characteristics of the underlying stock and the expected timing of option exercise. Change to these estimates can change the fair value disclosures in our financial statements. Our Board of Directors approved the acceleration of vesting of all outstanding stock options as of June 30, 2005, primarily to avoid stock based compensation charges upon the adoption of SFAS 123(R) on July 1, 2005. This total additional compensation cost would have been approximately $8,100,000. The exercise price of all stock options was above market value of the common stock at the time of the accelerated vesting.

Effective July 1, 2005, we adopted the fair value recognition provisions of SFAS 123(R) using the modified-prospective transition method. Under that transition method, compensation cost recognized in fiscal year 2006 includes compensation cost for all share-based compensation granted subsequent to July 1, 2005, based on the grant date fair value estimated in accordance with the provisions of Statement 123(R). Due to the accelerated vesting prior to the adoption of SFAS 123(R) noted above, the impact on the statement of operations for the year ended June 30, 2006 is not material. The non-vested share-based compensation that is outstanding as of June 30, 2006 is $1,018,065, which is expected to be recognized over the next four fiscal years. The results of adopting SFAS 123(R) for the prior periods have not been restated.

Impairment of Assets

Immunomedics reviews its long-lived assets for impairment, when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based upon our judgment of its ability to recover the asset from the expected future undiscounted cash flows of the related operations. Actual future cash flows may be greater or less than estimated.

Make-Whole Interest Derivative Liability

The holders of the 5% Notes who convert their 5% Notes will also receive on the date of conversion a payment equal to the amount of accrued and unpaid interest, less interest actually previously paid or provided for, up to and including the maturity date of the 5% Notes, known as the make-whole interest payment. The make-whole interest payment is considered a bifurcated derivative since the embedded call option can accelerate the settlement of the interest component of the debt cost at the holder s option. Changes in the fair value of the make-whole interest payment are recorded in current period operations. The fair value of this instrument was recorded in the consolidated balance sheet as

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derivative interest liability. The initial value of the derivative interest liability associated with the make-whole interest provision of $751,000 is recorded as additional debt discount and is being amortized to interest expense over the remaining life of the 5% Notes.

The value of this derivative liability is based on various inputs and assumptions such as the price of our stock at each balance sheet date and the stock s volatility. Although we expect the value of this liability to be zero upon maturity of the 5% Notes, changes in these inputs and assumptions, particularly the price of our common stock, will impact the value of this derivative liability at each balance sheet date.

Results of Operations

Fiscal Year 2006 compared to Fiscal Year 2005

Revenues for the fiscal year ended June 30, 2006 were $4,353,000 as compared to $3,813,000 in the fiscal year ended June 30, 2005, representing an increase of $540,000, or 14%, primarily due to the impact of the recognition of a portion of the deferred revenue from the Development, Collaboration and License Agreement dated May 9, 2006 with UCB, S.A. (UCB Agreement), partially offset by lower product sales. Product sales were $1,096,000 lower in Europe primarily due to a lack of saleable LeukoScan® product earlier in the year. On January 30, 2006 approval was received from the European Regulatory Agency to market LeukoScan® for the revision to our manufacturing process. License fee and other revenues for fiscal year 2006 increased to $1,830,000 from $330,000 for the same period in 2005, primarily from the recognition of a portion of the deferred revenue earned under the UCB Agreement.

Total operating expenses for fiscal year 2006 were $28,903,000 as compared to $32,514,000 in fiscal year 2005, representing a decrease of $3,611,000, or 11%. Research and development expenses for fiscal year 2006 declined by $4,247,000, to $22,781,000 from $27,028,000 in fiscal year 2005 due to the transfer of the SLE clinical trials over to UCB as part of the UCB Agreement, reduced spending for outside toxicity testing associated with producing compounds to be used in clinical trials and a concerted effort to limit spending to conserve cash during the year. Cost of goods sold for fiscal year 2006 decreased by $134,000 to $473,000 from $607,000 in fiscal year 2005, primarily due to lower sales of diagnostic kits.

Sales and marketing expenses for fiscal year 2006 were $758,000 as compared to $974,000 for fiscal year 2005, representing a decrease of $216,000. The decline in marketing expenses was due to de-emphasis of the diagnostic product line. General and administrative costs for fiscal year 2006 increased by $986,000 from $3,905,000 in fiscal year 2005 to $4,891,000. This increase was primarily due to a charge of $876,000 for fees associated with the UCB Agreement.

Interest and other income for fiscal year 2006 increased by $230,000 from $437,000 in fiscal year 2005 to $667,000 in fiscal year 2006, primarily due to higher interest rates and increased level of cash available for investment during the fourth quarter of fiscal year 2006 resulting from the UCB Agreement. Interest expense increased from $1,035,000 in fiscal year 2005 to $5,175,000 in fiscal year 2006. This increase resulted primarily from the $37,675,000 of 5% senior convertible notes sold in April 2005. This increase included the amortization of a portion of the expenses associated with the debt issuance costs ($777,000), the mark to market value adjustment of the debt discount ($1,609,000), the change in the market value of the make-whole derivative interest liability ($70,000) and the make-whole interest payment regarding the conversion of the 5% Senior Convertible Notes due May 2008 (5% Notes) into shares of common stock ($915,000).

In September 2004 a patent infringement suit with Cytogen, Inc. and C.R. Bard was settled for an undisclosed amount without any admission of fault or liability. In connection with the settlement, we settled legal fees associated with the suit with the attorneys representing it in the case. We recorded a litigation settlement gain in other income in the amount of $1,111,750, which includes the reversal of legal fees previously accrued for this patent suit. The specific amount of the settlement, however, is undisclosed in accordance with the terms of the parties settlement agreement.

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On August 19, 2005 at a Special Meeting of Stockholders a majority of holders of our common stock approved an amendment to the certificate of incorporation to increase the number of shares of common stock authorized from 70 million to 110 million shares. In addition, the shareholders voted to authorize shares of common stock for conversion if required, into common stock for the 5% senior convertible notes and the warrants. The 5% Notes and warrants were therefore no longer restricted as to conversion into shares of common stock. The liability for the warrants was increased by $270,000 to reflect our common stock valuation. This increase in the liability for the warrants was reflected in the statement of operations. The warrants were reclassified to permanent equity during the first quarter 2006, (a reduction to the liability of $3,018,000).

For fiscal years 2006 and 2005, we recorded a tax benefit of $514,000 and $590,000, respectively, as a result of our sale of approximately $6,385,000 and $7,335,000 of New Jersey state net operating losses, respectively. These tax benefits were partially offset by income tax provisions of $24,000 in 2006 for state tax purposes and $205,000 in 2005 for our European subsidiary.

Net loss allocable to common stockholders for fiscal year 2006 is $28,764,000, or $0.52 per share, as compared to $26,758,000, or $0.50 per share, in fiscal year 2005.

Fiscal Year 2005 compared to Fiscal Year 2004

Revenues for the fiscal year ended June 30, 2005 were $3,813,000 as compared to $4,306,000 in the fiscal year ended June 30, 2004, representing a decrease of $493,000, or 11%, primarily due to lower product sales and a decrease in license fees. Product sales were $258,000 lower in Europe primarily due to a lack of saleable LeukoScan® product, as current production was waiting for submission to the European regulatory authorities. License fee and other revenues for fiscal year 2005 decreased to $330,000 from $512,000 for the same period in 2004, primarily due to the complete recognition of revenues associated with the Development and License Agreement with Amgen, Inc. (Amgen Agreement) which declined from $275,000 in 2004 to $0 in 2005.

Total operating expenses for fiscal year 2005 were $32,514,000 as compared to $27,299,000 in fiscal year 2004, representing an increase of $5,215,000, or 19%. Research and development expenses for fiscal year 2005 increased by $5,094,000, from $21,934,000 in fiscal year 2004 to $27,028,000, primarily due to the beginning of the Phase III trials for epratuzumab for the treatment of SLE, as well as increased research and development efforts including outside toxicity testing associated with producing compounds to be used in clinical trials. Cost of goods sold for fiscal year 2005 decreased by $106,000 to $607,000 from $713,000 in fiscal year 2004, primarily due to lower sales of in-vitro diagnostic kits and other imaging products.

Sales and marketing expenses for fiscal year 2005 were $974,000 as compared to $1,331,000 for fiscal year 2004, representing a decrease of $357,000. The decline in marketing expenses was due to de-emphasis of our diagnostic product line. General and administrative costs for fiscal year 2005 increased by $585,000 from $3,320,000 in fiscal year 2004 to $3,905,000. This increase was primarily due to settlement of corporate litigation in 2005 and a $300,000 insurance claim paid for product loss that was received in 2004 and not repeated in 2005.

Interest and other income for fiscal year 2005 decreased by $73,000 from $510,000 in fiscal year 2004 to $437,000 in 2005, primarily due to reduced level of cash available for investment during the year. Interest expense increased from $225,000 in fiscal year 2004 to $1,035,000 in fiscal year 2005. This increase resulted primarily from the $37,675,000 of 5% Notes sold in April 2005. Also included in interest expense in 2005 is amortization expense associated with the debt issuance costs ($139,000) and the debt discount ($205,000).

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In September 2004 a patent infringement suit with Cytogen, Inc. and C.R. Bard was settled for an undisclosed amount without any admission of fault or liability. In connection with the settlement, the Company settled legal fees associated with the suit with the attorneys representing it in the case. The Company recorded a litigation settlement gain in other income in the amount of $1,111,750, which includes the reversal of legal fees previously accrued for this patent suit. The specific amount of the settlement, however, is undisclosed in accordance with the terms of the parties settlement agreement.

At June 30, 2005 the liabilities outstanding related to the warrants from the 5% Notes were revalued based on our common stock price. The valuation of the liability for these warrants was adjusted as of June 30, 2005 due to the decline in our common stock from $2.16 per share on April 29, 2005 to $1.71 per share. As such, the gain from the change in the fair value of the warrant liability of $938,760 was recorded in the statement of operations.

For fiscal years 2005 and 2004, we recorded a tax benefit of $590,000 and $428,000, respectively, as a result of our sale of approximately $7,335,000 and $5,313,000 of New Jersey state net operating losses, respectively. These tax benefits were partially offset by income tax provisions of $205,000 and $206,000, primarily from our European subsidiary for 2005 and 2004, respectively.

Net loss allocable to common stockholders for fiscal year 2005 is $26,758,000, or $0.50 per share, as compared to $22,355,000, or $0.45 per share, in fiscal year 2004.

Research and Development Expenses

Research and development expenses for our products in development were $22,781,000 for the fiscal year ended June 30, 2006, $27,028,000 for the fiscal year ended June 30, 2005 and $21,934,000 for the fiscal year ended June 30, 2004. Research and development expenses decreased by $4,247,000 in 2006 or 16% as compared to 2005. Research and development expenses increased by $5,094,000 in 2005 or 23% as compared to 2004.

We do not track expenses on the basis of each individual compound under investigation or through clinical trials and therefore we do not provide a breakdown of such historical information in that format. We evaluate projects under development from an operational perspective, including such factors as results of individual compounds from laboratory/animal testing, patient results and enrollment statistics in clinical trials. It is important to note that multiple product candidates are often tested simultaneously. It is not possible to calculate each antibody s supply costs. There are many different development processes and test methods that examine multiple products at the same time. We have, historically, tracked our costs in the categories discussed below, specifically research costs and product development costs and by the types of costs outlined below.

Our research costs consists of outside costs associated with animal studies and costs associated with research and testing of our product candidates prior to reaching the clinical stage. Such research costs primarily include personnel costs, facilities, including depreciation, lab supplies, funding of outside contracted research and license fees. Our product development costs consist of costs from preclinical development (including manufacturing), conducting and administering clinical trials and patent expenses.

The following table sets forth a breakdown of our research and development expenses by those associated with research and those associated with product development for the periods indicated.

	Years Ended June 30,		
	2006	**2005**	**2004**
Research Costs	$ 4,975	$ 6,503	$ 5,849
Product Development Costs	17,806	20,525	16,085
Total	$ 22,781	$ 27,028	$ 21,934

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Research Costs

Research costs in total decreased for the year ended June 30, 2006 by $1,528,000 or 23% as compared to 2005. Research costs increased by $654,000 in 2005 or 11% as compared to 2004. The changes in research costs primarily relate to the following:

Animal studies conducted by outside organizations in 2006 were $809,000, a decrease of $643,000 or 44% from 2005, as testing for toxicity studies for compounds in the preclinical stage were reduced based on the current status of product development. The increase in 2005 over 2004 was $642,000 or a 79% increase, was for testing for toxicity studies for compounds in the preclinical stage of development for epratuzumab for SLE indications.

Personnel costs in 2006 were $1,860,000 a decrease of $579,000 or 24% as compared to 2005. This decline resulted primarily from employee attrition and cost savings efforts during the year. For the 2005 fiscal year personnel costs decreased by $64,000 or 3% over 2004 due to employee attrition and the increased focus to product development as compounds proceeded further in clinical trials.

Facility costs decreased $60,000 in 2005 over 2004 levels, or 5%. This decrease was a result of a reduction in depreciation expense as assets acquired in previous years became fully depreciated.

Product Development Costs

Product development costs for the year ended June 30, 2006 in total decreased by $2,719,000 or 13% as compared to 2005. Product development costs in total increased by $4,440,000 in 2005 or 28% as compared to 2004. The changes in product development costs primarily relate to the following:

Personnel costs in 2006 were $4,572,000, a decrease of $71,000 or 2% as compared to 2005. This decrease was primarily due to employee attrition, a reduction in recruitment fees and other cost control efforts partially offset by salary increases. Personnel costs in 2005 were $4,643,000 an increase of $40,000 or 1% as compared to 2004. This small increase was primarily attributed to salary increases offset by employee attrition and cost control efforts in the manufacturing and clinical monitoring areas.

Clinical trial expenses in 2006 were $4,342,000, an increase of $605,000 or 16% over 2005. This increase is primarily the result of investigator expenses for enrollment at clinical sites, particularly for epratuzumab for the treatment of SLE of approximately $3,600,000. Clinical trial expenses in 2005 were $3,737,000, an increase of $2,213,000 or 145% over 2004. This increase is primarily the result of the beginning of the Phase III clinical trials for epratuzumab for the treatment of SLE, which incurred approximately $2,865,000 of expenses in 2005.

Patent expenses for 2006 were $1,251,000, a decrease of $1,834,000 or 59% over 2005, due to efforts to reduce professional fees incurred for patent filings and support. For the 2005 fiscal year patent expenses were $3,086,000, an increase of $1,803,000 or 141% over 2004. The increase for patent expenses in 2005 was primarily attributed to increased applications of patents in foreign locations and vigorous defense of existing patents.

Facility costs in 2006 were $3,897,000, a decrease of $149,000 or 4% from 2005, due to lower maintenance and repairs expense. Facility costs in 2005 were $4,046,000 an increase of $250,000 or 7%

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over 2004. The increases in facility costs in 2005 primarily relates to increased investment in our manufacturing facility and equipment that took place during the 2003 fiscal year. As a result depreciation, utilities, maintenance and related expenses have increased.

Lab supplies and chemical reagent costs were $1,686,000 in 2006, a decrease of $839,000 or 33% over 2005. This was a result of delayed production of clinical antibodies as part of cost control efforts and lower demand of the clinical trials in process. Lab supplies and chemical reagent costs were $2,525,000 in 2005, an increase of $223,000 or 10% over 2004. This increase resulted from the increased production levels of the new manufacturing facility and growth needed for clinical trial demands in 2005.

Completion of clinical trials may take several years or more. The length of time varies according to the type, complexity and the disease indication of the product candidate. We estimate that clinical trials of the type we generally conduct are typically completed over the following periods:

Clinical Phase	Estimated Completion Period
Phase I	1-2 Years
Phase II	1-3 Years
Phase III	2-5 Years

The duration and cost of clinical trials through each of the clinical phases may vary significantly over the life of a particular project as a result of, among other things, the following factors:

- the length of time required to recruit qualified patients for clinical trials
- the duration of patient follow-up in light of trials results
- the number of clinical sites required for trials and
- the number of patients that ultimately participate

Liquidity and Capital Resources

Since our inception in 1982, we have financed our operations primarily through private sales of our equity securities, revenue earned under licensing agreements and, to a lesser degree, from sales of CEA-Scan® and LeukoScan®, research grants from various sources and investment income.

At June 30, 2006, we had working capital of $25,709,000, representing an increase of $2,383,000 from $23,326,000 at June 30, 2005. The increase in working capital is a result of the May 2006 UCB Agreement ($38,000,000), partially offset by our loss on operations of $28,764,000. The increase of current liabilities as of June 30, 2006 was primarily due to $10,669,000 for deferred revenues relating to the recognition of revenue under the UCB Agreement over the next fiscal year. At June 30, 2006, we had long-term debt, net of discounts and current portion, of $29,525,000, (5% senior convertible notes due 2008 - $28,250,000 and the New Jersey Economic Development Authority - $1,275,000) and deferred revenues under the UCB Agreement of $25,811,000, to be recognized after the 2007 fiscal year.

On May 9, 2006 we entered into the UCB Agreement providing UCB an exclusive worldwide license to develop, manufacture, market and sell epratuzumab for the treatment of all autoimmune disease indications. Under the terms of the UCB Agreement, we retained the rights to develop epratuzumab in the field of oncology, and UCB has an option to acquire development and commercialization rights to epratuzumab with respect to cancer indications at anytime prior to the first commercial sales thereof. Under the terms of the UCB Agreement, we received initial cash payments totaling $38 million (before fees).

The April 29, 2005 private placement of the 5% Notes raised total gross proceeds of $37,675,000. A portion of the proceeds received from the offering of the notes was used for payment of related fees and

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expenses and to retire $5 million principal amount of the 3.25% senior convertible notes due in January 2006. In addition, $5,000,000 of the 3.25% senior convertible notes was exchanged for $5,000,000 of the 5.0% Notes. The resulting net cash proceeds raised from this transaction was $30,200,000.

The 5% Notes mature three years from their date of issuance, are convertible into company common stock at a conversion rate of $2.62 per share and bear interest at the rate of 5% per annum. If a note is converted or cancelled prior to maturity, the holder will be paid on the date of conversion or cancellation any interest that would have otherwise been earned during the three-year term. For each $1,000 principal amount of notes purchase, purchasers were granted a warrant to purchase approximately 76.39 shares of common stock. The warrants expire three years from the initial closing date and will be exercisable at $2.98 per share.

In August 2004, we sold 4,178,116 shares of its common stock, resulting in net proceeds to the Company of approximately $14.0 million. The shares were sold to institutional investors at a price of $3.61 per share. The shares of common stock were sold pursuant to an effective shelf registration statement filed with the SEC.

Our cash, cash equivalents and marketable securities amounted to $41,827,000 at June 30, 2006, representing an increase of $26,342,000 from $15,485,000 at June 30, 2005. The increase was primarily attributable to the May 2006 agreement with UCB for the worldwide licensing of epratuzumab for all autoimmune diseases, offset by our net loss for 2006. The proceeds from the UCB Agreement will be used for research and development activities and funding of operating expenses. It is anticipated that working capital, and cash, cash equivalents and marketable securities will be utilized during fiscal year 2007 as a result of planned research and development, other operating expenses and capital expenditures, partially offset by projected revenues from sales of our diagnostic imaging products. However, there can be no assurance as to the amount of revenues, if any, these imaging products will provide.

We expect to have adequate cash equivalents and short-term investments to fund our operations for at least the 2007 fiscal year. Cash requirements are expected to be at a lower level than in the 2006 fiscal year due to decreased spending for clinical trials, as UCB is assuming the expenses for conducting the SLE Phase III clinical trials. However, we do not believe that we will have adequate cash at the expected spending level to complete our other research and development programs. As a result, we will require additional financial resources after we utilize our current liquid assets in order for us to continue our research and development programs, clinical trials of our product candidates and regulatory filings. Additional financing may not be available to us on terms we find acceptable, if at all, and the terms of such financing may cause substantial dilution to existing stockholders. If adequate funds are not available, we may be required to curtail significantly one or more of our research and development programs. If we obtain funds through collaborative partnerships, we may be required to relinquish rights to certain of our technologies or product candidates.

We continue to evaluate various programs to raise additional capital and to seek additional revenues from the licensing of our proprietary technologies. At the present time, we are unable to determine whether any of these future activities will be successful and, if so, the terms and timing of any definitive agreements.

Actual results could differ materially from our expectations as a result of a number of risks and uncertainties, including the risks described in Item 1A Risk Factors, Factors That May Affect Our Business and Results of Operations, and elsewhere in this Annual Report on Form 10-K. Our working capital and working capital requirements are affected by numerous factors and such factors may have a negative impact on our liquidity. Principal among these are the success of product commercialization and marketing products, the technological advantages and pricing of our products, the impact of the regulatory requirements applicable to us and access to capital markets that can provide us with the resources when necessary to fund our strategic priorities.

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Contractual Commitments

Our major contractual obligations relate to an operating lease for our facility, a loan from the New Jersey Economic Development Authority used to fund the expansion of our facility, the issuance of 5% Notes and employment contracts in effect for our Chairman of the Board and the President/Chief Executive Officer. We have identified and quantified the significant commitments in the following table for the fiscal years ending June 30:

	Payments Due by Period						
(in thousands)							
Contractual Obligation	**2007**	**2008**	**2009**	**2010**	**2011**	**Thereafter**	**Total**
Operating Lease[1]	$ 552	$ 556	$ 556	$ 556	$ 609	$ 7,933	$ 10,762
NJEDA Loan[2]	$ 1,301	1,284					$ 2,585
5% Senior Convertible Notes[3]	1,515	31,568					$ 33,083
Employment Contracts[4]	$ 1,106	100	100	100			$ 1,406
TOTAL	$ 4,474	$ 33,508	$ 656	$ 656	$ 609	$ 7,933	$ 47,836

(1) In November 2001, we renewed our operating lease for our Morris Plains, New Jersey facility for an additional term of 20 years expiring in October 2021 at a base annual rate of $545,000, which included an additional 15,000 square feet. The rent is fixed for the first five years and increases every five years thereafter.

(2) In May 2003, we obtained a loan for $6,376,000 at a variable interest rate through the New Jersey Economic Development Authority, repayable monthly in 60 equal installments.

(3) On April 29, 2005, we completed a $37,675,000 private placement financing through the issuance of 5% Notes due April 29, 2008. Interest payments are due semi-annually beginning November 29, 2005, payable in cash or shares of common stock at the option of the Company. The holders of the notes may convert the notes at any time prior to April 29, 2009 at a conversion price of $2.62 per share, subject to adjustment based on the anti-dilution provision. In addition, the holders received warrants that may be converted into shares of common stock at a conversion price of $2.98 per share. As of June 30, 2006, $7,370,000 of the 5% Notes have been converted into shares of common stock.

(4) We have employment contracts with the Chairman of the Board and the Chief Executive Officer, which expired June 30, 2006. The contract for the Chairman of the Board includes an automatic one-year extension, to June 30, 2007. This contract also includes an agreement to pay $143,000 annually towards life insurance premiums for the Chairman as long as he is employed by the Company. The contract with the Chairman of the Board includes a royalty which continues for three years after the termination of his contract and is included above. The Board of Directors has extended the contract for the Chief Executive Officer to December 31, 2006.

Recently Issued Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* (FIN 48). This authoritative interpretation clarifies and standardizes the manner by which companies will be required to account for uncertain tax positions. Adoption of FIN 48 is required for fiscal years beginning after December 15, 2006. Immunomedics will be required to adopt FIN 48 no later than the quarter beginning July 1, 2007. Immunomedics is currently in the process of evaluating the Interpretation and has not yet determined the impact, if any, FIN 48 will have on its consolidated financial results.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The following discussion about our exposure to market risk of financial instruments contains forward-looking statements under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those described due to a number of factors, including uncertainties associated with general economic conditions and conditions impacting our industry.

Our holdings of financial instruments are comprised primarily of corporate debt securities and municipal bonds. All such instruments are classified as securities available for sale. We do not invest in portfolio equity securities or commodities or use financial derivatives for trading purposes. Our debt security portfolio represents funds held temporarily pending use in our business and operations. We manage these funds accordingly. We seek reasonable assuredness of the safety of principal and market liquidity by investing in rated fixed income securities while at the same time seeking to achieve a favorable rate of return. Our market risk exposure consists principally of exposure to changes in interest rates. Our holdings also are exposed to the risks of changes in the credit quality of issuers. We typically invest in highly liquid debt instruments with fixed interest rates.

The table below presents the amounts and related weighted average interest rates by fiscal year of maturity for our investment portfolio in marketable and restricted securities as of June 30, 2006:

	2007	2008	2009	2010	2011	Total	Fair Value
	(in thousands)						
Fixed rate	$ 3,515					$ 3,515	$ 3,499
Average interest rate	2.20%					2.20%	

We may be exposed to fluctuations in foreign currencies in regards to certain agreements with service providers relating to certain clinical trials that are in process. Depending on the strengthening or weakening of the U.S. dollar, realized and unrealized currency fluctuations could be significant.

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Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Immunomedics, Inc.

We have audited the accompanying consolidated balance sheets of Immunomedics, Inc. and subsidiaries as of June 30, 2006 and 2005, and the related consolidated statements of operations and comprehensive loss, stockholders (deficit) equity and cash flows for each of the three years in the period ended June 30, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Immunomedics, Inc. and subsidiaries at June 30, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, effective July 1, 2005, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* .

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Immunomedics, Inc. s internal control over financial reporting as of June 30, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated August 22, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

MetroPark, New Jersey

August 22, 2006

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IMMUNOMEDICS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30, 2006	June 30, 2005
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 40,877,766	$ 11,937,483
Marketable securities	948,820	3,547,507
Accounts receivable, net of allowance for doubtful accounts of $117,000 and $150,000 at June 30, 2006 and June 30, 2005, respectively	498,612	409,458
Inventory, net of reserve	541,030	493,603
Other current assets	602,736	785,677
Restricted securities current portion	1,275,200	15,575,200
Total current assets	44,744,164	32,748,928
Property and equipment, net	8,496,060	10,152,115
Restricted securities	1,275,200	2,550,400
Other long-term assets	1,362,419	2,471,706
	$ 55,877,843	$ 47,923,149
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current Liabilities:		
Current portion of long-term debt	$ 1,275,200	$ 1,275,200
Accounts payable and accrued expenses	7,090,754	8,147,723
Deferred revenues current portion	10,669,231	
Total current liabilities	19,035,185	9,422,923
Long-term debt	29,525,377	36,743,233
Deferred revenues long term portion	25,810,769	
Other liabilities warrants		2,748,240
Minority interest	182,000	272,160
Commitments and Contingencies		
Stockholders deficit:		
Preferred stock, $.01 par value; authorized 10,000,000 shares; no shares issued and outstanding at June 30, 2006 and June 30, 2005		
Common stock, $.01 par value; authorized 110,000,000 shares; issued and outstanding, 57,538,031 and 54,073,059 shares at June 30, 2006 and June 30, 2005, respectively	575,380	540,730
Capital contributed in excess of par	184,651,409	173,417,147
Treasury stock, at cost, 34,725 shares	(458,370)	(458,370)
Accumulated deficit	(203,780,087)	(175,015,679)
Accumulated other comprehensive income	336,180	252,765
Total stockholders deficit	(18,675,488)	(1,263,407)
	$ 55,877,843	$ 47,923,149

See accompanying notes to consolidated financial statements.

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IMMUNOMEDICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND

COMPREHENSIVE LOSS

	Years ended June 30,		
	2006	**2005**	**2004**
Revenues:			
Product sales	**$ 2,253,748**	$ 3,349,483	$ 3,607,413
License fee and other revenues	**1,830,460**	329,674	512,256
Research and development	**268,570**	134,285	186,171
Total revenues	**4,352,778**	3,813,442	4,305,840
Costs and Expenses:			
Costs of goods sold	**473,733**	606,901	713,332
Research and development	**22,780,529**	27,028,272	21,934,287
Sales and marketing	**758,324**	973,755	1,331,235
General and administrative	**4,890,516**	3,905,331	3,320,220
Total costs and expenses	**28,903,102**	32,514,259	27,299,074
Operating loss	**(24,550,324)**	(28,700,817)	(22,993,234)
Litigation settlement		1,111,750	
(Loss) Gain on change in fair value of warrants	**(269,988)**	938,760	
Interest and other income	**667,427**	436,759	509,608
Interest expense	**(5,175,312)**	(1,035,498)	(224,743)
Minority interest	**90,160**	109,961	88,923
Foreign currency transaction (loss) gain	**(16,786)**	(3,969)	30,055
Loss before income tax benefit	**(29,254,823)**	(27,143,054)	(22,589,391)
Income tax benefit	**490,415**	385,120	234,136
Net loss	**$ (28,764,408)**	$ (26,757,934)	$ (22,355,255)
Per Share Data (basic and diluted):			
Net loss	**$ (0.52)**	$ (0.50)	$ (0.45)
Weighted average number of common shares outstanding	**55,263,365**	53,683,834	49,886,484
Comprehensive loss:			
Net loss	**$ (28,764,408)**	$ (26,757,934)	$ (22,355,255)
Other comprehensive (loss) income, net of tax:			
Foreign currency translation adjustments	**52,938**	(39,976)	85,737
Unrealized gain (loss) on securities available for sale	**30,477**	(14,722)	(269,872)
Other comprehensive income (loss)	**83,415**	(54,698)	(184,135)
Comprehensive loss	**$ (28,680,993)**	$ (26,812,632)	$ (22,539,390)

See accompanying notes to consolidated financial statements.

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IMMUNOMEDICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS (DEFICIT) EQUITY

	Preferred Stock		Common Stock					Accumulated Other	
	Shares	Amount	Shares	Amount	Capital Contributed in Excess of Par	Treasury Stock	Accumulated Deficit	Comprehensive Income/(Loss)	Total
Balance, at June 30, 2003			49,878,193	$ 498,782	$ 159,037,244	$ (458,370)	$ (125,902,490)	$ 491,598	$ 33,666,764
Exercise of options to purchase common stock			15,500	155	49,045				49,200
Issuance of warrants to purchase common stock					310,000				310,000
Compensation expense associated with issuance of stock options to employees					97,570				97,570
Other comprehensive loss								(184,135)	(184,135)
Net loss							(22,355,255)		(22,355,255)
Balance, at June 30, 2004			49,893,693	$ 498,937	$ 159,493,859	$ (458,370)	$ (148,257,745)	$ 307,463	$ 11,584,144
Exercise of options to purchase common stock			1,250	12	4,050				4,062
Issuance of common stock pursuant of private placement, net			4,178,116	41,781	13,919,238				13,961,019
Other comprehensive loss								(54,698)	(54,698)
Net loss							(26,757,934)		(26,757,934)
Balance, at June 30, 2005			54,073,059	$ 540,730	$ 173,417,147	$ (458,370)	$ (175,015,679)	$ 252,765	$ (1,263,407)
Exercise of options to purchase common stock			**54,250**	**543**	**95,145**				**95,688**
Stock compensation					**31,846**				**31,846**
Warrants reclassified to equity					**3,018,228**				**3,018,228**
Conversion of 5% notes to common stock			**2,808,543**	**28,085**	**6,415,167**				**6,443,252**
Payment of interest expense in common stock			**602,179**	**6,022**	**1,673,876**				**1,679,898**
Other comprehensive income								**83,415**	**83,415**
Net loss							**(28,764,408)**		**(28,764,408)**
Balance, at June 30, 2006			**57,538,031**	**575,380**	**184,651,409**	**(458,370)**	**(203,780,087)**	**336,180**	**(18,675,488)**

See accompanying notes to consolidated financial statements.

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IMMUNOMEDICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended June 30,		
	2006	2005	2004
Cash flows from operating activities:			
Net loss	$ (28,764,408)	$ (26,757,934)	$ (22,355,255)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation	1,779,222	1,863,052	1,947,683
Receipt of proceeds from UCB Agreement	38,000,000		
Amortization of deferred revenue	(1,520,000)		
Minority interest.	(90,160)	(109,961)	(88,923)
Provision (credit) for allowance for doubtful accounts	(30,160)	(105,972)	
Inventory reserve	5,500	27,614	139,000
Amortization of premiums of marketable securities	106,205	148,044	216,871
Amortization of debt issuance costs and debt discount	2,457,111	334,097	
Loss (gain) on change in fair value of warrants	269,988	(938,760)	
Non-cash expense relating to issuance of warrants			310,000
Non-cash expense relating to issuance of stock options	31,846		
Employee stock based compensation			97,570
Payment of interest expense with common stock	1,679,898		
Other	52,938	(39,976)	85,737
Changes in operating assets and liabilities:			
Accounts receivable	(58,994)	485,161	141,487
Inventories	(52,927)	(181,084)	360,347
Other current assets	182,941	(36,756)	76,451
Other long-term assets	(25,963)	(5,962)	(35,086)
Accounts payable and accrued expenses	(1,878,235)	3,126,210	405,767
Net cash used in operating activities	12,144,802	(22,182,227)	(18,698,351)
Cash flows from investing activities:			
Purchase of marketable securities	(1,650,000)	(7,356,984)	(849,977)
Proceeds from maturities of marketable and restricted securities	5,448,160	9,267,802	7,487,356
Additions to property and equipment	(123,167)	(482,521)	(1,181,358)
Net cash from investing activities	3,674,993	1,428,297	5,456,021
Cash flows from financing activities:			
Issuance of 5.0% senior convertible notes-net of fees and exchange of 3.25% notes		30,168,235	
Release of restricted funds from escrow	14,300,000	(14,300,000)	
Proceed from issuane of common stock, net of transaction costs		13,961,019	
Issuance of 3.25% senior convertible notes			10,000,000
Payments of debt	(1,275,200)	(6,275,200)	(1,275,200)
Exercise of stock options	95,688	4,062	49,200
Net cash provided by financing activities	13,120,488	23,558,116	8,774,000
Increase (decrease) in cash and cash equivalents	28,940,283	2,804,186	(4,468,330)
Cash and cash equivalents at beginning of period	11,937,483	9,133,297	13,601,627
Cash and cash equivalents at end of period	$ 40,877,766	$ 11,937,483	$ 9,133,297

Supplemental disclosure of noncash financing activities:			
Cash paid for interest	**$ 1,080,482**	**$ 529,111**	**$ 76,766**
Cash paid for income taxes	**$ 1,480**	**$ 330,893**	**$ 4,232**

See accompanying notes to consolidated financial statements.

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IMMUNOMEDICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Business Overview

Immunomedics, Inc., a Delaware corporation (Immunomedics or the Company) is a biopharmaceutical company focused on the development of monoclonal antibody-based products for the targeted treatment of cancer, autoimmune and other serious diseases. Immunomedics currently markets and sells LeukoScan® throughout Europe, Canada and in certain other markets outside the U.S.

Immunomedics is subject to significant risks and uncertainties, including, without limitation, our inability to further identify, develop and achieve commercial success for new products and technologies; the possibility of delays in the research and development necessary to select drug development candidates and delays in clinical trials; the risk that clinical trials may not result in marketable products; the risk that we may be unable to successfully finance and secure regulatory approval of and market our drug candidates; our dependence upon pharmaceutical and biotechnology collaborations; the levels and timing of payments under our collaborative agreements; uncertainties about our ability to obtain new corporate collaborations and acquire new technologies on satisfactory terms, if at all; the development of competing products; our ability to protect our proprietary technologies; patent-infringement claims; and risks of new, changing and competitive technologies and regulations in the United States and internationally.

On May 9, 2006 the Company entered into a Development, Collaboration and License Agreement (the UCB Agreement) with UCB, S.A., (UCB) providing UCB an exclusive worldwide license to develop, manufacture, market and sell epratuzumab, the Company s humanized CD22 antibody (Epratuzumab), for the treatment of all autoimmune disease indications. Under the terms of the UCB Agreement, the Company retains the rights to develop Epratuzumab in the field of oncology, and UCB has an option to acquire development and commercialization rights to Epratuzumab with respect to cancer indications at any time prior to the first commercial sales thereof. If UCB exercises its buy-in right with respect to Epratuzumab in the field of oncology, UCB will reimburse the Company for the development cost actually incurred, plus a buy-in fee. This buy-in fee is based on whether the UCB election is made after the Phase II clinical trials, the Phase III clinical trials or after regulatory approval is received but before commercial sale has begun.

Under the terms of the UCB Agreement, the Company received from UCB initial cash payments totaling $38 million (which includes a $25 million upfront payment, plus a $13 million reimbursement for development costs of Epratuzumab related to our clinical development of Epratuzumab in patients with certain autoimmune conditions prior to the date of the UCB Agreement). In addition, the Company is entitled to receive regulatory milestone payments, which could aggregate to a maximum of up to $145 million in cash payments and $20 million in equity investments. These milestone payments are dependent upon specific achievements in the regulatory approval process under the Agreement. The Company will also receive product royalties based upon a percentage of aggregate annual net sales under the Agreement during the product royalty term, which percentage is subject to reduction under certain circumstances. In addition, the Company will be entitled to receive sales bonuses of up to $135 million upon annual net sales reaching certain target levels. There can be no assurance that these regulatory or sales achievements will be met and therefore there can be no assurance that the Company will receive such future payments.

The Company expects to utilize its cash equivalents and short-term investments to fund its operations at least for the 2007 fiscal year. Cash requirements are expected to be at a level lower than in the 2006 fiscal year due to decreased spending for clinical trials, as UCB is assuming the expenses for conducting the Phase III clinical trials. However, the Company does not believe it will have adequate

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cash to complete its research and development programs. As a result, Immunomedics will require additional financial resources after it utilizes its current liquid assets in order to continue its research and development programs, clinical trials of product candidates and regulatory filing. Immunomedics has never achieved profitable operations, and there is no assurance that profitable operations, even if achieved, could be sustained on any continuing basis. The Company s future operations are dependent on, among other things, the success of its commercialization efforts and market acceptance of any future therapeutic products. Since its inception in 1982, Immunomedics principal source of funds has been the private and public sale of debt and equity securities and, to a lesser extent, revenues from licensing. There can be no assurance that Immunomedics will be able to raise the additional capital it will need on commercially acceptable terms if at all. If it is unable to raise capital on acceptable terms, its ability to continue its business would be materially and adversely affected.

2. Summary of Significant Accounting Policies

Principles of Consolidation and Presentation

The consolidated financial statements include the accounts of Immunomedics and its majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Minority interest is recorded for a majority-owned subsidiary (see Note 9).

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Foreign Currencies

For subsidiaries outside of the United States that operate in a local currency environment, income and expense items are translated to United States dollars at the monthly average rates of exchange prevailing during the year, assets and liabilities are translated at year-end exchange rates and equity accounts are translated at historical exchange rates. Translation adjustments are accumulated in a separate component of stockholders equity in the Consolidated Balance Sheets and are included in the determination of comprehensive income in the Consolidated Statements of Stockholders (Deficit) Equity. Transaction gains and losses are included in the determination of net income in the Consolidated Statements of Operations.

Cash Equivalents and Marketable Securities

Immunomedics considers all highly liquid investments with original maturities of three months or less, at the time of purchase, to be cash equivalents.

Immunomedics unrestricted investments in cash equivalents and marketable securities are available for sale to fund operations. The portfolio at June 30, 2006 primarily consists of corporate debt securities and municipal bonds.

Concentration of Credit Risk

Cash, cash equivalents and marketable securities are financial instruments that potentially subject the Company to concentration of credit risk. Immunomedics invests its cash in debt instruments of

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financial institutions and corporations with strong credit ratings. Immunomedics has established guidelines relative to diversification and maturities that are designed to help ensure safety and liquidity. These guidelines are periodically reviewed to take advantage of trends in yields and interest rates. Immunomedics has historically held the investments to maturity. However, the Company has the ability to sell these investments before maturity and has therefore classified the investments as available for sale. Immunomedics has never experienced any significant losses on its investments.

Inventory

Inventory, which consists of the finished product LeukoScan, is stated at the lower of average cost (which approximates first-in, first-out) or market, and includes materials, labor and manufacturing overhead. An inventory reserve is recorded for finished product that is not deemed to be saleable.

Property and Equipment

Property and equipment are stated at cost and are depreciated on a straight-line basis over the estimated useful lives (5-10 years) of the respective assets. Leasehold improvements are capitalized and amortized over the lesser of the initial life of the lease or the estimated useful life of the asset. Immunomedics reviews long-lived assets for impairment whenever events or changes in business circumstances occur that indicate that the carrying amount of the assets may not be recoverable. Immunomedics assesses the recoverability of long-lived assets held and to be used based on undiscounted cash flows, and measures the impairment, if any, using discounted cash flows.

Revenue Recognition

The Company accounts for revenue arrangements that include multiple deliverables in accordance with Emerging Issues Task Force No. 00-21, *Accounting for Revenue Arrangements with Multiple Arrangements* (EITF 00-21). EITF 00-21 addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. In applying the guidance, revenue arrangements with multiple deliverables can only be considered as separate units of accounting if: a) the delivered item has value to the customer on a standalone basis, b) there is objective and reliable evidence of the fair value of the undelivered items and c) if the right of return exists, delivery of the undelivered items is considered probable and substantially in the control of the vendor. If these criteria are not met, the revenue elements must be considered a single unit of accounting for purposes of revenue recognition.

The Company has concluded that the UCB Agreement should be accounted for as a single unit of accounting and is amortizing the $38 million payment received over the expected obligation period which is currently estimated to end in November 2009.

Milestone payments are recognized as revenue upon the achievement of mutually agreed milestones, provided that (i) the milestone event is substantive and its achievement is not reasonably assured at the inception of the agreement, and (ii) there are no continuing performance obligations associated with the milestone payment. To date the Company has not recorded any revenue for milestone payments.

Payments received under contracts to fund certain research activities are recognized as revenue in the period in which the research activities are performed. Payments received in advance that are related to future performance are deferred and recognized as revenue when the research projects are performed. Upfront nonrefundable fees associated with license and development agreements where the Company has continuing involvement in the agreement are recorded as deferred revenue and recognized over the estimated service period. If the estimated service period is subsequently modified, the period over which the upfront fee is recognized is modified accordingly on a prospective basis.

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Revenue is recognized for royalties based on license sales of our product (CEA-Scan®) in Japan and in Europe. Royalties are recognized as earned in accordance with the contractual terms when royalty from licenses can be reliably measured and collectability is reasonably assured.

Revenue from the sale of diagnostic products is recorded when there is persuasive evidence that an arrangement exists, delivery has occurred, the price is fixed and determinable and collectability is reasonably assured. Allowances, if any, are established for uncollectible amounts, estimated product returns and discounts.

Research and Development Costs

Research and development costs are expensed as incurred.

Make-Whole Interest Derivative Liability

The holders of the 5% Notes who convert their 5% Notes will also receive on the date of conversion a payment equal to the amount of accrued and unpaid interest, less interest actually previously paid or provided for, up to and including the maturity date of the 5% Notes, known as the make-whole interest payment. The make-whole interest payment is considered a bifurcated derivative since the embedded call option can accelerate the settlement of the interest component of the debt cost at the holder s option. Changes in the fair value of the make-whole interest payment are recorded in current period operations as a component of interest expense. The fair value of this instrument is recorded in the consolidated balance sheet as a derivative interest liability and is classified in accounts payable and accrued expenses. The initial value of the derivative interest liability associated with the make-whole interest provision of $751,000 is recorded as additional debt discount and is being amortized to interest expense over the remaining life of the 5% Notes.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities relate to the expected future tax consequences of events that have been recognized in the Company s consolidated financial statements and tax returns. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Income taxes were provided for profitable foreign jurisdictions at the applicable effective tax rate during the 2005 and 2004 fiscal years of $205,000 and $206,000, respectively. No income taxes were provided for in the current fiscal year in those jurisdictions due to operating losses.

Benefits received resulting from the sale of the Company s State of New Jersey net operating losses (NOL) are recognized as a tax benefit when the NOL is approved for sale by the State of New Jersey. During the 2006, 2005 and 2004 fiscal years, the Company sold and received benefits of approximately $514,000, $591,000 and $440,000, respectively, as a result of the State of New Jersey NOL.

Net Loss Per Share Allocable to Common Stockholders

Net loss per basic and diluted common share allocable to common stockholders is based on the net loss for the relevant period, divided by the weighted-average number of common shares outstanding during the period. For the purposes of the diluted net loss per common share calculations, the exercise or conversion of all potential common shares is not included because their effect would have been anti-dilutive, due to the net loss recorded for the years ended June 30, 2006, 2005 and 2004. The common stock equivalents excluded from the diluted per share calculation are 20,347,611 for the fiscal year ended June 30, 2006, 8,614,794 for the fiscal year ended June 30, 2005 and 5,095,250 for the fiscal year ended June 30, 2004.

Comprehensive Loss

Comprehensive loss consists of net loss, net unrealized gains (losses) on securities available for sale and certain foreign exchange translation changes and is presented in the consolidated statements of operations and comprehensive loss.

Stock-Based Compensation

Prior to July 1, 2005, the Company s stock option plan was accounted for under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees* and related Interpretations, as permitted by FASB Statement No. 123, *Accounting for Stock-Based Compensation*. No stock-based employee compensation cost was recognized in the Statement of

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Operations for the years ended June 30, 2005 or 2004, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant. Effective July 1, 2005, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), *Share-Based Payment*, using the modified-prospective-transition method. Under that transition method, compensation cost recognized in 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of July 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of Statement 123, and (b) compensation cost for all share-based payments granted subsequent to July 1, 2005, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R). As of June 30, 2005, all outstanding stock options were fully vested. Results for prior periods have not been restated.

As a result of adopting Statement 123(R) on July 1, 2005, the Company s net loss for the year ended June 30, 2006 was approximately $32,000 higher than if the Company had continued to account for share-based compensation under Opinion No. 25.

The following table illustrates the effect on net loss and loss per share if the Company had applied the fair value recognition provisions of Statement 123 to options granted under the Company s stock option plan in 2005. For purposes of this pro forma disclosure, the value of the options is estimated using a Black-Scholes-Merton option-pricing formula and amortized to expense over the options vesting periods.

	Years Ended June 30,	
	2005	**2004**
Net (loss), as reported	$ (26,757,934)	$ (22,355,255)
Add: Stock-based employee compensation expense		97,570
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(13,960,538)	(8,251,069)
Pro forma net (loss)	$ (40,718,472)	$ (30,508,754)
Earnings per share:		
as reported	$ (0.50)	$ (0.45)
pro forma	$ (0.76)	$ (0.61)

Share Option Plan

The Company s Employee Share Option Plan (the Plan) permits the grant of share options and shares to its employees for up to 8 million shares of common stock. A summary of these plans is provided in Note 7 in our audited financial statements. The Company believes that such awards better align the interests of its employees with those of its shareholders. Option awards are generally granted with an exercise price equal to the market price of the Company s stock at the date of grant; those option awards generally vest based on four years of continuous service and have 10-year contractual terms. Certain options provide for accelerated vesting if there is a change in control (as defined in the Plan).

During the second half of the 2005 fiscal year the Company s Board of Directors approved the acceleration of vesting of all outstanding stock options (the Acceleration). The exercise price of all stock options was above market value at the time of the Acceleration. In accordance with SFAS 123, the Company expensed the remaining unrecognized compensation cost associated with the options with

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accelerated vesting in the pro forma disclosure in its June 30, 2005 financial statements. These actions were taken in order to avoid expense recognition in future financial statements upon adoption of FAS 123(R). The total additional compensation cost of $8,100,000 was recorded in the pro forma table above.

The fair value of each option granted during the years ended June 30, 2006, 2005 and 2004 is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions in the following table:

	Year ended June 30,		
	2006	**2005**	**2004**
Expected dividend yield	0%	0%	0%
Expected option term (years)	6.25	7.0	7.5
Expected stock price volatility	94%	117%	117%
Risk-free interest rate	4.06% - 5.05%	3.94% - 4.50%	4.51% - 4.56%

The weighted average fair value at the date of grant for options granted during the years ended June 30, 2006, 2005 and 2004 were $2.02 and $2.21 and $5.04 per share, respectively. The Company uses historical data to estimate employee forfeitures for employees (10%), executive officers and outside directors (5%) within the valuation model. The expected term of options granted represents the period of time that options granted are expected to be outstanding. Expected stock price volatility was calculated on ten-year daily stock trading history. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The Company has 685,500 non-vested options outstanding. As of June 30, 2006, there was $1,018,065 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. That cost is being recognized over a weighted-average period of four years.

Financial Instruments

The carrying amounts of cash and cash equivalents, other current assets and current liabilities, long term debt and restricted securities approximate fair value due to the short-term maturity of these instruments. The fair value, which equals carrying value, of marketable securities available for sale is based on quoted market prices.

Recently Issued Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* (FIN 48). This authoritative interpretation clarifies and standardizes the manner by which companies will be required to account for uncertain tax positions. Adoption of FIN 48 is required for fiscal years beginning after December 15, 2006. Immunomedics will be required to adopt FIN 48 no later than the quarter beginning July 1, 2007. Immunomedics is currently in the process of evaluating the Interpretation and has not yet determined the impact, if any, FIN 48 will have on its consolidated financial results.

3. Marketable Securities and Restricted Securities

Immunomedics utilizes SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, to account for investments in marketable securities. Under this accounting standard, securities for which there is not the positive intent and ability to hold to maturity are classified as available-for-sale and are carried at fair value. Unrealized holding gains and losses, which are deemed to be temporary, on

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securities classified as available-for-sale are carried as a separate component of accumulated other comprehensive income (loss). Immunomedics considers all of its current investments to be available-for-sale. Marketable securities and restricted securities at June 30, 2006 and 2005 consist of the following (in thousands):

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
June 30, 2006				
Agency/NJ Municipal Bonds	$ 3,016	$	$ (17)	$ 2,999
Corporate Debt Securities	500			500
	$ 3,516	$	$ (17)	$ 3,499
June 30, 2005				
Money Market Funds	$ 14,300	$	$	$ 14,300
Agency/NJ Municipal Bonds	6,307		(54)	6,253
Corporate Debt Securities	1,113	8	(1)	1,120
	$ 21,720	$ 8	$ (55)	$ 21,673

Restricted securities at 2006 and 2005 of $2,550,000 and $18,125,000, respectively, are included in the tables above.

Maturities of debt securities classified as available-for-sale at June 30, 2006 were all due within one year, with an amortized cost of $3,516,000 and an estimated fair value of $3,499,000.

Unrealized losses in the portfolio relate to various debt securities including U.S. treasury obligations and corporate bonds. For these securities, the unrealized losses were primarily due to increases in interest rates. The gross unrealized losses in the portfolio of investments represent less than one percent of the total fair value of the portfolio. The Company has concluded that unrealized losses in its investment securities are not other-than-temporary and the Company has the ability to hold securities to the expected recovery date.

4. Inventory

Inventory consisted of the following at June 30 (in thousands):

	2006	2005
Work in process	$	$ 477
Finished goods	607	167
Reserve for obsolescence	(66)	(150)
	$ 541	$ 494

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5. Property and Equipment

Property and equipment consisted of the following at June 30 (in thousands):

	2006	2005
Machinery and equipment	$ 5,751	$ 5,683
Leasehold improvements	17,418	17,398
Furniture and fixtures	800	786
Computer equipment	1,364	1,343
	25,333	25,210
Accumulated depreciation and amortization	(16,837)	(15,058)
	$ 8,496	$ 10,152
Depreciation expense	$ 1,779	$ 1,863

6. Other Current Balance Sheet Detail

Other current assets consisted of the following at June 30 (in thousands):

	2006	2005
Prepaid insurance	$ 204	$ 335
Accrued interest receivable	169	103
Prepaid rent	58	63
Prepaid medical/dental insurance		65
Miscellaneous other current assets	172	220
	$ 603	$ 786

Other long-term assets consisted of the following at June 30 (in thousands):

	2006	2005
5% Senior convertible notes debt issuance costs net	$ 1,232	$ 2,368
Insurance cash surrender value	97	69
Other deposits	33	35
	$ 1,362	$ 2,472

Accounts payable and accrued expenses consisted of the following at June 30 (in thousands):

	2006	2005
Trade accounts payable	$ 1,517	$ 3,732
Clinical trial accruals	1,459	1,140
Various legal counsel	1,564	1,585
Deferred rent expense	549	432

Accrued interest expense	253	314
Make-whole interest derivative liability	821	
Foreign income taxes payable	320	291
Miscellaneous other current liabilities	608	654
	$ 7,091	$ 8,148

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7. Stockholders Equity

The Certificate of Incorporation of the Company authorizes 10,000,000 shares of preferred stock, $.01 par value per share. The preferred stock may be issued from time to time in one or more series, with such distinctive serial designations, rights and preferences as shall be determined by the Board of Directors.

During the year ended June 30, 2006, holders of 5% Notes converted an aggregate of $7,370,000 of the 5% Notes principal into shares of common stock, including the related make-whole interest payments, net of mark to market adjustment. These transactions resulted in the issuance of an aggregate of 3,410,722 shares of the Company s common stock. The November 1, 2005 interest expense payment to the Notes holders was made in cash.

On August 19, 2005 at a Special Meeting of Stockholders a majority of holders of common stock of the Company approved an amendment to the Company s Certificate of Incorporation to increase the number of shares of common stock authorized from 70 million shares to 110 million shares. In addition, the shareholders voted to authorize shares of common stock for conversion if required, into common stock for the 5% Notes and the Warrants, (see Note 12). The 5% Notes and Warrants were therefore no longer restricted as to conversion into shares of the Company s common stock. The liability for the Warrants was increased by approximately $270,000 on August 19, 2005 to reflect the increase in the Company s common stock valuation. This increase in the liability for the Warrants is reflected in the statement of operations and the Warrant liability of $3,018,000, was subsequently classified as permanent equity during the year ended June 30, 2006.

The Company made a semi-annual interest payment of approximately $765,000 to the 5% Note holders on May 1, 2006. This interest payment may be made in (1) cash, (2) shares of common stock or (3) a combination thereof at the discretion of the Company. The Company decided to retire the accrued interest liability of $765,000 due May 1,2006 with payment of shares of common stock, resulting in an increase of common stock and additional paid in capital of $2,680 and $762,295, respectively. This transaction resulted in the issuance of 267,924 shares of common stock.

On August 2004, the Company sold 4,178,116 shares of its common stock, resulting in net proceeds to the Company of approximately $14.0 million. The shares were sold to institutional investors at a price of $3.61 per share. The shares of common stock were sold pursuant to an effective shelf registration statement filed with the Securities and Exchange Commission.

As part of an April 2004 agreement between Amgen, Inc. (Amgen) and the Company (see Note 10), the Company issued to Amgen a five-year warrant to purchase 100,000 shares of our common stock at a price equal to $16.00 per share, with an estimated value of $310,000. This was expensed in the fourth quarter of fiscal year 2004.

In February 2002, the Company s Board of Directors declared a dividend of one new right per share pursuant to the 2002 Stockholder Rights Plan (the 2002 Rights Plan) adopted by the Board of Directors. The 2002 Rights Plan involved the distribution of one Right as a dividend on each outstanding share of the Company s common stock to each holder of record on March 15, 2002. The 2002 Rights Plan provides that if a third party acquires more than 15% of the Company s common stock without prior approval of the Board of Directors, all of the stockholders of the Company (other than the acquiring party) will be entitled to buy either shares of a special series of our Preferred Shares, or shares of the Company s common stock with a market value equal to double the Exercise Price for each Right they hold. Under these circumstances, the Board of Directors may instead allow each such Right (other

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than those held by the acquiring party) to be exchanged for one share of the Company s common stock. The exercise or exchange of these Rights would have a substantial dilutive effect on the acquiring party. The Company s Board of Directors retains the right at all times to discontinue the 2002 Rights Plan through redemption of all rights or amend the 2002 Rights Plan in any respect. The Rights will expire on March 1, 2012 (unless extended or unless the Rights are earlier redeemed by the Companyas described in the 2002 Rights Plan. No shareholder has exercised this right as of June 30, 2006.

On December 5, 2001, at the Company s 2001 Annual Meeting of Stockholders, adoption of the 2002 Stock Option Plan (the 2002 Plan) was ratified. Under the 2002 Plan, 8,000,000 shares were reserved for possible future issuance upon exercise of stock options. Stock options are granted to employees and members of the Board of Directors, as determined by the Compensation Committee of the Board of Directors, at fair market value, become exercisable at 25% per year on each of the first through fourth anniversaries of the date of grant, and terminate if not exercised within ten years. At June 30, 2006, 1,482,425 stock options were still available for future grant and shares of common stock were reserved for possible future issuance upon exercise of stock options both currently outstanding and which may be issued in the future.

Pursuant to the terms of the 2002 Plan, each of the Company s outside Directors who had been a Director prior to July 1st of each year is granted, on the first business day of July of each year, an option to purchase shares of the Company s common stock at fair market value on the grant date, the amount of which is determined at the discretion of the Company s Board of Directors. On July 1, 2005, 2004 and 2003 stock options to purchase 70,000, 50,000 and 40,000 shares of common stock respectively, were granted to these Directors. When an outside Director is elected to the Board of Directors, they are awarded options for 10,000 shares of the Company s common stock.

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Information concerning options for the years ended June 30, 2006, 2005 and 2004 is summarized as follows:

	Number of Shares			Weighted Average Price		
	2006	2005	2004	2006	2005	2005
Options outstanding, beginning of year	5,486,650	4,837,750	4,161,750	$ 8.62	$ 9.25	$ 9.92
Options granted	686,500	926,150	795,000	$ 2.55	$ 2.39	$ 5.48
Options exercised	(54,250)	(1,250)	(15,500)	$ 1.76	$ 3.25	$ 3.17
Options cancelled	(864,700)	(276,000)	(103,500)	$ 6.30	$ 5.76	$ 7.90
Options outstanding, end of year	5,254,200	5,486,650	4,837,750	$ 7.92	$ 8.27	$ 9.25

The aggregate intrinsic value of the outstanding and exercisable stock options as of June 30, 2006 is $714,000 and $647,000, respectively. The aggregate intrinsic value is the sum of the amounts by which the quoted market price of the Company s common stock exceeded the exercise price of the options at June 30, 2006, for those options for which the quoted market price was in excess of the exercise price. The total intrinsic value of options exercised during the 2006, 2005 and 2004 fiscal years was $30,000, $2,000 and $20,000, respectively.

The following table summarizes information concerning options outstanding under the Plans at June 30, 2006:

Range of exercise price	Number outstanding at June 30, 2006	Weighted average exercise price	Weighted average remaining term (yrs.)	Number exercisable at June 30, 2006	Weighted average exercise price
$ 1.44 - 3.00	1,453,700	$ 2.14	8.3	768,200	$ 1.77
3.01 - 5.00	1,011,000	4.34	4.9	1,011,000	4.34
5.01 - 8.00	1,410,000	6.51	7.1	1,410,000	6.51
8.01-18.00	738,500	15.91	4.2	738,500	15.91
$ 18.01-24.56	641,000	20.57	5.0	641,000	20.57
	5,254,200	$ 7.92	6.35	4,568,700	$ 8.72

On May 18, 2000, the Board of Directors approved granting an aggregate of 325,000 stock options to Dr. David M. Goldenberg and Cynthia L. Sullivan that were subject to stockholder approval. Such approval was obtained from the stockholders during December 2000. The stock options were granted with an exercise price of $17.75, representing the stock price on the day of the Board of Directors approval. The difference in the stock price on that date as compared to the stock price of $19.06 on the date on which the stockholders approval was obtained resulted in compensation cost of $425,750 that was being expensed by the Company over the vesting period of four years. During fiscal year 2004 the Company recorded compensation expense of $97,570 as a component of general and administrative expense.

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8. Income Taxes

The benefit for income taxes is as follows:

	Year Ended June 30,		
	2006	2005	2004
Federal			
Current	$	$	
Deferred			
Total Federal			
State			
Current	(490)	(590)	(440)
Deferred			
Total State	(490)	(590)	(440)
Foreign			
Current		205	206
Deferred			
Total Foreign		205	206
Total (benefit)	$ (490)	$ (385)	$ (234)

A reconciliation of the statutory tax rates and the effective tax rates for each of the years ended June 30 is as follows:

	2006	2005	2004
Statutory rate	(34.0)%	(34.0)%	(34.0)%
State income taxes (net of Federal tax benefit)	(7.2)%	(6.3)%	(5.9)%
Foreign income tax	(0.1)%	0.1%	0.0%
Change in valuation allowance	41.4%	40.2%	34.2%
Other	(1.8)%	(1.4)%	4.7%
	(1.7)%	(1.4)%	(1.0)%

Immunomedics utilizes SFAS No. 109, *Accounting for Income Taxes,* to account for income taxes. For fiscal years 2006, 2005 and 2004, the Company recorded a state tax benefit of $514,000, $590,000 and $440,000, respectively, as a result of its sale of approximately $6,385,000, $7,335,000 and $5,313,000 of New Jersey state net operating losses, respectively.

The tax effects of temporary differences that give rise to significant portions of the Company s deferred tax assets as of June 30, 2006 and 2005 are presented below (in thousands):

	2006	2005
Deferred tax assets:		
Net operating loss carry forwards	$ 72,157	$ 67,010
Research and development credits	7,633	7,068
Property and equipment	2,833	2,472
Deferred revenue	4,985	
Other	1,793	757
Total	89,401	77,307

Valuation allowance	(89,401)	(77,307)
Net deferred taxes	$	$

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A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The valuation allowances for fiscal years 2006 and 2005 have been applied to offset the deferred tax assets in recognition of the uncertainty that such tax benefits will be realized as the Company continues to incur losses. The differences between book income and tax income primarily relates to the recognition of income resulting from the UCB Agreement and depreciation.

At June 30, 2006, the Company has available net operating loss carry forwards for federal income tax reporting purposes of approximately $192,000,000 and for state income tax reporting purposes of approximately $114,000,000, which expire at various dates between fiscal 2007 and 2026. Pursuant to Section 382 of the Internal Revenue Code of 1986, as amended, the annual utilization of a company s net operating loss and research credit carry forwards may be limited if the Company experiences a change in ownership of more than 50 percentage points within a three-year period. As a result of certain financing arrangements, the Company may have experienced such ownership changes. Accordingly, the Company s net operating loss carry forwards available to offset future federal taxable income arising before such ownership changes may be limited. Similarly, the Company may be restricted in using its research credit carry forwards arising before such ownership changes to offset future federal income tax expense. Of the deferred tax asset valuation allowance related to the net operating loss carry forwards, approximately $24,000,000 relates to a tax deduction for non-qualified stock options. Immunomedics will increase capital contributed in excess of par when these benefits are deemed to be more likely than not to be realized for tax purposes. The net operating loss carry forwards for Federal income tax reporting purposes referred to above excludes certain losses from the Company s operations in The Netherlands and Germany, which may also be limited.

9. Related Party Transactions

Certain of the Company s affiliates, including members of its senior management and Board of Directors, as well as their respective family members and other affiliates, have relationships and agreements among themselves as well as with the Company and its affiliates, that create the potential for both real, as well as perceived, conflicts of interest. These include Dr. David M. Goldenberg, the Company s Chairman and Chief Strategic Officer, Ms. Cynthia L. Sullivan, the President and Chief Executive Officer, who is the wife of Dr. David M. Goldenberg, and certain companies with which the Company does business, including the Center for Molecular Medicine and Immunology and IBC Pharmaceuticals, Inc.

Dr. David M. Goldenberg

Dr. David M. Goldenberg was an original founder of Immunomedics over 20 years ago and continues to play a critical role in its business. He currently serves as Chairman of the Board of Directors and Chief Strategic Officer, and is married to our President and Chief Executive Officer, Cynthia L. Sullivan. Dr. Goldenberg is a party to a number of agreements with us involving not only his services, but intellectual property owned by him. In addition Dr. Goldenberg performs services for The Center for Molecular Medicine and Immunology (CMMI), a not-for-profit specialized cancer research center.

License Agreement. Pursuant to a License Agreement between Immunomedics and Dr. Goldenberg, certain patent applications owned by Dr. Goldenberg were licensed to Immunomedics at the time of Immunomedics formation in exchange for a royalty in the amount of 0.5% of the first $20,000,000 of annual net sales of all products covered by any of such patents and 0.25% of annual net sales of such products in excess of $20,000,000. Five of the licensed U.S. patents have since expired. In November 1993 the ownership rights of Immunomedics were extended as part of Dr. Goldenberg s employment agreement, with Immunomedics agreeing to diligently pursue all ideas,

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discoveries, developments and products, into the entire medical field, which, at any time during his past or continuing employment by Immunomedics (but not when performing services for CMMI see below), Dr. Goldenberg has made or conceived or hereafter makes or conceives, or the making or conception of which he has materially contributed to or hereafter contributes to, all as defined in the Employment Agreement.

Employment Agreement. Pursuant to the terms of his employment agreement as currently in effect, Dr. Goldenberg is entitled to receive incentive compensation equal to one-half of one percent (0.5%) on the first $75.0 million of all Annual Net Revenue (as defined therein) of Immunomedics, and one-quarter of one percent (0.25%) on all such Annual Net Revenue in excess thereof. Annual Net Revenue is defined to include the proceeds of certain dispositions of assets or interests therein, including royalties, certain equivalents thereof and, to the extent approved by the Board of Directors, non-royalty license fees.

Dr. Goldenberg is also entitled to receive Revenue Incentive Compensation during the period of his actual employment with us, and for a period of three years thereafter, unless he unilaterally terminates his employment without cause or is terminated for cause. With respect to the period that Dr. Goldenberg is entitled to receive Revenue Incentive Compensation on any given products, it will be in lieu of any other percentage compensation based on sales or revenue due him with respect to such products under his employment agreement or the license agreement. With respect to any periods that Dr. Goldenberg is not receiving such Revenue Incentive Compensation, he is entitled to receive one-half of one percent (0.5%) on cumulative annual net sales of, royalties on, certain equivalents thereof, and, to the extent approved by the Board of Directors, other consideration received by Immunomedics for such products, up to a cumulative annual aggregate of $75,000,000, and one-quarter of one percent (0.25%) on any cumulative Annual Net Revenue in excess of $75,000,000. A $100,000 annual minimum payment must be paid in the aggregate against all Revenue Incentive Compensation and Royalty Payments and the License Agreement. No payments were made in addition to the annual minimum payments.

The terms of his employment agreement also provide that Dr. Goldenberg is entitled to receive a percent, not less than 20 percent (20%), as determined in good faith by the Board of Directors, of net consideration (including, without limitation, license fees) which Immunomedics receives in connection with any disposition by sale, license or otherwise, of any Undeveloped Assets (as defined therein) which are not budgeted as part of Immunomedics strategic plan. Pursuant to this provision, Dr. Goldenberg received a 20% profit interest in the membership interests originally acquired by Immunomedics in connection with the formation of the IBC Pharmaceuticals joint venture with Beckman Coulter in March 1999. Dr. Goldenberg also is compensated by IBC Pharmaceuticals as discussed in greater detail in these notes to the financial statements.

Dr. Goldenberg is not entitled to any incentive compensation with respect to any products, technologies or businesses acquired from third parties for a total consideration in excess of $5,000,000, unless Immunomedics had made a material contribution to the invention or development of such products, technologies or businesses prior to the time of acquisition. Except as affected by a Change in Control (as defined therein) or otherwise approved by the Board of Directors, Dr. Goldenberg will also not be entitled to any Revenue Incentive Compensation or Royalty Payments other than the Annual Minimum Payment with respect to any time during the period of his employment (plus three years, unless employment is terminated by mutual agreement or by Dr. Goldenberg s death or permanent disability) that he is not the direct or beneficial owner of shares of Immunomedics voting stock with an aggregate market value of at least twenty times his defined annual cash compensation.

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Finally, it is a condition to his employment agreement that Dr. Goldenberg be permitted to continue his involvement with CMMI, as discussed in greater detail below.

On June 30, 2006 the existing agreement with Dr. Goldenberg expired. Under the terms of the expired agreement, Dr. Goldenberg s employment with Immunomedics was automatically extended for a one-year period to June 30, 2007 under the same terms and conditions. At the present time the Compensation Committee of the board is addressing his future compensation based on an independent third-party consultant s review of current market conditions.

Life Insurance. The Company has also agreed with Dr. Goldenberg to maintain in effect for his benefit a $2,000,000 whole life insurance policy. If Dr. Goldenberg retires from Immunomedics on or after his agreed retirement, or if his employment ends because of permanent disability, the Company must pay all then outstanding loans, if any, made under such policy, and assign such policy to Dr. Goldenberg in consideration of the services previously rendered by Dr. Goldenberg to us. There are no outstanding loans as of June 30, 2006. If the employment of Dr. Goldenberg ends for any other reason, except for cause, Dr. Goldenberg has the option to purchase such policy for a price mutually agreed upon by him and the Board of Directors, but not to exceed the cash value thereof less any outstanding policy loans, or he may purchase such policy at its full cash value, less any outstanding loans, with the purchase price to the paid out of the proceeds of the policy or any earlier payment or withdrawal of all or any portion of its net cash value. The Company also currently maintains $4,000,000 of key man life insurance on Dr. Goldenberg for the benefit of the Company.

Additionally, a trust created by Dr. Goldenberg has purchased a $10,000,000 whole life policy on his life. The policy provides funds, which may be used to assist Dr. Goldenberg s estate in settling estate tax obligations and thus potentially reducing the number of shares of the Common Stock the estate may be required to sell over a short period of time to raise funds to satisfy such tax obligations. During what is estimated to be a 15-year period, the Company is obligated to pay $143,000 per year towards premiums, compared to an equivalent $250,000 commitment under the previous policies, in addition to amounts required to be paid by Dr. Goldenberg. The Company has an interest in this policy up to the cumulative amount of premium payments made by it under the old and new policies, which, through June 30, 2006, amounted to $2,409,000. If Dr. Goldenberg s employment terminates, and the policy is not maintained, the Company would receive payment of only its invested cumulative premiums, up to the amount of cash surrender value in the policy.

Severance Agreement. In June 2002, the Board of Directors approved (with Dr. Goldenberg and Ms. Sullivan abstaining) a severance agreement for Dr. Goldenberg pursuant to which the Company is required, under certain circumstances upon his termination for any reason, including as a result of his disability or a change in control of the Company, to sell to Dr. Goldenberg s family partnership the $10.0 million life insurance policy the Company has purchased insuring his life. In addition, if Dr. Goldenberg is terminated upon his disability or a change in control of the Company within six years of the date of the severance agreement, the Company will reimburse him for the total purchase price of the life insurance policy. If he is terminated for any other reason, whether voluntarily or involuntarily, the Company will reimburse him for 50% of the purchase price, so long he has remained employed by the Company for three years after the agreement, plus an additional amount for each month of service in excess of three years.

Cynthia L. Sullivan

Employment Agreement. On June 14, 2006, the Company agreed to extend the existing employment agreement in effect with Cynthia L. Sullivan that sets forth the terms of her employment with the Company through December 31, 2006 at which time the Compensation Committee of the board will address her compensation based on an independent third-party consultant s review of current market conditions. During the term of her employment, the Company will pay Ms. Sullivan

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an annual base salary rate of $520,000 and an annual bonus as determined by the Compensation Committee of the Company s Board of Directors, which in no event shall be less than 20% of the base salary. Ms. Sullivan was awarded 150,000 stock options on June 14, 2006. Under her employment agreement, Ms. Sullivan may participate in all benefit plans and programs to the extent she is eligible including medical and life insurance.

Under the employment agreement, if Ms. Sullivan is terminated for Cause (as defined in the employment agreement), by reason of death, unavailability (as defined in the employment agreement), or by reason of voluntary resignation, then the Company shall pay Ms. Sullivan the base salary through such date of termination. If Ms. Sullivan is terminated for any other reason, then the Company shall continue for a period of four years Ms. Sullivan s medical and life insurance and shall pay Ms. Sullivan the sum of (i) the highest base salary paid to Ms. Sullivan during any of the prior three years, (ii) the highest bonus paid to Ms. Sullivan during the prior three years and (iii) the stock options that Ms. Sullivan would have otherwise received during the period commencing on the termination date and ending on the later of 24 months from the termination date (such sum, collectively with the extension of benefits is referred to hereinafter as the Severance Payment).

In the event of a Change of Control (as defined in the employment agreement), all previous stock option grants made to Ms. Sullivan shall immediately vest. If, following the Change of Control, the Company does not agree to allow Ms. Sullivan to remain in her current capacity for a one year period before either consummating a new contract, or the election by Ms. Sullivan to be paid the Severance Payment, then her employment shall be terminated and the Company shall pay Ms. Sullivan the Severance Payment. The Board of Directors has extended the contract for the Chief Executive Officer to December 31, 2006. At the present time the Compensation Committee of the Board of Directors is addressing Ms. Sullivan s future compensation based on an independent third-party consultant s review of current market conditions.

Relationships with The Center for Molecular Medicine and Immunology

The Company s product development has involved, to varying degrees, The Center for Molecular Medicine and Immunology (CMMI), a not-for-profit specialized cancer research center, for the performance of certain basic research and patient evaluations, the results of which are made available to the Company pursuant to a collaborative research and license agreement. CMMI, which is funded primarily by grants from the National Cancer Institute (NCI), is located in Belleville, New Jersey. Dr. Goldenberg is the founder, current President and a member of the Board of Trustees of CMMI. Dr. Goldenberg s employment agreement permits him to devote more of his time working for CMMI than for the Company. Certain of the Company s consultants have employment relationships with CMMI, and Dr. Hans Hansen, the Company s emeritus executive officer, is an adjunct member of CMMI. Despite these relationships, the Company believes CMMI is independent of Immunomedics, and CMMI s management and fiscal operations are the responsibility of CMMI s Board of Trustees.

The Company has reimbursed CMMI for expenses incurred on behalf of the Company, including amounts incurred pursuant to research contracts, in the amount of approximately $62,000, $66,000 and $109,000 during the years ended June 30, 2006, 2005 and 2004, respectively. In fiscal years ended June 30, 2006 and 2005 the Company incurred $40,000 and $52,000, respectively, of legal expenses on behalf of CMMI for patent related matters. The Company has first rights to license these patents and may decide whether or not to support them. However, any inventions made independently of the Company at CMMI are the property of CMMI.

During the fiscal years 2006, 2005 and 2004, the Company s Board of Directors authorized and spent grants to CMMI of $2,000, $3,000 and $401,000, respectively, to support research and clinical work being performed at CMMI, such grants to be expended in a manner deemed appropriate by the Board of Trustees of CMMI.

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IBC Pharmaceuticals

IBC Pharmaceuticals, Inc. (IBC) is a majority owned subsidiary of Immunomedics, Inc. IBC reimbursed Immunomedics for $206,000 of its research activities in 2005, which were conducted on the joint venture s behalf.

As of June 30, 2006, the shares of IBC Pharmaceuticals, Inc. were held as follows:

Stockholder	Holdings	Percentage of Total
Immunomedics, Inc.	5,599,705 shares of Series A Preferred Stock	73.26%
Third Party Investors	643,701 shares of Series B Preferred Stock	8.42%
David M. Goldenberg	1,399,926 shares of Series C Preferred Stock	18.32%
		100.00%

In the event of a liquidation, dissolution or winding up of IBC, the Series A, B and C Preferred Stockholders would be entitled to $0.6902, $5.17 and $0.325 per share (subject to adjustment), respectively. The Series A and B stockholders would be paid ratably until fully satisfied. The Series C stockholders would be paid only after the Series A and B stockholders have been fully repaid. These liquidation payments would be made only to the extent the assets of IBC are sufficient to make such payments.

In each of the fiscal years 2006, 2005 and 2004, Dr. Goldenberg received $55,000 in compensation for his services to IBC. At June 30, 2006, Dr. Goldenberg was a director of IBC, while Cynthia L. Sullivan, Gerard G. Gorman and Phyllis Parker served as the President, Treasurer and Secretary, respectively, of IBC.

10. License and Distribution Agreements

On May 9, 2006 the Company entered into the UCB Agreement providing UCB an exclusive worldwide license to develop, manufacture, market and sell epratuzumab for the treatment of all autoimmune disease indications. Under the terms of the UCB Agreement, the Company retains the rights to develop epratuzumab in the field of oncology, and UCB has an option to acquire development and commercialization rights to epratuzumab with respect to cancer indications at anytime prior to the first commercial sales thereof. If UCB exercises its buy-in right with respect to epratuzumab in the field of oncology, UCB will reimburse the Company for the development cost actually incurred, plus a buy-in fee.

Under the terms of the UCB Agreement, the Company received in cash from UCB non-refundable payments totaling $38 million (which includes a $25 million upfront payment, plus a $13 million reimbursement for development costs of epratuzumab related to our clinical development of epratuzumab in patients with certain autoimmune conditions prior to the date of the UCB Agreement).

The Company determined that all elements under the collaboration and co-promotion agreement should be accounted for as a single unit of accounting under EITF 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*. In accordance with SAB No. 104 (Topic 13, *Revenue Recognition*), deferral of revenue is appropriate regarding nonrefundable, upfront fees received in single unit of accounting arrangements. As the Company has continuing obligations under the UCB Agreement, and as significant development risk remains, the Company recorded the $38 million non-refundable payment as deferred revenue and the Company is recognizing this amount over the period of approximately three and one-half years, which is the Company s best estimate of the period of time required for the parties to fulfill their obligations under the UCB Agreement. Accordingly, the Company recognized $1,520,000 as License Fee Revenues for the 2006 fiscal year. The remaining balance of $36,480,000 is recorded as Deferred Revenue in the accompanying consolidated balance sheet.

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In addition to the upfront payment, the Company is entitled to receive regulatory milestone payments, which could aggregate to a maximum of up to $145 million in cash payments and $20 million in equity investments. These milestone payments are dependent upon specific achievements in the regulatory approval process under the UCB Agreement. The Company will also receive product royalties based upon a percentage of aggregate annual net sales under the UCB Agreement during the product royalty term, which percentage is subject to reduction under certain circumstances. In addition, the Company will be entitled to receive sales bonuses of up to $135 million upon annual net sales reaching certain target levels. No clinical milestones or royalty payments were earned or received through June 30, 2006. There can be no assurance that these regulatory or sales achievements will be met and therefore there can be no assurance that the Company will receive such future payments.

The UCB Agreement calls for the creation of a global autoimmune guidance committee, with equal representation by the Company and UCB, to plan and oversee the conduct and progress of the development and commercialization of epratuzumab. UCB has the deciding vote on the committee. UCB will be solely responsible for the development, manufacturing and commercialization of epratuzumab for the treatment of all autoimmune indications and for the continuation of ongoing clinical trials in SLE, with the Company responsible for supplying epratuzumab for the completion of clinical trials relating to SLE. The Company is also obligated to manufacture and supply epratuzumab to the limit of its present capacity, if needed and at UCB s request, for the initial commercial launch of epratuzumab for the treatment of SLE and for certain future clinical trials for another autoimmune indication, if necessary. UCB will have sole responsibility for all clinical development, regulatory filings and related submissions, as well as all commercialization activities with respect to epratuzumab in all autoimmune indications.

Costs incurred relating to the manufacture of epratuzumab supplied for the clinical trials are recorded as research and development expense as incurred.

The Agreement commenced on May 9, 2006 and shall terminate in accordance with the terms thereof or by mutual written consent, unless UCB decides to cease all development and commercialization of epratuzumab pursuant to the UCB Agreement. Either the Company or UCB has the right to terminate the UCB Agreement by notice in writing to the other party upon or after any material breach of the UCB Agreement by the other party, if the other party has not cured the breach within 60 days after written notice to cure has been given, with certain exceptions.

In October 2001, the Company entered into a Distribution Agreement with Logosys Logistik GmbH, pursuant to which Logosys packages and distributes the Company s diagnostic imaging products, (LeukoScan®) within the countries comprising the European Union and certain other countries.

On December 17, 2000, the Company entered into a Development and License Agreement (the Amgen Agreement) with Amgen Inc. (Amgen), whereby Amgen obtained exclusive rights to continue the clinical development and commercialization in North America and Australia of the Company s unlabeled, or naked, CD22 antibody compound, epratuzumab, for the treatment of patients with non-Hodgkin s lymphoma. Pursuant to the Amgen Agreement, the Company received an up-front payment of $18,000,000 that was recognized, beginning February 2001, as revenue of $750,000 per month over a period of 24 months. Costs incurred relating to the manufacture of the materials supplied to Amgen were recorded as research and development expense as incurred. On April 8, 2004, pursuant to a termination agreement between Amgen and the Company, Amgen returned all rights for epratuzumab, the humanized CD22 monoclonal antibody therapeutic the Company licensed to Amgen as part of the Amgen Agreement, including rights to second generation molecules and conjugates.

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As part of the April 2004 transaction, the Company issued to Amgen a five-year warrant to purchase 100,000 shares of our common stock at a price equal to $16.00 per share with an estimated value of $310,000 which was expensed as research and development cost in 2004. If epratuzumab is approved for commercialization in the United States for non-Hodgkin s lymphoma therapy, the Company will be required to pay Amgen a milestone payment in the amount of $600,000. There are no other financial obligations between the parties as a result of the termination agreement.

In June 2002, the Company granted a non-exclusive license to Daiichi Pure Chemicals Co. under Immunomedics carcinoembryonic antigen (CEA) patents. In addition, the Company recorded a royalty of $300,000, $250,000 and $183,000 for the years ended June 30, 2006, 2005 and 2004, respectively, as License fee and other revenues under that license.

In October 2003, the Company entered into a research collaboration with Schering AG of Berlin, Germany, involving bispecific antibody, pretargeting technologies for cancer therapy being developed by IBC. The Company has received $31,000 and $29,000 under this agreement for the years ended June 30, 2005 and 2004, respectively.

11. Commitments and Contingencies

Employment Contracts

On November 1, 1993, Immunomedics and Dr. Goldenberg entered into a five-year employment agreement (the Agreement) with an additional one-year assured renewal and thereafter automatically renewable for additional one-year periods unless terminated by either party as provided in the Agreement. This Agreement was amended on July 1, 2001, pursuant to which Dr. Goldenberg will receive an annual minimum base salary of $275,000, an annual bonus to be determined by the Board of Directors but in no event less than 20% of the base salary, annual stock option grants to purchase at least 150,000 shares of common stock, other benefits and certain change of control protections. Under the Agreement as amended, the Company extended Dr. Goldenberg s employment agreement for a five-year period to June 30, 2006. The Agreement includes an automatic one-year extension. Further, the Company acknowledged and approved Dr. Goldenberg s continuing involvement with CMMI and IBC.

Pursuant to the Agreement, Dr. Goldenberg may engage in other business and general investment and scientific activities, provided such activities do not materially interfere with the performance of any of his obligations under the Agreement, allowing for those activities he presently performs for CMMI and IBC (see Note 10). The Agreement extends the ownership rights of the Company, with an obligation to diligently pursue all ideas, discoveries, developments and products, in the entire medical field, which, at any time during his past or continuing employment by the Company (but not when performing services for CMMI), Dr. Goldenberg has made or conceived or hereafter makes or conceives, or the making or conception of which he has materially contributed to or hereafter contributes to, all as defined in the Agreement (collectively, Goldenberg Discoveries).

Further, pursuant to the Agreement, Dr. Goldenberg will receive, subject to certain restrictions, incentive compensation of 0.5% on the first $75,000,000 of all defined annual net revenue of Immunomedics and 0.25% on all such annual net revenue in excess thereof (collectively, Revenue Incentive Compensation). With respect to the period that Dr. Goldenberg is entitled to receive Revenue Incentive Compensation on any given products, it will be in lieu of any other percentage compensation based on sales or revenue due him with respect to such products under this Agreement or the existing License Agreement between the Company and Dr. Goldenberg. With respect to any periods that Dr. Goldenberg is not receiving such Revenue Incentive Compensation for any products covered by patented Goldenberg Discoveries or by certain defined prior inventions of Dr. Goldenberg,

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he will receive 0.5% on cumulative annual net sales of, royalties, certain equivalents thereof, and, to the extent approved by the Board, other consideration received by us for such products, up to a cumulative annual aggregate of $75,000,000 and 0.25% on any cumulative annual aggregate in excess of $75,000,000 (collectively Royalty Payments). A $100,000 annual minimum payment will be paid in the aggregate against all Revenue Incentive Compensation and Royalty Payments. For each of the years ended June 30, 2006, 2005 and 2004, the Company paid Dr. Goldenberg the minimum required payment of $100,000. Dr. Goldenberg will also receive a percent, not less than 20%, to be determined by the Board, of net consideration (including license fees) which the Company receives for any disposition, by sale, license or otherwise (discussions directed to which commence during the term of his employment plus three years) of any of defined Undeveloped Assets of the Company which are not budgeted as part of the Company s strategic plan. Pursuant thereto, Dr. Goldenberg received his interest in IMG (See Note 9).

On March 20, 2001, Cynthia L. Sullivan entered into a five-year employment agreement with the Company, which was extended to June 30, 2006 by the Board of Directors. On June 14, 2006 the Board of Directors agreed to extend this employment agreement to December 31, 2006. Pursuant to this agreement, Ms. Sullivan received an annual minimum base salary of $520,000, an annual bonus in an amount to be determined by the Board of Directors but in no event less than 20% of the base salary, an annual grant of stock options covering not less than 150,000 shares of common stock per year and certain other benefits and change of control protections.

Operating Lease

Immunomedics is obligated under an operating lease for facilities used for research and development, manufacturing and office space. In November 2001, the Company renewed for an additional term of 20 years expiring in October 2021 at a base annual rate of $545,000, which is fixed for the first five years and increases thereafter every five years. The renewal includes an additional 15,000 square feet of space. Rental expense related to this lease was approximately $663,000 for each of the 2006, 2005 and 2004 fiscal years.

Including the extension of the facility lease as described above, the minimum lease commitments for facilities are as follows for fiscal years (in thousands):

2007	$ 552
2008	$ 556
2009	$ 556
2010	$ 556
2011	$ 609
Thereafter	$ 7,933

Significant Contracts

On May 9, 2006 Immunomedics signed the UCB Agreement referred to in Note 10 above. As part of the UCB Agreement, Immunomedics is obligated to manufacture and supply epratuzumab for the completion on ongoing clinical trials in SLE. The Company is also obligated to manufacture and supply epratuzumab, if needed at UCB s request, for the initial commercial launch of epratuzumab for the treatment of SLE and for future clinical trials relating to the treatment of Sjögren s syndrome, in necessary. The Company s manufacturing responsibility up to the commercial launch is limited by the Company s production capacity. The initial commercial launch for the SLE indication is unknown at present.

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Legal Matters

Immunomedics is a party to various claims and litigation arising in the normal course of business, which includes some or all of certain of our patents. Management believes that the outcome of such claims and litigation will not have a material adverse effect on the Company s consolidated financial position and results of operations. The following is a summary of certain claims that are outstanding:

F. Hoffmann-La Roche

On December 22, 2003, the Dutch Supreme Court, in a case brought by the Company, held that Immunomedics Dutch part of its European patent for highly specific monoclonal antibodies against the cancer marker, carcinoembryonic antigen (CEA), was valid. The Company s claim of infringement was not finally decided by the Dutch Supreme Court. Among other things, the Supreme Court held that the Court of Appeal which had ruled that Roche had infringed Immunomedics European Patent had not given Roche sufficient opportunity to comment on an expert opinion filed by Immunomedics in which it was stated that Roche s CEA test kit did satisfy a criterion that is generally satisfied for specific antibodies that bind to CEA. The Company has argued that the Dutch court should enforce the European Patent for all European countries for which the European Patent was validated, since Roche sold the same product in each country. The Dutch Supreme Court repeated the reasoning of the Dutch District Court that the Brussels Convention should be interpreted to permit cross-border enforcement of European patents where a related group of companies sells the same product in countries where that same patent has been validated. The Dutch Supreme Court referred this issue to the European Court of Justice (ECJ) to provide a final interpretation of the Brussels Convention on this point. On January 27, 2005, the ECJ heard oral arguments in the case, and took the matter under consideration. No further notifications have been received regarding this litigation to present.

We believe that the CEA patents that are the subject of our infringement action have been infringed, and we believe that the Company will prevail in the litigation, although no assurances can be given in this regard. To the extent that Roche contests or challenges our patents, or files appeals or further nullity actions, there can be no assurance that significant costs for defending such patents may not be incurred.

On May 19, 2004 and July 20, 2004, Roche filed nullity actions in German and United Kingdom courts, respectively, challenging our patents relating to an improved method of disease therapy in combination with cytotoxic agents, wherein cytokines are used to prevent, mediate or reverse radiation-induced, drug-induced or antibody-induced toxicity, especially to hematopoietic cells. On December 1, 2004, the Company agreed to settle the United Kingdom patent litigation by surrendering the United Kingdom patent. In accordance with United Kingdom legal rules, Roche made an application for payment of its attorney s fees and other costs to the court. We agreed on a resolution with Roche, which was subsequently settled. The related charges for this litigation were included in the General and Administrative expenses in Statement of Operations. In the German action the Company is defending the patent with amended claims and believes that it will prevail in such action. The German Patent Court has scheduled oral proceedings for March 2007.

Cytogen, Inc. and C.R. Bard Inc.

In September 2004 a patent infringement suit with Cytogen, Inc. and C.R. Bard was settled for an undisclosed amount without any admission of fault or liability. In connection with the settlement, the Company settled legal fees associated with the suit with the attorneys representing it in the case. The Company recorded in other income a litigation settlement gain in the amount of $1,111,750, which includes the reversal of legal fees previously accrued for this patent suit. The specific amount of the settlement, however, is undisclosed in accordance with the terms of the parties settlement agreement.

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Willow Bay Associates, LLC

In 2000, a now-defunct finance broker filed suit against the Company in the United States District Court for the District of Delaware. In the case, the plaintiff claimed that it is entitled to damages in the form of brokerage commissions for breach of an alleged confidentiality and non-circumvention contract. The suit against the Company was dismissed on summary judgment, but subsequently reinstated. A trial held in January 2004 and post-trial submissions were filed in March. On August 4, 2006 the Court rendered its judgment in favor of Immunomedics and against Willow Bay Associates, LLC. There is no liability to Immunomedics as a result of this decision.

12. Debt

In April 2005, the Company issued through a private placement $37,675,000 of 5% Senior Convertible Notes, due in May 2008, (the 5% Notes). The net proceeds of $35,200,000 from the financing have been used to fund clinical development programs for epratuzumab in moderate and severe lupus patients, repay existing indebtedness and fund general working capital requirements. The 5% Notes bear interest at a fixed annual rate of 5%, to be paid semiannually in arrears beginning in November 2005. The 5% Notes are convertible into the Company s common stock at $2.62 per share subject to adjustment based on the anti-dilution provision.

The holders of the 5% Notes may elect to convert the 5% Notes into shares of common stock at any time. The Company may cause the holders of the 5% Notes to convert their 5% Notes, in whole or in part, into shares of common stock, subject to the *blocker* provision (discussed below), at any time on or prior to the trading day immediately preceding the maturity date of the 5% Notes if the market price of the Company s common stock for at least 20 trading days in any consecutive 30 trading day period, including on such 30th trading day, exceeds 150% of the conversion price in effect on that 30th trading day.

Conversion of the 5% Notes into common stock is subject to the following *blocker* provision: The Company shall not effect any conversion of a 5% Note held by a holder, and no holder shall have the right to convert any portion of any such 5% Note, to the extent that after giving effect to such conversion, such holder (together with the holder s affiliates) would beneficially own in excess of 4.99% of the number of shares of common stock of the Company outstanding immediately after giving effect to such conversion. By written notice in accordance with the terms of the 5% Notes Indenture, any holder may increase or decrease the conversion limitation applicable to such holder to any percentage specified in such notice; *provided*, that any increase will not be effective until the 61st day after such notice is delivered to the Company.

The holders of the 5% Notes who convert their 5% Notes will also receive on the date of conversion a payment equal to the amount of contractual interest, up to and including the maturity date of the 5% Notes less interest actually previously paid, known as the make-whole interest payment. During the 2006 fiscal year $7,370,000 of the 5% Notes and related make-whole interest liabilities were converted into 3,142,798 shares of common stock.

The make-whole interest payment is considered a bifurcated derivative since the embedded call option can accelerate the settlement of the interest component of the debt cost at the holder s option. Changes in the fair value of the make-whole interest payment are recorded in current period operations. At June 30, 2006, the fair value of this instrument was approximately $821,000 and was recorded in the consolidated balance sheet as derivative interest liability. The initial value of the derivative interest liability associated with the make-whole interest provision of $751,000 was recorded as additional debt

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discount that being amortized to interest expense over the remaining life of the 5% Notes. The impact of the changes in fair value of the derivative interest liability, net of adjustments to amortization of debt discount charges, was not material to the Company s financial statements as of June 30, 2005.

The Company may pay the interest, including the make-whole interest payment in (1) cash, (2) shares of common stock or (3) a combination thereof; *provided that,* (A) if the conversion is at the holder s election, the stock paid in exchange for interest shall be valued at the greater of: (i) the stock price at the 5% Notes closing date (April 29, 2005) and (ii) 95% of the daily volume weighted average price of the Company s common stock for the three trading-day period beginning on and including the trading day prior to the conversion date, to and including the trading day following the conversion date and (B) if the conversion is at the Company s election, the stock paid in exchange for interest shall be valued at the greater of (i) 150% of the conversion price and (ii) 95% of the daily volume weighted average price of the common stock for the three trading day period beginning on and including the trading day prior to the conversion date, to and including the trading day following the conversion date.

As part of the transaction, the Company included detachable warrants (the Warrants) to purchase additional shares of the Company s common stock. The Warrants are convertible into shares of the Company s common stock at a rate of 76.394 shares of common stock for each $1,000 amount of principal 5% Notes. The Warrants are exercisable at $2.98 per share. The Warrants expire in April 2008.

The Company accounted for the proceeds received from the 5% Notes under the guidance of APB 14 *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*. The proceeds received from the issuance of debt and stock warrants were allocated between the two components based on the relative fair values of the two securities at the time of issuance (April 29, 2005). The portion of the proceeds allocated to the Warrants was initially valued at $3,687,000. The resulting debt discount will be amortized to interest expense over the life of the 5% Notes, resulting in an adjustment of the stated interest yield. This amortization to the debt discount is subject to adjustments for conversions of the 5% Notes into shares of common stock.

The Warrants were recorded as a liability in the June 30, 2005 balance sheet in accordance with EITF 00-19 -*Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock,* since at the time of issuance of the notes the Company did not have sufficient authorized and unissued shares available to settle the detachable warrant contract. In accordance with EITF 00-19, all assets and liability contracts are revalued each reporting period and changes in the fair value of the contract are recorded in earnings. As noted below, the warrants liability was subsequently reclassified into stockholders equity.

On August 19, 2005 at a Special Meeting of Stockholders, a majority of holders of common stock of the Company approved an amendment to the Company s Certificate of Incorporation to increase the number of shares of common stock authorized from 70 million shares to 110 million shares. In addition, the shareholders voted to authorize shares of common stock for conversion if required, into common stock for the 5% Notes and the Warrants. The 5% Notes and Warrants were therefore no longer restricted as to conversion into shares of common stock. The restricted proceeds from these 5% Notes and Warrants that had been held in escrow ($14,300,000) were released. The liability for the Warrants was increased by approximately $270,000 on August 19, 2005 to reflect the increase in the Company s common stock valuation. This increase in the liability for the Warrants is reflected in the statement of operations. The Warrants liability of $3,018,000 was subsequently reclassified to permanent equity.

Also, at closing of the sale of the Company s 5% Notes, the Company retired and exchanged the entire $10,000,000 principal amount of its 3.25% Convertible Notes, that were due in January 2006, (the 3.25% Notes), in two separate transactions. The Company paid approximately $5,090,000, (which

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includes interest accrued on the 3.25% Notes) from the proceeds of the offering to retire $5,000,000 of its outstanding principal. In addition, the Company converted $5,000,000 of its outstanding 3.25% Notes for the newly issued 5% Notes.

The costs incurred as part of the transaction for private placement of the 5% Senior Convertible Notes (approximately $2,507,000) are being amortized over 36 months and such amortization, reported as interest expense. For the year ended June 30, 2006, the Company amortized $777,000 to interest expense. The unamortized portion of these costs associated with the $7,370,000 5% Senior Convertible Notes that were converted (see next paragraph) of approximately $358,000 was classified to additional paid in capital at the date of the conversion.

During the year ended June 30, 2006, $7,370,000 of the 5% Notes were converted into shares of common stock at the request of the 5% Notes holders. The interest related payment due to the Note holders at the conversion date, including the make-whole interest payment was approximately $915,000 which was paid for in 330,000 shares of common stock for the year ended June 30, 2006.

The unamortized portion of the debt discount of approximately $569,000 associated with the $7,370,000 5% Notes converted during the year ended June 30, 2006 was classified to additional paid in capital at the date of conversion. The amortization of debt discount recorded as a component of interest expense was $1,609,000 for the year ended June 30, 2006.

Total interest expense and related amortization expense for the 5% Notes for the years ended June 30, 2006 and 2005 was $5,037,000 and $658,000, respectively.

In January 2004, the Company completed a $10,000,000 financing of 3.25% Senior Convertible Notes, which were due in January 2006, (the 3.25% Notes). The notes bore interest at a fixed annual rate of 3.25% to be paid semiannually in arrears beginning in July 2004. The holder of the 3.25% Notes could convert the 3.25% Notes at any time prior to the maturity date into shares of the Company s common stock at a conversion price of $6.09 per share. On April 29, 2005 the Company retired and exchanged the entire $10,000,000 principal amount from proceeds from the 5% Notes. One half of the total principal was retired, including accrued interest. The remaining principal was exchanged for $5,000,000 of the 5% Notes. For the years ended June 30, 2005 and 2004, the Company incurred interest expense of approximately $271,000 and $152,000, respectively.

In May 2003, Immunomedics completed a $6,376,000 bond financing with the New Jersey Economic Development Authority, pursuant to which Immunomedics was able to refinance its capital investment in a new manufacturing facility at a rate of interest below that which would have otherwise been available. The interest rate on the bonds was approximately 5.26% at June 30, 2006. In connection with this financing, Immunomedics granted certain security interests to the New Jersey Economic Development Authority with respect to its properties and assets, and agreed to become subject to certain customary affirmative as well as restrictive covenants, none of which it believes will affect its business or operations in any material respect. In addition, the bonds are subject to mandatory redemption, if the fair value of the Company s collateralized assets falls below the outstanding loan balance. The Company s collateral is recorded as restricted securities in the balance sheet. Restricted securities include highly liquid, marketable securities. At June 30, 2006, the Company s indebtedness under this financing was approximately $2,550,000 due in equal monthly installments over the next 24 months. For the years ended June 30, 2006, 2005 and 2004 the Company incurred interest expense of approximately $139,000, $107,000 and $73,000, respectively. Interest and principal payments are due monthly.

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The following table summarized the Company s principal payments for the next five years (in thousands):

2007	$ 1,275
2008	$ 31,580
2009	$
2010	$
2011	$

13. Geographic Segments

Immunomedics manages its operations as one line of business of researching, developing, manufacturing and marketing biopharmaceutical products, particularly antibody-based products for the targeted treatment of cancer, autoimmune and other serious diseases, and it currently reports as a single industry segment. Immunomedics markets and sells its products in the United States and throughout Europe.

The following table presents financial information based on the geographic location of the facilities of Immunomedics as of and for the years ended (in thousands):

	June 30, 2006		
	United States	Europe	Total
Total assets	$ 53,184	$ 2,694	$ 55,878
Property and equipment, net	8,495	1	8,496
Revenues	2,297	2,056	4,353
Income (loss) before tax benefit	(29,215)	(40)	(29,255)

	June 30, 2005		
	United States	Europe	Total
Total assets	$ 45,605	$ 2,318	$ 47,923
Property and equipment, net	10,149	3	10,152
Revenues	798	3,015	3,813
Income (loss) before tax benefit	(27,750)	607	(27,143)

	June 30, 2004		
	United States	Europe	Total
Total assets	$ 30,142	$ 1,946	$ 32,088
Property and equipment, net	11,528	5	11,533
Revenues	1,131	3,175	4,306
Income (loss) before tax benefit	(23,292)	703	(22,589)

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14. Defined Contribution Plans

U.S. employees are eligible to participate in the Company s 401(k) plan, while employees in international locations are eligible to participate in other defined contribution plans. Aggregate Company contributions to its benefit plans totaled approximately $40,000, $70,000 and $72,000 for June 30, 2006, 2005 and 2004, respectively.

15. Quarterly Results of Operations (Unaudited)

	Three Months Ended							
	June 30 2006	March 31 2006	Dec. 31 2005	Sept. 30 2005	June 20 2005	March 31 2005	Dec. 31 2004	Sept. 30 2004
	(In thousands, except for per share amounts)							
Consolidated Statements of Operations Data:								
Revenues	$ 2,152	$ 1,315	$ 463	$ 423	$ 610	$ 1,089	$ 999	$ 1,116
Gross profit (1)	483	955	191	151	480	729	637	897
Net loss	(5,657)	(5,743)	(8,821)	(8,543)	(10,094)	(6,059)	(6,356)	(4,249)
Net loss per common share allocable to common stockholders	(0.10)	$ (0.10)	$ (0.16)	$ (0.16)	$ (0.19)	$ (0.11)	$ (0.12)	$ (0.08)
Weighted average number of common shares outstanding	57,242	55,671	54,098	54,073	54,073	54,073	54,073	52,529

(1) Gross profit is calculated as product sales less cost of goods sold.

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Immunomedics, Inc. and Subsidiaries

Schedule II Valuation and Qualifying Reserves

For the Years Ended June 30, 2006, 2005 and 2004

Allowance for Doubtful Accounts

Year ended:	Balance at Beginning of Period	Changes to Reserve(1)	Credits to Expense	Other Charges	Balance at End of Period
June 30, 2004	$ (381,681)	$ 37,957	$	$	$ (343,724)
June 30, 2005	$ (343,724)	$ 88,217	$ (105,972)(2)		$ (149,535)
June 30, 2006	$ (149,535)	$ 2,085	$ (30,160)(2)		$ (117,290)

(1) Uncollectible accounts written off, net of reserves

(2) Changes in estimate of reserve due to improved collection efforts

Reserve for Inventory Obsolescence

Year ended:	Balance at Beginning of Period	Changes to Reserve	Charges to Expense	Other Charges	Balance at End of Period
June 30, 2004	$	$	$ (139,000)	$	$ (139,000)
June 30, 2005	$ (139,000)	$ 16,614	$ (27,614)	$	$ (150,000)
June 30, 2006	$ (150,000)	$ 89,000	$ (5,500)	$	$ (66,500)

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Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Disclosure Controls and Procedures: We maintain controls and procedures designed to ensure that we are able to collect the information we are required to disclose in the reports we file with the SEC, and to record, process, summarize and disclose this information within the time periods specified in the rules promulgated by the SEC. Our Chief Executive and Chief Financial Officers are responsible for establishing and maintaining these disclosure controls and procedures and as required by the rules of the SEC, to evaluate their effectiveness. Based on their evaluation of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K, our Chief Executive and Chief Financial Officers believe that these procedures are functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms; and (ii) accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding disclosures.

Management s Report on Internal Control Over Financial Reporting: Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of Immunomedics; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and our directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of June 30, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on its assessment and those criteria, our management has concluded that we maintained effective internal control over financial reporting as of June 30, 2006.

Our independent registered public accounting firm has issued an attestation report on our management s assessment of Immunomedics internal control over financial reporting.

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Changes in internal controls: Such evaluation did not identify any significant changes in our internal controls over financial reporting that occurred during the year ended June 30, 2006 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Immunomedics, Inc.

We have audited management s assessment, included in Management s Report on Internal Control over Financial Reporting, that Immunomedics, Inc. maintained effective internal control over financial reporting as of June 30, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Immunomedics, Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that Immunomedics, Inc. maintained effective internal control over financial reporting as of June 30, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Immunomedics, Inc. maintained, in all material respects, effective internal control over financial reporting as of June 30, 2006, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Immunomedics, Inc. and subsidiaries as of June 30, 2006 and 2005, and the related consolidated statements of operations and comprehensive loss, shareholders equity (deficit), and cash flows for each of the three years in the period ended June 30, 2006 of Immunomedics, Inc. and our report dated August 22, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

MetroPark, New Jersey

August 22, 2006

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Item 9B. ***Other Information***

None.

PART III

Item 10. ***Directors and Executive Officers of the Registrant***

The response to this item will be set forth in the Proxy Statement for our 2006 Annual Meeting of Stockholders (the Proxy Statement) and is incorporated by reference herein.

Item 11. ***Executive Compensation***

The response to this item will be set forth in the Proxy Statement and is incorporated by reference herein.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

Except as set forth below, the response to this item will be set forth in the Proxy Statement and is incorporated by reference herein.

Item 13. ***Certain Relationships and Related Transactions***

The response to this item will be set forth in the Proxy Statement and is incorporated by reference herein.

Item 14. ***Principal Accounting Fees and Services***

The response to this item will be set forth in the Proxy Statement and is incorporated by reference herein.

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PART IV

Item 15. ***Exhibits, Financial Statement Schedules***

(a) Documents filed as part of this Report:

1. Consolidated Financial Statements:
   Consolidated Balance Sheets June 30, 2006 and 2005
   Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended June 30, 2006, 2005 and 2004
   Consolidated Statements of Changes in Stockholders Equity for the years ended June 30, 2006, 2005 and 2004
   Consolidated Statements of Cash Flows for the years ended June 30, 2006, 2005 and 2004
   Notes to Consolidated Financial Statements
   Report of Independent Registered Public Accounting Firm Ernst & Young LLP
2. Financial Statement Schedules:
   Schedule II Valuation and Qualifying Reserves
3. List of Exhibits

Exhibit No.	Description
3.1(a)	Certificate of Incorporation of the Company, as filed with the Secretary of State of the State of Delaware on July 6, 1982.(c)
3.1(b)	Certificate of Amendment of the Certificate of Incorporation of the Company as filed with the Secretary of State of the State of Delaware on April 4, 1983.(c)
3.1(c)	Certificate of Amendment of the Certificate of Incorporation of the Company as filed with the Secretary of State of the State of Delaware on December 14, 1984.(c)
3.1(d)	Certificate of Amendment of the Certificate of Incorporation of the Company as filed with the Secretary of State of the State of Delaware on March 19, 1986.(c)
3.1(e)	Certificate of Amendment of the Certificate of Incorporation of the Company as filed with the Secretary of State of the State of Delaware on November 17, 1986.(c)
3.1(f)	Certificate of Amendment of the Certificate of Incorporation of the Company as filed with the Secretary of State of the State of Delaware on November 21, 1990.(d)
3.1(g)	Certificate of Amendment of the Certificate of Incorporation of the Company, as filed with the Secretary of State of the State of Delaware on November 12, 1992.(g)
3.1(h)	Certification of Amendment of the Certificate of Incorporation of the Company as filed with the Secretary of State of the State of Delaware on November 7, 1996.(j)
3.1(i)	Amended and Restated Certificate of Designations, Preferences and Rights of Series F Convertible Preferred Stock of Immunomedics, Inc.(m)
3.1(j)	Certificate of Designation of Series G Junior Participating Preferred Stock of the Company, as filed with the Secretary of State of the State of Delaware on March 15, 2002.(t)
3.2	Amended and Restated By-Laws of the Company.(t)

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4.1	Specimen Certificate for Common Stock.(t)
4.2	Rights Agreement, dated as of March 4, 2002, between the Company and American Stock Transfer and Trust Company, as rights agent, and form of Rights Certificate.(r)
4.3	Warrant For the Purchase of Shares of Common Stock of the Company, dated as of May 23, 2002.(s)
4.4	Indenture dated as of January 20, 2004, between the Company and The Bank of New York, as trustee, for 3.25% Convertible Senior Notes due January 12, 2006.(u)
4.5	Form of 3.25% Convertible Senior Note due January 12, 2006 (included in Exhibit 4.6).(u)
4.6	Registration Rights Agreement dated as of January 20, 2004, by and between the Company and Bear, Stearns & Co. Inc. for 3.25% Convertible Senior Notes due January 12, 2006.(u)
4.7	Purchase Agreement dated as of January 12, 2004, by and between the Company and Bear, Stearns & Co. Inc. for 3.25% Convertible Senior Notes due January 12, 2006.(u)
10.1#	Immunomedics, Inc. 1992 Stock Option Plan. (j)
10.2#	Immunomedics, Inc. 2002 Stock Option Plan, as amended.(t)
10.3#	Executive Supplemental Benefits Agreement with David M. Goldenberg, dated as of July 18, 1986. (b)
10.4#	Amended and Restated Employment Agreement, dated November 1, 1993, between the Company and Dr. David M. Goldenberg. (h)
10.5#	Amendment No. 2 to the Amended and Restated Employment Agreement, dated as of July 1, 2001 between the Company and Dr. David M. Goldenberg. (q)
10.6#	David M. Goldenberg Severance Agreement, dated as of June 18, 2002, between David M. Goldenberg and the Company. (t)
10.7#	Employment Agreement, dated March 10, 2001, between the Company and Cynthia L. Sullivan. (p)
10.8	Exclusive License Agreement with David M. Goldenberg, dated as of July 14, 1982. (a)
10.9	Amended and Restated License Agreement among the Company, CMMI and David M. Goldenberg, dated December 11, 1990. (e)
10.10	Amendment, dated March 11, 1995, to the Amended and Restated License Agreement among the Company, CMMI, and David M. Goldenberg, dated December 11, 1990. (i)
10.11	License Agreement, dated as of January 21, 1997, between the Company and Center for Molecular Medicine and Immunology, Inc. (k)
10.12	License Agreement, dated March 5, 1999, by and between the Company and IBC Pharmaceuticals. (n)
10.13	Development and License Agreement, dated December 17, 2001, between the Company and Amgen, Inc. (Confidentiality treatment has been granted for certain portions of the Agreement). (o)
10.14	Agreement among the Company, David M. Goldenberg and the Center for Molecular Medicine and Immunology, Inc., dated May, 1983. (a)
10.15	Lease Agreement with Baker Properties Limited Partnership, dated January 16, 1992. (f)

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10.16	Distribution and Product Services Agreement, dated as of May 15, 1998, between the Company and Integrated Commercialization Solutions, Inc. (Confidentiality treatment has been granted for certain portions of the Agreement). (l)
10.17	Contract for Services dated effective as of January 1, 2002 between the Company and Logosys Logistik GmbH. (q)
10.18	Contribution and Assignment Agreement, dated as of June 30, 2002, between IBC Pharmaceuticals, LLC and IBC Pharmaceuticals, Inc. (t)
10.19	Bond Financing Agreement, dated May 27, 2003, between the New Jersey Economic Development Authority, the Company as Borrower, Fleet National Bank as Agent and as Purchaser. (v)
10.20	Placement Agency Agreement, dated July 28, 2004, by and between the Company and RBC Capital Markets Corporation.(w)
10.21	Form of Registration Rights Agreement between Immunomedics, Inc. and several purchasers.(x)
10.22	Form of Warrant Agreement between Immunomedics, Inc. and JPMorgan Chase Bank, N.A. as Warrant Agent. (x)
10.23	Form of Indenture by and among Immunomedics, Inc., Law Debenture Trust Company of New York as Trustee, and JPMorgan Chase Bank, N.A. as Registrar, Paying Agent and Conversion Agent.(x)
10.24	Form of Purchase Agreement between Immunomedics, Inc. and several purchasers.(x)
10.25*	Development, Collaboration and License Agreement between UCB, S.A. and Immunomedics, Inc. dated May 9, 2006.
10.26#	Change of Control and Severance Agreement, dated as of March 10, 2006, by and between the Immunomedics, Inc. and Gerard G. Gorman. (w)
21.1*	Subsidiaries of the Company.
23.1*	Consent of Independent Registered Public Accounting Firm -- Ernst & Young LLP
31.1*	Certification of the Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
32.1*	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(a) Incorporated by reference from the Exhibits to the Company s Registration Statement on Form S-1 effective October 6, 1983 (Commission File No. 2-84940).
(b) Incorporated by reference from the Exhibits to the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 1986.
(c) Incorporated by reference from the Exhibits to the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 1990.
(d) Incorporated by reference from the Exhibits to the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 1990.

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(e) Incorporated by reference from the Exhibits to the Company Registration Statement on Form S-2 effective July 24, 1991 (Commission File No. 33-41053).
(f) Incorporated by reference from the Exhibits to the Company s Registration Statement on Form S-2 effective January 30, 1992 (Commission File No. 33-44750).
(g) Incorporated by reference from the Exhibits to the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 1993.
(h) Incorporated by reference from the Exhibits to the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 1993.
(i) Incorporated by reference from the Exhibits to the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 1995.
(j) Incorporated by reference from the Exhibits to the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 1996.
(k) Incorporated by reference from the Exhibits to the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 1996.
(l) Incorporated by reference from the Exhibits to the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 1998.
(m) Incorporated by reference from the Exhibits to the Company s Current Report on Form 8-K, dated December 15, 1998.
(n) Incorporated by reference from the Exhibits to the Company s Current Report on Form 8-K, dated March 23, 1999.
(o) Incorporated by reference from the Exhibits to the Company s Quarterly Report on Form 10-Q (as amended) for the fiscal quarter ended March 31, 2001.
(p) Incorporated by reference from the Exhibits to the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2001.
(q) Incorporated by reference from the Exhibits to the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2001.
(r) Incorporated by reference from the Exhibits to the Company s Current Report on Form 8-K, dated March 8, 2002.
(s) Incorporated by reference from the Exhibits to the Company s Registration Statement on Form S-3, as filed with the Commission on June 12, 2002.
(t) Incorporated by reference from the Exhibits to the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2002.
(u) Incorporated by reference from the Exhibits to the Company s Registration Statement on Form S-3, as filed with the Commission on April 23, 2004.
(v) Incorporated by reference from the Exhibits to the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2003.
(w) Incorporated by reference from the Exhibits to the Company s Current Report on Form 8-K, as filed with the Commission on March 10, 2006.
* Filed herewith
# Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 14(c) of this report
Portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

IMMUNOMEDICS, INC.

Date: August 29, 2006

By: /s/ CYNTHIA L. SULLIVAN
Cynthia L. Sullivan
President and Chief Executive Officer

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ DAVID M. GOLDENBERG **David M. Goldenberg**	Chairman of the Board	August 29, 2006
/s/ CYNTHIA L. SULLIVAN **Cynthia L. Sullivan**	President, Chief Executive Officer and Director (Principal Executive Officer)	August 29, 2006
/s/ MARVIN E. JAFFE **Marvin E. Jaffe**	Director	August 29, 2006
/s/ RICHARD R. PIVIROTTO **Richard R. Pivirotto**	Director	August 29, 2006
/s/ MORTON COLEMAN **Morton Coleman**	Director	August 29, 2006
/s/ MARY PAETZOLD **Mary Paetzold**	Director	August 29, 2006
/s/ BRIAN A. MARKISON **Brian A. Markison**	Director	August 29, 2006
/s/ DON C. STARK **Don C. Stark**	Director	August 29, 2006
/s/ GERARD G. GORMAN **Gerard G. Gorman**	Senior Vice President, Finance and Business Development, Chief Financial Officer (Principal Financial and Accounting Officer)	August 29, 2006

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EXHIBIT LIST

(excludes documents incorporated by reference)

10.25*	Development, Collaboration and License Agreement between UCB, S.A. and Immunomedics, Inc. dated May 9, 2006.
21.1*	Subsidiaries of the Company.
23.1*	Consent of Independent Registered Public Accounting Firm Ernst & Young LLP.
31.1*	Certification of the Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith
Portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.

(Exhibits available upon request)