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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 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: 000-04829

Nabi Biopharmaceuticals

(Exact name of registrant as specified in its charter)

Delaware	**59-1212264**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

5800 Park of Commerce Boulevard N.W., Boca Raton, FL 33487
(Address of principal executive offices, including zip code)

(561) 989-5800
(Registrant's telephone number, including area code)

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

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 ☐ Non-accelerated filer

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

The number of shares outstanding of the registrant's common stock, par value $0.10 per share, at November 13, 2006 was 60,453,348 shares.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Nabi Biopharmaceuticals

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except for share and per share amounts)	(UNAUDITED) September 30, 2006	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 32,020	$ 101,762
Marketable securities	32,925	5,172
Restricted cash	819	816
Trade accounts receivable, net	11,223	19,683
Inventories, net	22,169	20,500
Prepaid expenses and other current assets	3,630	3,449
Assets of discontinued operations	82,190	81,220
Total current assets	184,976	232,602
Property, plant and equipment, net	90,174	93,865
Other assets:		
Intangible assets, net	1,751	1,955
Other, net	757	914
Total assets	$ 277,658	$ 329,336
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	$ 10,039	$ 13,060
Accrued interest payable	1,510	717
Accrued expenses	15,824	16,758
Capital lease obligations, net	223	223
Current liabilities of discontinued operations	27,355	16,283
Total current liabilities	54,951	47,041
2.875% Senior Convertible Notes, net	109,271	109,145
Capital lease obligations, net	121	238
Non-current liabilities of discontinued operations	—	10,707
Other liabilities	236	378
Total liabilities	164,579	167,509
Commitments and contingencies		
Stockholders' equity:		
Convertible preferred stock, par value $.10 per share: 5,000,000 shares authorized; no shares outstanding	—	—
Common stock, par value $.10 per share: 125,000,000 authorized; 61,210,080 and 60,322,763 shares issued, respectively	6,121	6,032
Capital in excess of par value	325,262	318,910
Treasury stock, 805,769 shares at cost	(5,321)	(5,321)
Accumulated deficit	(212,679)	(157,965)
Other accumulated comprehensive (loss) income	(304)	171
Total stockholders' equity	113,079	161,827
Total liabilities and stockholders' equity	$ 277,658	$ 329,336

See accompanying notes to condensed consolidated financial statements.

Nabi Biopharmaceuticals

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(In thousands, except per share data)	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2006	September 24, 2005	September 30, 2006	September 24, 2005
Sales	$ 19,634	$ 22,375	$ 59,525	$ 67,379
Costs and expenses:				
Costs of products sold, excluding amortization of intangible assets	15,035	13,051	43,081	41,543
Royalty expense	325	460	1,025	3,139
Gross margin, excluding amortization of intangible assets	4,274	8,864	15,419	22,697
Selling, general and administrative expense	10,226	15,678	32,968	39,869
Research and development expense	10,240	15,789	27,901	47,672
Amortization of intangible assets	68	160	204	545
Other operating expense, principally freight	140	118	397	272
Operating loss	(16,400)	(22,881)	(46,051)	(65,661)
Interest income	908	1,266	2,916	2,744
Interest expense	(937)	(889)	(2,796)	(1,480)
Other (expense) income, net	(54)	74	329	(111)
Loss from continuing operations before benefit for income taxes	(16,483)	(22,430)	(45,602)	(64,508)
Benefit for income taxes	152	6,741	152	18,335
Loss from continuing operations	(16,331)	(15,689)	(45,450)	(46,173)
Discontinued operations				
Loss from discontinued operations	(5,492)	(614)	(9,274)	(9,356)
Benefit for income taxes	10	185	10	2,659
Loss from discontinued operations	(5,482)	(429)	(9,264)	(6,697)
Net loss	$ (21,813)	$ (16,118)	$ (54,714)	$ (52,870)
Basic and diluted loss per share				
Continuing operations	$ (0.27)	$ (0.26)	$ (0.75)	$ (0.77)
Discontinued operations	(0.09)	(0.01)	(0.15)	(0.12)
Basic and diluted loss per share	$ (0.36)	$ (0.27)	$ (0.90)	$ (0.89)
Basic and diluted weighted average shares outstanding	61,185	59,991	60,830	59,738

See accompanying notes to condensed consolidated financial statements.

Nabi Biopharmaceuticals

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	(UNAUDITED) For the Nine Months Ended September 30, 2006	September 24, 2005
Cash flow from operating activities:		
Net loss	$ (54,714)	$ (52,870)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	11,806	14,322
Impairment of assets held for sale	2,890	—
Amortization of debt issuance costs	126	75
Interest expense on non-interest bearing notes	500	592
Provision for doubtful accounts	(7)	8
Provision for slow moving or obsolete inventory	1,430	2,927
Gain on sale of assets	(2)	(74)
Non-cash compensation	5,331	681
Tax benefit from stock options exercised	(162)	—
Write-off of obsolete fixed assets	452	—
Deferred income taxes	—	(24,472)
Other, primarily foreign currency translation	(474)	401
Changes in assets and liabilities:		
Trade accounts receivable	(1,309)	16,614
Inventories	(2,217)	(10,022)
Prepaid expenses and other current assets	(39)	(1,995)
Other assets	146	(3,541)
Deferred revenue	3,115	961
Trade accounts payable and accrued expenses	(4,822)	(5,040)
Total adjustments	16,764	(8,563)
Net cash used in operating activities	(37,950)	(61,433)
Cash flow from investing activities:		
Purchases of marketable securities	(68,075)	(152,450)
Proceeds from sales of marketable securities	40,322	79,550
Proceeds from sales of assets	8	74
Capital expenditures	(2,145)	(6,578)
Expenditures for manufacturing rights	—	(216)
Net cash used in investing activities	(29,890)	(79,620)
Cash flow from financing activities:		
Payment of notes payable, PhosLo acquisition	(3,175)	(10,931)
Proceeds from issuance of convertible debt, net	—	108,730
Proceeds from exercise of employee stock options	1,273	3,757
Net cash (used in) provided by financing activities	(1,902)	101,556
Net decrease in cash and cash equivalents	(69,742)	(39,497)
Cash and cash equivalents at beginning of period	101,762	94,759
Cash and cash equivalents at end of period	$ 32,020	$ 55,262

See accompanying notes to condensed consolidated financial statements.

Nabi Biopharmaceuticals

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 OVERVIEW

We leverage our experience and knowledge in powering the immune system to develop and market products that fight serious medical conditions. We are focused on developing products addressing the large commercial opportunities within our core business areas: hepatitis and transplant, kidney disease (nephrology), Gram-positive bacterial infections and nicotine addiction. We have three products on the market in the U.S. today: Nabi-HB® [Hepatitis B Immune Globulin (Human)], Aloprim™ [Allopurinol sodium (for injection)], and PhosLo® (calcium acetate), and a number of products in various stages of clinical and pre-clinical development. We have also filed a Marketing Authorization Application, or MAA, in Europe to market PhosLo for the treatment of hyperphosphatemia in patients with end-stage renal disease, or ESRD.

On October 12, 2006, we executed a definitive agreement to sell certain assets related to our PhosLo operations to a U.S. subsidiary of Fresenius Medical Care for consideration of up to $150 million in up front cash, milestone payments and royalties on sales of a new product formulation under development. Refer to Note 15.

In addition to our biopharmaceutical business, we collect specialty and non-specific antibodies for use in our products and sell our excess production to pharmaceutical and diagnostic customers for the subsequent manufacture of their products. We invest the gross margins we earn from sales of our marketed products and excess antibody production toward funding the development of our product pipeline.

We are incorporated in Delaware. We are headquartered in Florida. We maintain our commercial and manufacturing operations in Florida and our research and development operations in Rockville, Maryland.

In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, which are necessary to present fairly our consolidated financial position as of September 30, 2006 and December 31, 2005, the consolidated results of our operations for the three and nine months ended September 30, 2006 and September 24, 2005 and our cash flows for the nine months then ended. The interim results of operations are not necessarily indicative of the results that may occur for the full fiscal year. These statements should be read in conjunction with the Consolidated Financial Statements and Notes included in our Annual Report on Form 10-K for the year ended December 31, 2005.

NOTE 2 CORRECTION OF PRIOR PERIOD ERRORS

During the three and nine month periods ended September 30, 2006 we recorded a net expense of $1.5 million related to errors in prior periods.

During the third quarter of 2006, the Audit Committee of the Board of Directors initiated a voluntary review of our historical and current year equity grant programs and the accounting for these programs. The Audit Committee engaged independent legal counsel to assist in a review of our equity grant programs for the period January 1, 1997 through September 30, 2006. The investigation was completed on November 13, 2006. No fraud, back dating or spring loading issues were identified. However, the investigation did identify errors in the determination of the measurement date for certain stock option grants in prior years. As certain of the supporting documentation for the earlier years in the period was incomplete or unavailable, alternative documentation including contemporaneous memoranda, e-mails and interviews of current and former employees were required in reaching judgments as to the appropriate measurement dates. This resulted in additional cumulative non-cash compensation expense recorded during the third quarter of 2006 totaling $2.6 million, or $0.04 per share, over the period reviewed, including $0.2 million, or $0.00 per share, that has been reclassified to discontinued operations. The remaining adjustment amount was recorded within cost of products sold, selling, general and administrative expense and research and development expense. On an individual year basis, $0.5 million related to the year ending December 31, 2005 and was the greatest compensation expense in any individual year.

In addition, we identified an unrelated error in the calculation of depreciation expense on certain research and development assets which overstated depreciation expense from 2000 through 2005. An aggregate adjustment of $1.1 million, or $0.02 per share, was recorded in research and development expense during the third quarter of 2006.

We assessed the impact of these errors both individually and in the aggregate and concluded that they were not material to the current or prior impacted periods and they were corrected in the three and nine month periods ended September 30, 2006.

NOTE 3 ACCOUNTING POLICIES

Accounting estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. 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 sales and expenses during the reporting period. Actual results could differ from those estimates.

Basis of presentation and reclassifications: The condensed consolidated financial statements include the accounts of Nabi Biopharmaceuticals and its subsidiaries. All significant intercompany accounts and transactions were eliminated during consolidation. Certain prior period amounts have been reclassified to conform to the current year's presentation. As discussed in Note 4, the results of operations, the assets and the liabilities related to PhosLo have been accounted for as discontinued operations in accordance with Statement of Financial Accounting Standards, or SFAS, No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, or SFAS No. 144. Accordingly, results of the operations related to PhosLo from prior periods have been reclassified to discontinued operations.

Revenue recognition: Our primary customers for biopharmaceutical products are pharmaceutical wholesalers. In accordance with our revenue recognition policy, revenue from product sales is recognized when title and risk of loss are transferred to the customer. Reported sales are net of estimated customer prompt pay discounts, government payer rebates, customer returns, other customer allowances, other wholesaler fees and chargebacks. Our policy regarding sales to customers is that we do not recognize revenue from, or the cost of such sales, when we believe the customer has more than a demonstrably reasonable level of inventory. We make this assessment based on historical demand, historical customer ordering patterns for purchases, business considerations for customer purchases and estimated inventory levels. If our actual experience proves to be different than our assumptions we would then adjust such allowances accordingly.

We estimate allowances for revenue dilution items using a combination of information received from third parties, including market data, inventory reports from our major U.S. wholesaler customers, historical information and analysis that we perform. The key assumptions used to arrive at our best estimate of revenue dilution allowances are estimated customer inventory levels, contract prices and related terms**.** Our estimates of inventory at wholesaler customers and in the distribution channels are subject to the inherent limitations of estimates that rely on third-party data and certain third-party information may itself rely on estimates. Provisions for estimated rebates and other allowances, such as discounts, promotional and other credits are estimated based on historical payment experience, historical relationship to revenues, estimated customer inventory levels, contract terms and actual discounts offered. On January 1, 2006, we entered into a number of agreements with Prescription Drug Plans, or PDP, to provide PhosLo to patients under the Medicare Prescription Drug Improvement and Modernization Act of 2003's Part D plan. We were required to make a number of assumptions in order to record our liabilities under the agreements, including how many patients will be covered by these PDP agreements. These assumptions were based on our understanding of the PhosLo patient population and expected utilization rates based on historical data. We believe that allowances for revenue dilution items are reasonably estimable due to the limited number of assumptions involved and the consistency of historical experience. Provisions for chargebacks involve more subjective judgments and are more complex in nature. These provisions are discussed in further detail below.

Chargebacks: We market products directly to wholesalers, distributors and homecare companies. We also market products indirectly to group purchasing organizations, managed care organizations, physician practice management groups and hospitals, collectively referred to as "indirect customers." We enter into agreements with indirect customers to establish contract pricing for certain products. The indirect customers then select wholesalers from which to actually purchase the products at these contracted prices. Under this arrangement, we will provide credit to the wholesaler for any difference between the contracted price with the indirect party and the wholesaler's invoice price. Such credit is called a chargeback. The provision for chargebacks is a significant and complex estimate used in the recognition of revenue. The provision for chargebacks is based on our historical chargeback experience and estimated wholesaler inventory levels, as well as expected sell-through levels by our wholesale customers to indirect customers. Our estimates of inventory at wholesale customers and in the distribution channels are subject to the inherent limitations of estimates that rely on third-party data, as certain third-party information may itself rely on estimates, and reflect other limitations. We continually monitor our provision for chargebacks and make adjustments when we believe that actual chargebacks may differ from established allowances. During the second quarter of 2006, we refined our methodology for determining our chargeback liability using more specific information. This resulted in a $0.8 million, or $0.01 per share, increase in sales and reduction to our chargeback liability. Of the $0.8 million adjustment, $0.6 million was related to PhsoLo and has been reclassified to discontinued operations.

Comprehensive Loss: We follow SFAS No. 130, *Reporting Comprehensive Income*, which computes comprehensive income as the total of net income and all other non-owner changes in shareholders' equity. For the first nine months of 2006, comprehensive loss included our net loss and the effect of foreign currency translation adjustments. As of September 30, 2006 and December 31, 2005, $(0.3) million and $0.2 million of cumulative foreign currency (loss) income,

respectively, were included on our balance sheet in addition to accumulated deficit. The foreign currency (loss) income is primarily related to intercompany balances we have classified as intercompany debt. It is our intent for the amounts paid on behalf of our subsidiaries to be repaid once we either license or partner our products in the markets the subsidiaries operate in, primarily Europe.

	For the three months ended		For the nine months ended	
(In thousands)	September 30, 2006	September 24, 2005	September 30, 2006	September 24, 2005
Net loss	$ (21,813)	$ (16,118)	$ (54,714)	$ (52,870)
Foreign currency translation adjustments	58	149	(475)	402
Comprehensive loss	$ (21,755)	$ (15,969)	$ (55,189)	$ (52,468)

Financial instruments: The carrying amounts of financial instruments including cash equivalents, marketable securities, trade accounts receivable and trade accounts payable approximated fair value as of September 30, 2006 and December 31, 2005, because of the relatively short-term maturity of these instruments. Total convertible senior notes, notes payable debt and capital lease obligations were $120.1 million as of September 30, 2006, of which $10.5 million has been reclassified to discontinued operations and $122.7 million as of December 31, 2005, of which $13.1 million has been reclassified to discontinued operations. The carrying value of our convertible senior notes at September 30, 2006 is $109.3 million compared to the approximate fair value of $101.4 million based on then current market rates. The carrying amounts of our notes payable and capital lease obligations approximate their fair value and are calculated using an interest rate consistent with our current borrowing rate. Information regarding debt is included in Note 10.

Cash and cash equivalents: Cash equivalents consist of money market funds and qualified purchaser funds with maturities of three months or less placed with major financial institutions.

Marketable securities: Short-term marketable securities consist primarily of taxable municipal bonds, corporate bonds, government agency securities and commercial paper including auction rate securities. It is our intent to maintain a liquid portfolio to take advantage of investment opportunities; therefore, these securities are deemed short-term, are classified as available for sale securities and are recorded at market value using the specific identification method. Realized gains and losses are included in “Other income” in the accompanying unaudited condensed consolidated statements of operations. Unrealized gains and losses are included in “Other accumulated comprehensive (loss) income” in the accompanying unaudited condensed consolidated balance sheets. There were no unrealized gains or losses recorded at September 30, 2006 and December 31, 2005.

New accounting pronouncements

In December 2004, the Financial Accounting Standards Board, or FASB, announced that SFAS No. 151, *Inventory Costs*, or SFAS No. 151, is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. SFAS No. 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS No. 151 requires that those items be recognized as current-period charges regardless of whether they meet the criterion of “so abnormal”, as defined in Accounting Principles Board, or APB, No. 43. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The adoption of SFAS No. 151 in 2006 did not have a material impact on our financial condition or results of operations.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, or SFAS No. 154. SFAS No. 154 replaces APB Opinion No. 20, “Accounting Changes,” or APB No. 20, and SFAS No. 3, “Reporting Accounting Changes in Interim Financial Statements.” SFAS No. 154 requires retrospective application to prior periods’ financial statements of a voluntary change in accounting principle unless it is impracticable. APB No. 20 previously required that most voluntary changes in accounting principle be recognized by including the cumulative effect of changing to the new accounting principle in net income in the period of the change. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 in 2006 did not have a material impact on our financial condition or results of operations.

In November 2005, the FASB issued FASB Staff Position Nos. FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, or FSP Nos. 115-1 and 124-1. The guidance in FSP Nos. 115-1 and 124-1 amends FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and FASB Statement No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, and adds a footnote to APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. FSP Nos. 115-1 and 124-1 address the determination of when an investment is considered impaired, whether that impairment is other than temporary,

and the measurement of an impairment loss. In addition, FSP Nos. 115-1 and 124-1 include accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in FSP Nos. 115-1 and 124-1 is effective for reporting periods beginning after December 15, 2005. The implementation of FSP Nos. 115-1 and 124-1 in 2006 did not have a material impact on our financial position or results of operations.

Effective January 1, 2006, we adopted the fair value recognition provisions of FASB Statement No. 123R, *Share-Based Payment*, or SFAS No. 123R, using the modified-prospective transition method. In accordance with the provisions of SFAS No. 123R, we are recognizing share-based compensation expense in the Unaudited Condensed Statements of Operations for the three and nine months ended September 30, 2006. For additional information related to the adoption of SFAS No. 123R see Note 8.

In July 2006, the FASB issued Interpretation Number, or FIN, No. 48, *Accounting for Uncertainty in Income Taxes*, or FIN No. 48. FIN No. 48 applies to all tax positions within the scope of FASB Statement No. 109, applies a “more likely than not” threshold for tax benefit recognition, identifies a defined methodology for measuring benefits and increases the disclosure requirements for companies. FIN No. 48 is mandatory for years beginning after December 15, 2006; accordingly, we will adopt FIN No. 48 in our 2007 fiscal year. We are currently evaluating the impact the adoption of FIN No. 48 will have on our financial position or results of operations.

In September 2006, the FASB issued SFAS Statement No. 157, *Fair Value Measurements*, or SFAS No. 157. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This Statement applies to other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after December 15, 2007. We plan to adopt SFAS No. 157 beginning in the first quarter of fiscal 2008. We are currently evaluating the impact the adoption of SFAS No. 157 will have on our financial position or results of operations.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin, or SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, or SAB No. 108, which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB No. 108 is effective for fiscal years ending after November 15, 2006. Early application is encouraged, but not required. We will adopt SAB No. 108 in the fourth quarter of 2006. We are currently evaluating the impact the adoption of SAB No. 108 will have on our financial position or results of operations. The cumulative effect, if any, of applying the provisions of SAB No. 108 will be reported as an adjustment to beginning-of-year retained earnings.

NOTE 4 DISCONTINUED OPERATIONS

In December 2005, we began a review of strategic alternatives for our nephrology franchise based on the results of the StaphVAX clinical trial announced during November 2005. As part of this review, we considered several alternatives including the in-licensing of additional products, alternative commercial models, distribution arrangements and the sale of PhosLo. On August 7, 2006, we signed a non-binding letter of intent in which we agreed to exclusive negotiations for the sale of PhosLo to a U.S. subsidiary of Fresenius Medical Care. On October 12, 2006, we executed a definitive agreement, or the Agreement, to sell certain assets related to our PhosLo operations. Refer to Note 15. Under the terms of the Agreement, we will receive $65 million in cash upon closing and up to an additional $20 million upon successful completion of certain milestones. In addition, the purchaser is acquiring product rights to a new product formulation and we are entitled to royalties on sales of the new product formulation over a base amount for 10 years after the closing date until total consideration paid in the transaction reaches $150 million.

The assets and liabilities related to PhosLo have been accounted for as held for sale as of September 30, 2006 based on the following criteria: the PhosLo assets have identifiable cash flows that are largely independent of the cash flows of other groups of assets and liabilities, we will not have a significant continuing involvement with the product beyond one year after the closing of the transaction, the cash milestone and royalty payments to be received upon achievement of certain events are considered to be indirect cash flows, and we will not continue any significant active revenue-producing or active cost-generating activities related to PhosLo. In addition, as part of the close of the transaction, we anticipate that we will execute a transition services agreement under which we will be reimbursed for all services rendered and expenses incurred related to PhosLo marketing and research and development activities as requested by the purchaser. These transition services are not expected to be material to the PPhosLo cash flows. Therefore in accordance with SFAS, No. 144, the accompanying Unaudited Condensed Consolidated Balance Sheets report the assets and liabilities related to PhosLo as discontinued operations in all periods presented, and the results of operations related to PhosLo have been classified as discontinued operations in the accompanying Unaudited Condensed Consolidated Statements of Operations for all periods presented.

An impairment loss of $2.9 million, or $0.05 per share, was recorded during the third quarter of 2006 within discontinued operations to adjust the assets held for sale to their estimated fair value less costs to sell the product, of which $1.6 million is accrued as of September 30, 2006. The impairment write-down analysis was based on $70 million in cash expected to be received at closing, which is comprised of the $65 million due at closing or within five business days of closing, and an additional $5 million related to the achievement of the first milestone. Effective September 30, 2006, we have ceased depreciating and amortizing these assets.

Under the terms of our purchase agreement to acquire PhosLo in August 2003, we agreed to pay $30 million in cash consideration over the period ending March 1, 2007. The discounted value of the future payment obligation on September 30, 2006 was $10.5 million and has been reported as notes payable, net within liabilities of discontinued operations. The future payment obligation was discounted at 4.5%, our estimated rate of interest under our credit facility in effect on August 4, 2003, the date of the closing of the agreement. As this payment obligation was directly associated with our PhosLo assets and since the remaining principal balance will be put into escrow upon the closing of the transaction, the associated interest expense for current and prior periods has been allocated to discontinued operations in the accompanying financial statements.

All of the assets held for sale are related to our biopharmaceutical segment.

The following table presents the major classes of assets that have been presented as Assets of discontinued operations and Liabilities of discontinued operations in the Unaudited Condensed Consolidated Balance Sheets:

(In thousands)	September 30, 2006	December 31, 2005
Inventories, net	$ 941	$ 1,823
Prepaid expenses	17	162
Property and equipment, net	195	219
Intangible assets, net	70,188	76,377
Subtotal	71,341	78,581
Impairment accrual	(1,566)	—
Assets held for sale	69,775	78,581
Trade accounts receivable, net	12,415	2,639
Total current assets of discontinued operations	$ 82,190	$ 81,220

(In thousands)	September 30, 2006	December 31, 2005
Trade accounts payable	$ 2,653	$ 4,524
Accrued expenses	14,195	9,370
Note payable, net	10,507	2,389
Total current liabilities of discontinued operations	27,355	16,283
Note payable, net	—	10,707
Total liabilities of discontinued operations	$ 27,355	$ 26,990

The following table presents summarized financial information for the discontinued operations presented in the Unaudited Condensed Consolidated Statements of Operations:

(In thousands)	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2006	September 24, 2005	September 30, 2006	September 24, 2005
Total revenues	$ 6,789	$ 8,117	$ 24,382	$ 15,068
Operating loss	(5,311)	(516)	(8,803)	(8,821)
Loss before benefit for income taxes	(5,492)	(614)	(9,274)	(9,356)
Net loss	(5,482)	(429)	(9,264)	(6,697)

NOTE 5 INVENTORIES

The components of inventories, stated at the lower of cost or market with cost determined on the first-in first-out, or FIFO method, are as follows:

(In thousands)	September 30, 2006	December 31, 2005
Finished goods	$ 17,006	$ 11,941
Work in process	4,146	7,531
Raw materials	1,017	1,028
Total	$ 22,169	$ 20,500

Work in process inventory, net, at September 30, 2006 and December 31, 2005 primarily consisted of Nabi-HB for which manufacture was in process or that was awaiting release to the market from the U.S. Food and Drug Administration, or FDA, in accordance with the normal course of our business. Finished goods, net, at September 30, 2006 included $1.2 million of inventory related to a contract manufacturing agreement that was terminated. We have billed our customer for this inventory which is being disputed. The increase in our total inventory and finished goods inventory balance at September 30, 2006 compared to December 31, 2005 is primarily related to lower sales of Nabi-HB as we continue to negotiate the terms of a supply agreement with a significant customer. The corresponding reduction in inventories at this customer has caused an increase in inventories held by us.

We have made and anticipate in future periods that we will scale-up and make commercial quantities of certain of our product candidates prior to the date we anticipate that such products will receive final European Medicines Agency, or EMEA, approval in the European Union, or EU, or FDA approval in the U.S. (i.e., pre-launch inventories). We record pre-launch inventory once the product has attained a stage in the development process of having been subject to a Phase III clinical trial or its equivalent, or if a regulatory filing has been made for licensure for marketing the product and the product has a well characterized manufacturing process. In addition, we must have an internal sales forecast that includes an assessment that sales will exceed the manufacturing costs plus the expected cost to distribute the product. Finally, product stability data must exist so that we can assert that capitalized inventory is anticipated to be sold, based on the sales projections noted above, prior to anticipated expiration of a product's shelf life. The scale-up and commercial production of pre-launch inventories involves the risk that such products may not be approved for marketing by the governmental agencies on a timely basis, or ever.

As of September 30, 2006, and December 31, 2005, we had fully reserved pre-launch inventories of certain products that have not yet received final governmental approval.

NOTE 6 LOSS PER SHARE

Basic loss per share is computed by dividing our net loss by the weighted average number of shares outstanding during the period. When the effects are not anti-dilutive, diluted earnings per share is computed by dividing our net loss by the weighted average number of shares outstanding and the impact of all dilutive potential common shares, primarily stock options. The dilutive impact of stock options is determined by applying the "treasury stock" method.

A total of 255,593 and 1,895,724 common stock equivalents have been excluded from the calculation of net loss per share in the three months ended September 30, 2006 and September 24, 2005, respectively, because their inclusion would be anti-dilutive. In addition, a total of 261,542 and 1,715,743 common stock equivalents have been excluded from the calculation of net loss per share in the nine months ended September 30, 2006 and September 24, 2005, respectively, because their inclusion would be anti-dilutive.

NOTE 7 OPERATING SEGMENT INFORMATION

The following table presents information related to our two reportable segments:

(In thousands)	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2006	September 24, 2005	September 30, 2006	September 24, 2005
Sales:				
Biopharmaceutical products	$ 7,424	$ 11,822	$ 23,449	$ 36,864
Antibody products	12,210	10,553	36,076	30,515
Total	$ 19,634	$ 22,375	$ 59,525	$ 67,379
Gross margin:				
Biopharmaceutical products	$ 2,279	$ 7,769	$ 8,915	$ 19,229
Antibody products	1,995	1,095	6,504	3,468
Total	$ 4,274	$ 8,864	$ 15,419	$ 22,697
Operating loss:				
Biopharmaceutical products	$ (14,851)	$ (21,021)	$ (41,329)	$ (61,047)
Antibody products	(1,549)	(1,860)	(4,722)	(4,614)
Total	$ (16,400)	$ (22,881)	$ (46,051)	$ (65,661)

On March 24, 2005, our agreement to distribute WinRho SDF ended and we ceased distribution of that product. Results for the nine months ended September 24, 2005 included $6.2 million of revenues from that product.

Selling and marketing expense and research and development expense are allocated almost fully to the biopharmaceutical products segment based on the allocation of effort within those functions. General and administrative expenses are allocated to each segment based primarily on relative sales levels.

(In thousands)	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2006	September 24, 2005	September 30, 2006	September 24, 2005
Operating loss by Region:				
U.S.	$ (16,400)	$ (17,963)	$ (45,709)	$ (51,953)
Ex-U.S.	—	(4,918)	(342)	(13,708)
Total	$ (16,400)	$ (22,881)	$ (46,051)	$ (65,661)

Our ex-U.S. operating loss during the three months ended September 24, 2005 and the nine months ended September 30, 2006 and September 24, 2005 resulted from initial commercialization activities to expand our biopharmaceutical products business to the EU, and has been allocated wholly to our biopharmaceutical business.

The following table reconciles reportable segment operating loss to loss before benefit for income taxes:

(In thousands)	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2006	September 24, 2005	September 30, 2006	September 24, 2005
Reportable segment operating loss	$ (16,400)	$ (22,881)	$ (46,051)	$ (65,661)
Unallocated interest income	908	1,266	2,916	2,744
Unallocated interest expense	(937)	(889)	(2,796)	(1,480)
Unallocated other income (expense), net	(54)	74	329	(111)
Loss from continuing operations before benefit for income taxes	$ (16,483)	$ (22,430)	$ (45,602)	$ (64,508)

NOTE 8 STOCK BASED COMPENSATION

We maintain incentive stock plans that provide for grants of stock options and restricted stock to our directors, officers and key employees. The stock plans are described more fully below.

Adoption of New Accounting Guidance and Transition

Prior to January 1, 2006, we accounted for these plans under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, or APB No. 25, as permitted by FASB Statement No. 123, *Accounting for Stock-Based Compensation*, or SFAS No. 123. Under APB No. 25, when the exercise price of our employee stock options equaled or exceeded the market price of the underlying stock on the date of grant, no compensation cost was recognized.

During the third quarter of 2006, the Audit Committee of the Board of Directors initiated a voluntary review of our historical and current year equity grant programs and the accounting for these programs. The review identified errors in the determination of the measurement date for certain stock option grants in prior years. This resulted in additional cumulative non-cash compensation expense recorded during the third quarter of 2006 totaling $2.6 million, of which $0.2 million has been reclassified to discontinued operations.

Effective January 1, 2006, we adopted the fair value recognition provisions of FASB Statement No. 123R, *Share-Based Payment*, and related interpretations, or SFAS No. 123R, which is a revision of SFAS No. 123, using the modified-prospective transition method. Under that method, compensation cost recognized in the three and nine months ended September 30, 2006 includes (a) compensation cost for all share-based payments granted prior to, but not yet vested as of, January 1, 2006 based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and (b) compensation cost for all share-based payments granted on or subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R. Compensation cost related to stock awards granted prior to, but not vested as of, January 1, 2006 is being recognized on a straight-line basis over the requisite remaining service period for the entire award in accordance with the provisions of SFAS No. 123R. Results for the prior periods have not been restated.

Prior to the adoption of SFAS No. 123R, we presented the tax benefit of deductions arising from the exercise of stock options as operating cash flows in the Condensed Consolidated Statement of Cash Flows. SFAS No. 123R requires that we classify the cash flows resulting from the tax benefit that arises when the tax deductions exceed the compensation cost recognized for those options (excess tax benefits) as financing cash flows. There were no excess tax benefits for the three and nine months ended September 30, 2006, and had we had excess tax benefits, they would have been classified as an operating cash inflow if we had not adopted SFAS No. 123R.

Pro Forma Information Under SFAS No. 123 for Periods Prior to Fiscal 2006

The fair value of each stock option on the date of grant and the fair value of shares issuable pursuant to the Company's Employee Stock Purchase Plan, or ESPP, in the three and nine months ended September 24, 2005 were estimated using a Black-Scholes option-pricing formula applying the following assumptions, and amortized over the respective option's vesting period or ESPP plan purchase period, or six months, using the straight-line attribution approach, as shown in the following table:

Stock Options:

	Three Months Ended September 24, 2005	Nine Months Ended September 24, 2005
Expected term (in years)	4.0	4.0
Risk-free interest rate	4.10%-4.63 %	3.92%-4.63 %
Expected volatility	49.2%-57.0 %	49.2%-60.7 %
Expected dividend yield	0%	0%

ESPP:

	Three Months Ended September 24, 2005	Nine Months Ended September 24, 2005
Expected term (in years)	0.5	0.5
Risk-free interest rate	3.26 %	2.41%-3.26 %
Expected volatility	41.6%	41.6%-58.3 %
Expected dividend yield	0 %	0%

Expected Term: The expected term represents the period over which the share-based awards are expected to be outstanding.

Risk-Free Interest Rate: We based the risk-free interest rate used in our assumptions on the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equivalent to the stock option award's expected term.

Expected Volatility: The volatility factor used in our assumptions is based on the historical price of our stock over the most recent period commensurate with the expected term of the award for stock options and over the six-month plan purchase period for ESPP shares.

Expected Dividend Yield: We do not intend to pay dividends on our common stock for the foreseeable future. Accordingly, we use a dividend yield of zero in our assumptions.

We estimated the expected term and expected volatility of the instruments based upon historical data.

The weighted-average fair value of options granted during the three and nine-month periods ended September 24, 2005 was $6.05 and $5.60, respectively. Forfeitures were recognized as they occurred. The weighted-average fair value of shares issuable pursuant to the ESPP during the three and nine-month periods ended September 24, 2005 was $4.25 and $4.62, respectively, per share.

The table below illustrates the effect on net loss and loss per share during the three and nine-month periods ended September 24, 2005 if we had applied the fair value recognition provisions of SFAS No. 123. The estimated fair value is amortized to expense over each option grant's respective vesting period and over the six-month plan purchase period for shares issuable under the ESPP.

(In thousands, except per share data)	Three Months Ended September 24, 2005	Nine Months Ended September 24, 2005
Net loss, as reported	$ (16,118)	$ (52,870)
Total share-based employee compensation cost, net of tax	—	—
Total share-based employee compensation cost determined under SFAS No. 123 for all awards, net of tax	(1,559)	(4,614)
Pro forma net loss	$ (17,677)	$ (57,484)
Net loss per share:		
Basic and diluted net loss— as reported	$ (0.27)	$ (0.89)
Basic and diluted net loss— pro forma	$ (0.29)	$ (0.96)

Valuation and Expense Information under SFAS No. 123R

As a result of the adoption of SFAS No. 123R, we recorded compensation costs of $0.9 million, or $0.02 per share, for the three months ended September 30, 2006 and $2.2 million, or $0.04 per share, for the nine months ended September 30, 2006. Of the $0.9 million and $2.2 million recorded as compensation costs $49 thousand and $0.1 million were reclassified into discontinued operations for each of the three and nine month periods ended September 30, 2006, respectively. In addition, of the $0.9 million and $2.2 million recorded as compensation costs $18 thousand and $0.1 million were capitalized into the cost of inventories for each of the three and nine-month periods ended September 30, 2006, respectively, and the remainder has been included in the associated operating expense line item. As a result of the adoption of SFAS No. 123R, our net loss and loss before benefit for income taxes for the three and nine-month periods ended September 30, 2006 increased by $0.9 million and $2.2 million, respectively, than if we had continued to account for share-based compensation under APB No. 25. As of September 30, 2006, there was $5.8 million of total unrecognized compensation cost related to non-vested stock options, restricted stock, and shares issuable under the ESPP, which will be expensed over a weighted-average period of 3.0 years, of which $0.4 million is related to discontinued operations. We did not recognize a tax benefit for share-based compensation arrangements during the three and nine-month periods ended September 30, 2006.

As required by SFAS No. 123R, we now estimate forfeitures of stock options and restricted stock awards and recognize compensation cost only for those awards expected to vest. Forfeiture rates are determined for three groups of non-employee directors, senior management and all other employees-based on historical experience. Estimated forfeiture rates are adjusted from time to time based on actual forfeiture experience.

Stock Options

In connection with the adoption of SFAS No. 123R, we estimate the fair value of each stock option on the date of grant using a Black-Scholes option-pricing formula, applying the following assumptions, and amortized to expense over the option's vesting period using the straight-line attribution approach:

	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2006
Expected term (in years)	2.15-3.69	2.15-8.12
Risk-free interest rate	5.25%-5.63%	4.47%-5.70%
Expected volatility	81.4%-98.4%	81.4%-98.4%
Expected dividend yield	0%	0%

Expected Term: The expected term represents the period over which the share-based awards are expected to be outstanding based on the historical exercise behavior and forfeiture experience of our employees, as adjusted for certain events that management deemed to be non-recurring and/or non-indicative of future events.

Risk-Free Interest Rate: The Company based the risk-free interest rate used in the assumptions on the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equivalent to the stock option award's expected term.

Expected Volatility: The volatility factor used in the assumptions is based on the historical price of our stock over the most recent period commensurate with the expected term of the stock option award.

Expected Dividend Yield: We do not intend to pay dividends on common stock for the foreseeable future. Accordingly, we used a dividend yield of zero in the assumptions.

We maintain incentive stock plans that provide for the grants of stock options and restricted stock awards to our directors, officers and employees. As of September 30, 2006, there were 2,295,745 shares of common stock reserved for issuance under our stock plans. Stock options granted under these plans have been granted at an option price equal to the closing market value of the stock on the date of the grant. Options granted under these plans, prior to January 1, 2006, to employees typically become exercisable over four years in equal annual installments after the date of grant, and to non-employee directors become exercisable in full after six months after the grant date, subject to in each case to continuous service with the Company. During the three months ended September 30, 2006, we granted options to purchase our common stock which become exercisable over various vesting periods as follows: 7,750 options vested immediately, 6,500 options that vest ratably over four years subject to continuous service with the Company and to acceleration in certain circumstances. During the nine months ended September 30, 2006, we granted options to purchase our common stock which become exercisable over various vesting periods as follows: 23,750 options vested immediately, 1,459,138 options that vest ratably over four years, 102,000 options granted to outside directors and the corporate secretary that vest at the end of six months and 437,260 options (granted as part of a retention program authorized by the Compensation Committee of our Board of Directors) that vest at the end of three years subject to continuous service with the Company and to acceleration in certain circumstances. We did not grant any restricted stock during the three months ended September 30, 2006. During the nine months ended September 30, 2006, we granted 60,000 shares of restricted stock that vest at the end of three years, and 80,000 and 20,000 shares of restricted stock that vest ratably over three and four years, respectively, subject to continuous service with the Company and to acceleration in certain circumstances. In addition, as part of the retention program, during the nine months ended September 30, 2006, we granted 50,000 and 304,610 shares of restricted stock that vest at the end of one and three years, respectively, subject to continuous service with the Company and to acceleration in certain circumstances.

A summary of option activity under our stock plans as of September 30, 2006 and the changes during the first nine months of 2006 is presented below:

Options	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value ($000's)
Outstanding at December 31, 2005	8,699,323	$ 9.96		
Granted	2,022,148	5.26		
Exercised	(259,573)	4.90		
Forfeited	(516,319)	9.00		
Expired	(1,301,740)	11.44		
Outstanding at September 30, 2006	8,643,839	$ 8.85	6.47	$ 2,836
Vested and expected to vest at September 30, 2006	8,178,364	$ 9.06	6.42	$ 2,541
Exercisable at September 30, 2006	6,852,561	$ 9.79	6.20	$ 1,768

The amount of compensation costs recorded in the three and nine months ended September 30, 2006 related to stock options awards is $0.7 million and $1.4 million, respectively. Of the $0.7 million and $1.4 million of compensation costs recorded, $18 thousand and $0.1 million for the three and nine months ended September 30, 2006, respectively, have been reclassified to discontinued operations. As of September 30, 2006, there was $4.3 million of unrecognized compensation cost related to the stock options granted under our stock plans, of which $0.4 million is related to discontinued operations. That cost is expected to be recognized over a weighted-average period of 3.2 years. The weighted-average fair value of stock options granted during the three and nine months ended September 30, 2006 was $3.00 and $3.43, respectively. The total intrinsic value of stock options exercised was $41 thousand and $0.3 million during the three and nine months ended September 30, 2006, respectively, and was $1.8 million and $4.1 million in the three and nine months ended September 24, 2005, respectively.

Cash received from the exercise of stock options under our stock plans for the three and nine months ended September 30, 2006 was $0.1 million and $1.3 million, respectively.

Restricted Stock

During the first quarter of 2006, 50,000 and 304,610 shares of restricted stock were granted that vest in full on March 1, 2007 and March 1, 2009, respectively. During the second quarter of 2006, 80,000, 60,000 and 20,000 shares of restricted stock were granted with various vesting schedules that will be fully vested on May 12, 2009, June 12, 2009 and May 12, 2010, respectively. No restricted stock was granted in the third quarter of 2006.

A summary of the status of our restricted stock awards as of September 30, 2006 and changes during the first nine months of 2006 is presented below:

	Number of Shares	Weighted-Average Fair Value at Grant Date
Nonvested at December 31, 2005	—	
Granted	514,610	$ 4.46
Vested	—	
Forfeited	(58,831)	3.83
Nonvested at July 1, 2006	455,779	$ 4.54

The amount of compensation costs recorded in the three and nine months ended September 30, 2006 related to restricted stock awards is $0.1 million and $0.4 million, respectively, none of which has been reclassified to discontinued operations. As of September 30, 2006, there was $1.4 million of total unrecognized compensation cost related to restricted stock awards granted under our stock plans, none of which is related to discontinued operations. That cost is expected to be recognized over a weighted-average period of 2.4 years. No restricted stock awards vested during the first nine months of 2006.

Employee Stock Purchase Plan (ESPP)

The terms of the ESPP, as amended, allow for qualified employees, as defined therein, to participate in the purchase of up to 1,000,000 shares of our common stock at a price equal to 85% of the lower of the closing price at the beginning or end of each semi-annual stock purchase period.

In connection with the adoption of SFAS No. 123R, we estimate the fair value of each share of stock which may be issued under our ESPP based upon our stock prices on December 1, 2004 and June 1, 2005 using a Black-Scholes option-pricing formula, applying the following assumptions, and amortize that value to expense over the plan purchase period using the straight-line attribution approach:

	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2006
Expected term (in years)	0.5	0.5
Risk-free interest rate	4.86%	4.21%-4.86%
Expected volatility	52.6%	52.6%-181.0%
Expected dividend yield	0%	0%
Fair value at grant date	$2.23	$2.21-$2.23

The amount of compensation costs recorded in the three and nine months ended September 30, 2006 related to participation in the ESPP is $0.1 million and $0.4 million, respectively, based upon the anticipated purchase of 148,890 shares and 80,023 shares on May 31, 2006 and November 30, 2006, respectively. Of the $0.1 million and $0.4 million of compensation costs recorded, $14 thousand and $0.1 million for the three and nine months ended September 30, 2006, respectively, have been reclassified to discontinued operations. As of September 30, 2006, there was $0.1 million of total unrecognized compensation cost related to shares which may be issued under the ESPP, of which $10 thousand is related to discontinued operations. That cost is expected to be fully recognized during the third and fourth quarters of 2006.

NOTE 9 TREASURY STOCK

On May 27, 2005, a member of our Board of Directors exercised stock options to purchase 7,500 shares of our common stock. This purchase was paid for by delivery of 1,958 shares of common stock valued at approximately $24 thousand. The shares delivered had been acquired more than six months previously and these shares have been accounted for as treasury stock.

NOTE 10 DEBT

On April 19, 2005, we issued $100 million of our 2.875% Convertible Senior Notes due 2025, or the Notes, through a private offering to qualified institutional buyers as defined in Rule 144A under the Securities Act. On May 13, 2005, the initial purchasers exercised $12.4 million of their option to purchase additional Notes to cover over allotments. The carrying value of the Notes at September 30, 2006 is $109.3 million compared $109.1 million at December 31, 2005.

The Notes were issued pursuant to an indenture between U.S. Bank National Association, as trustee, and us. The Notes are convertible, at the option of the holders, into shares of our common stock at a rate of 69.8348 shares per $1,000 principal amount of notes, which is equivalent to a conversion price of approximately $14.32 per share, subject to adjustment upon the occurrence of certain events. The initial implied conversion price represents a 30% premium over the closing sale price of our common stock on April 13, 2005, which was $11.015 per share. The Notes, which represent our general, unsecured obligations, could be redeemable by us at 100% of their principal amount, or $112.4 million, plus accrued and unpaid interest, any time on or after April 18, 2010. Holders of the Notes may require us to repurchase them for 100% of their principal amount, plus accrued and unpaid interest, on April 15, 2010, April 15, 2012, April 15, 2015 and April 15, 2020, or following the occurrence of a fundamental change as defined in the indenture agreement.

The following table reconciles the net proceeds received:

(In thousands)	
Cash received:	
Proceeds from issuance	$112,400
Professional fees paid:	
Discount granted to initial purchasers	(3,372)
Legal and accounting fees	(256)
Other	(42)
	(3,670)
Net proceeds	$108,730

Interest on the Notes is payable on each April 15 and October 15, beginning October 15, 2005. Accrued and unpaid interest related to the Notes was $1.5 million at September 30, 2006. The $3.4 million discount granted to the initial purchaser of the Notes and the $0.3 million of deferred costs are being amortized to interest expense through April 15, 2020, the maturity date of the Notes.

NOTE 11 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

During July 2006, we amended our agreement with DSM Pharmaceuticals, Inc., or DSM, pursuant to which we acquired rights to Aloprim. Under the terms of the amended agreement, we have a remaining minimum requirement to pay DSM $1.4 million over the period ending June 29, 2009. Our remaining purchase commitment requires us to pay $0.5 million in 2006, $0.3 million in 2007, $0.3 million in 2008 and $0.3 million in 2009.

During 2005, we announced several charges related to the closure of our European office including employee severance costs and future rent payments for our European office. Following the closure of our European office on January 31, 2006, we have a remaining liability $0.1 million for severance and other related expenses for our former employees through the remainder of 2006. During July 2006, we entered into an agreement with a third party to sub-lease our European office for the duration of this agreement. The terms and provisions of the sub-lease include quarterly rent payments in excess of our obligations related to the original lease. The table below outlines the changes in our liability related to these charges during the first nine months of 2006.

(In thousands)	Balance at December 31, 2005	Charge Incurred	Cash Payments	Adjustments	Balance at September 30, 2006
Severance costs	$ 582	$ —	$ (519)	$ —	$ 63
Lease obligations	—	126	—	(126)	—
Total	$ 582	$ 126	$ (519)	$ (126)	$ 63

We have agreements with certain members of our senior management that include certain cash payments in the event of termination of employment, and cash payments and equity based award modifications in the event of a change in control of the Company.

NOTE 12 LEGAL PROCEEDINGS

On September 27, 2005, we filed a lawsuit in the United States District Court for the Southern District of Ohio against Roxane Laboratories, Inc., or "Roxane", for infringement of our U.S. Patent Number 6,576,665 for PhosLo GelCaps. We filed this lawsuit under the Hatch-Waxman Act in response to a Paragraph IV Certification notice letter submitted by Roxane to us concerning Roxane's filing of an Abbreviated New Drug Application, or ANDA, with the FDA to market a generic version of PhosLo GelCaps. The lawsuit was filed on the basis that Roxane Laboratories' submission of its ANDA and its proposed generic product infringe the referenced patent which expires in 2021. Under the Hatch-Waxman Act, FDA approval of Roxane Laboratories' proposed generic product will be stayed until the earlier of 30 months or resolution of the patent infringement lawsuit. As of September 30, 2006, we had capitalized $70.2 million of intangible assets, net of accumulated amortization, on our balance sheet related to the PhosLo gelcap patent. In future periods, if we assess that circumstances have resulted in changes to the carrying value of the intangible assets or their estimated useful life, we will record those changes in the period of that assessment.

On May 25, 2006, we filed an amended complaint in the lawsuit also alleging infringement of U.S. Patent No. 6,875,445. On June 9, 2006, Roxane filed an answer and counterclaims to the amended complaint, in which it denied infringement and asserted several affirmative defenses. Among those defenses, Roxanne has asserted that it does not infringe either patent, that the patents are invalid, and that the patents are unenforceable due to inequitable conduct. In addition, Roxane has asserted a counterclaim for attempted monopolization under the Sherman Act. Roxane seeks unspecified damages incurred and requests that such damages be trebled under the antitrust statute.

On July 18, 2006, we filed a motion to dismiss Roxane's antitrust counterclaim, as well as to stay and bifurcate discovery on that counterclaim. On October 20, 2006, the Magistrate Judge ruled that discovery on the counterclaim should proceed simultaneously with discovery on the underlying patent claim. The District Judge has not yet ruled on the portion of the motion that seeks to dismiss the counterclaim on the pleadings. The parties are in the deposition phase of discovery.

Following the closing of the transaction contemplated by the definitive agreement, Fresenius has agreed to assume certain liabilities associated with PhosLo, including liabilities arising after the closing related to the prosecution of the Roxane patent litigation initiated by us.

NOTE 13 INCOME TAXES

During 2006, we anticipate recording a valuation allowance against all of our deferred tax assets. As a result of this valuation allowance, we expect our full year effective tax rate to be at or about zero. The tax benefit recorded in the three and nine month period of 2006 is the result of the correction of the error for compensation expense. We previously utilized tax deductions for stock options exercised through Additional Paid in Capital that was reversed in this period as a result of the compensation expense recorded during the quarter for stock options. The tax benefit recorded during the three and nine-month periods ended September 24, 2005 was primarily related to operating losses generated during the year in which we had a tax planning strategy that was prudent and feasible and was expected to utilized the majority of our deferred tax assets at that time.

Under Section 382 of the Internal Revenue Code, certain significant changes in ownership may restrict the future utilization of our tax loss carryforwards. The annual limitation is equal to the value of our stock immediately before the ownership change, multiplied by the long-term tax-exempt rate (i.e., the highest of the adjusted Federal long-term rates in effect for any month in the three-calendar-month period ending with the calendar month in which the change date occurs). Based upon preliminary calculations, we estimate that the utilization of tax losses for federal tax purposes would be limited to approximately $15 million per year. As a result, federal net operating losses may expire before we are able to fully utilize them. As we have recorded a full valuation allowance against our net deferred tax assets, there is no current impact of this limitation for financial reporting purposes. A more detailed calculation will be prepared once we have taxable income for federal and state purposes.

NOTE 14 SUPPLEMENTAL CASH FLOW INFORMATION

(In thousands)	For the Nine Months Ended September 30, 2006	For the Nine Months Ended September 24, 2005
Interest paid	$ 1,629	$ 6
Discount paid on non-interest bearing notes	$ 782	$ 1,101
Income taxes (refunded) paid	$ (68)	$ 420
Supplemental non-cash financing and investing activities:		
Stock options exercised in exchange for common stock	$ —	$ 93

NOTE 15 SUBSEQUENT EVENT

On October 12, 2006, we executed a definitive agreement to sell certain assets related to our PhosLo operations to a U.S. subsidiary of Fresenius Medical Care, or Fresenius, for consideration of up to $150 million in up front cash, milestone payments and royalties on sales of a new product formulation under development. Under the terms of the agreement Fresenius will pay us $65 million in cash upon closing and up to an additional $20 million upon successful completion of certain milestones. Of these milestones, $5 million is expected to be received at closing, $5 million is expected to be received during the fourth quarter of 2006 and the remaining $10 million is expected to be received during 2007 and 2008. Fresenius will also acquire rights to a new product formulation currently under development, which we expect will be submitted for licensure in the U.S. during 2007. Following the successful launch of this new product formulation, Fresenius has agreed to pay us royalties on sales of the new product formulation over a base amount for 10 years after the closing date until total consideration paid in the transaction reaches $150 million. The transaction is subject to customary closing and regulatory conditions including expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

Following the closing of the transaction contemplated by the Agreement, Fresenius agreed to assume certain liabilities associated with PhosLo, including the liabilities arising after the closing under assumed contracts and the prosecution of the Roxane patent litigation initiated by Nabi (the “Roxane Proceeding”). Specifically, within three (3) days of the closing date Fresenius will join Nabi as an additional plaintiff and counterclaim defendant in the Roxane Proceeding and will assume the sole and absolute right to control, abandon, negotiate, settle and otherwise deal with the Roxane Proceeding. Fresenius will not compromise or settle the Roxane Proceeding, or otherwise terminate the Roxane Proceeding, without Nabi’s prior written consent, which consent will not be unreasonably withheld. Nabi’s consent will not be required for any termination of the Roxane Proceeding under which (i) Nabi is unconditionally released in writing from all liabilities with respect thereto and the claims litigated therein or (ii) Fresenius assumes an obligation to indemnify Nabi for any liabilities arising from the Roxane Proceeding. Fresenius will not assume liability or responsibility for Nabi’s actions or omissions in initiating and maintaining the Roxane Proceeding prior to the Fresenius’ assumption of control and Nabi will be responsible for defending its own acts or omissions in initiating and maintaining the Roxane Proceeding occurring prior to Fresenius’ assumption of control.

In conjunction with this transaction, in October 2006, we offered severance packages to certain employees. The associated liability for one-time termination benefits, which will be recognized in the fourth quarter of 2006, is estimated at approximately $1.2 million and will be reported in discontinued operations.

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

The following is a discussion and analysis of the major factors contributing to our financial condition and results of operations for the three and nine months ended September 30, 2006 and September 24, 2005. The discussion and analysis should be read in conjunction with the Condensed Consolidated Financial Statements and Notes thereto.

OVERVIEW

We leverage our experience and knowledge in powering the immune system to develop and market products that fight serious medical conditions. We are focused on developing products addressing the large commercial opportunities within our core business areas: hepatitis and transplant, kidney disease (nephrology), Gram-positive bacterial infections and nicotine addiction. We have three products on the market in the U.S. today: Nabi-HB® [Hepatitis B Immune Globulin (Human)], Aloprim™ [Allopurinol sodium (for injection)], and PhosLo® (calcium acetate), and a number of products in various stages of clinical and pre-clinical development. We have also filed a Marketing Authorization Application, or MAA, in Europe to market PhosLo, for the treatment of hyperphosphatemia in patients with end-stage renal disease, or ESRD.

We filed for our MAA for PhosLo under the Mutual Recognition Procedure, or MRP, in October, 2004. Under the MRP, the product license application is filed in a Reference Member State that reviews and takes action on the application. After the product is licensed by the Reference Member State, the Company may then file for approval in other countries in the EU. The review time for these subsequent filings is shortened. During the fourth quarter of 2005, we filed for approval for PhosLo in an additional five countries under the MRP rather than waiting for approval from the Reference Member State before expanding our filing to other markets. While that election has delayed the initial approval of PhosLo in the Reference Member State, it means that when the approval is received it will be in six markets in the EU. The Reference Member State completed its review of the application in January 2006 and recommended its approval to the five other member states we selected. These states are currently conducting their reviews. Contingent upon a successful inspection of the manufacturing plant in the U.S., we believe we will receive approval in all six EU countries by the end of 2006. We are seeking a commercial partner to sell PhosLo in Europe and do not expect to recognize any revenue from the sales of the product in Europe until after a partnership agreement is in place.

On October 12, 2006, we executed a definitive agreement to sell certain assets related to our PhosLo operations, including the European rights, to a U.S. subsidiary of Fresenius Medical Care for consideration of up to $150 million in up front cash, milestone payments and royalties on sales of a new product formulation under development.

In addition to our biopharmaceutical business, we also collect specialty and non-specific antibodies for use in our products and sell our excess production to pharmaceutical and diagnostic customers for the subsequent manufacture of their products. We invest the gross margins we earn from sales of our marketed products and excess antibody production toward funding the development of our product pipeline.

On August 29, 2006, we announced that we obtained the exclusive rights to use a novel hyperimmune immunoglobulin extraction technology from ProMetic Life Sciences, or ProMetic. Under the terms of the agreement, we obtain the exclusive worldwide rights to use ProMetic's plasma fractionation technology in the development of several of our hyperimmune product candidates, including Civacir and Altastaph. In addition, we obtained an option for the exclusive North American rights to this technology for use with Nabi-HB and in the development of Nabi-HB Intravenous and certain other possible product candidates.

On July 13, 2006, we announced that the Blood Products Advisory Committee of the U.S. Food and Drug Administration, or FDA, rendered a positive opinion of our Biologic License Application, or BLA, for Nabi-HB™ Intravenous [Hepatitis B Immune Globulin (Human) Intravenous]. The Committee voted to recommend approval of the use of Nabi-HB Intravenous for the prevention of recurrence of hepatitis B after liver transplant. The FDA generally follows the recommendations of its Advisory Committees, although it is not obligated to do so. We submitted our BLA for Nabi-HB Intravenous in November 2002. Nabi-HB Intravenous has received Orphan Drug status in the United States. Until final approval of Nabi-HB Intravenous is granted by the FDA, no shipments of this new formulation of the product will occur and no revenue will be recognized. Sales of Nabi-HB will continue while this application is reviewed by the FDA.

On June 26, 2006, we entered into an agreement with Kedrion S.p.A., or Kedrion, to co-develop and commercialize Civacir ® [Hepatitis C Immune Globulin (Human)], our investigational human polyclonal antibody product candidate for preventing re-infection in hepatitis C-positive liver transplant recipients. Under the terms of the agreement, we will pursue a common strategy with Kedrion to develop and commercialize Civacir in both the U.S. and European markets. Kedrion is our exclusive licensee to market Civacir in Europe, Turkey and the countries forming part of the former Soviet Union for a term of 15 years following the first commercial sale of Civacir by Kedrion or its affiliates under the agreement. In addition to milestone and royalty payments to be paid to us, Kedrion will assume development costs for Civacir in both Europe and the U.S. through at least Phase II clinical trials.

On May 30, 2006 we announced that as a result of discussions about our MAA for HEBIG with regulators of the Reference Member State, we have voluntarily withdrawn our MAA in Europe while we compile 12 months of stability data for a reformulation of the product. We expect to resubmit our MAA with this data during the first half of 2007. We believe all other pieces of the MAA have already been reviewed and accepted by the Reference Member State and that the Reference Member State has committed to an accelerated turn-around upon re-submission of the MAA. We believe that this new formulation will yield several benefits for the intravenous product in Europe and the U.S.

On March 30, 2006, we entered into an agreement with Fresenius Biotech GmbH, or Fresenius, to develop and market ATG-Fresenius S in North America. ATG-Fresenius S is an immunosuppressive polyclonal antibody product used for the prevention and treatment of organ rejection following transplantation. Under the terms of the agreement, Fresenius granted us exclusive sales and distribution rights to ATG-Fresenius S in the U.S. and Canada for an initial term of ten years following the first commercial sale of the product in the U.S., which term may be extended at our exclusive option for an additional five-year term. We are required to make payments to Fresenius upon completion of certain milestones during development and upon approval by the FDA. In addition, we will pay a royalty to Fresenius in exchange for the manufacture and supply of ATG-Fresenius S.

RESULTS OF OPERATIONS

The following discussion of our results of operations for the comparative periods excludes PhosLo revenue and related expenses for all periods presented. These amounts are reflected in discontinued operations as a result of the definitive agreement executed with Fresenius Medical Care in October 2006 related to the sale of the PhosLo assets.

During the three and nine month periods ended September 30, 2006 we recorded a net expense of $1.5 million related to errors in prior periods.

During the third quarter of 2006, the Audit Committee of the Board of Directors initiated a voluntary review of our historical and current year equity grant programs and the accounting for these programs. The Audit Committee engaged independent legal counsel to assist in a review of our equity grant programs for the period January 1, 1997 through September 30, 2006. The investigation was completed on November 13, 2006. No fraud, back dating or spring loading issues were identified. However, the investigation did identify errors in the determination of the measurement date for certain stock option grants in prior years. As certain of the supporting documentation for the earlier years in the period was incomplete or unavailable, alternative documentation including contemporaneous memoranda, e-mails and interviews of current and former employees were required in reaching judgments as to the appropriate measurement dates. This resulted in additional cumulative non-cash compensation expense recorded during the third quarter of 2006 totaling $2.6 million, or $0.04 per share, over the period reviewed, including $0.2 million, or $0.00 per share, that has been reclassified to discontinued operations. The remaining adjustment amount was recorded within cost of products sold, selling, general and administrative expense and research and development expense. On an individual year basis, $0.5 million related to the year ending December 31, 2005 and was the greatest compensation expense in any individual year.

In addition, we identified an unrelated error in the calculation of depreciation expense on certain research and development assets which overstated depreciation expense from 2000 through 2005. An aggregate adjustment of $1.1 million, or $.02 per share, was recorded in research and development expense in the third quarter of 2006.

We assessed the impact of these errors both individually and in the aggregate and concluded that they were not material to the current or prior impacted periods and they were corrected in the three and nine month periods ended September 30, 2006.

Information concerning our sales by operating segment is set forth in the following tables:

	For the Three Months Ended			
(In thousands, except percentages)	September 30, 2006		September 24, 2005	
Antibody products:				
-Specialty antibodies	$ 6,257	31.9%	$ 4,143	18.5%
-Non-specific antibodies	5,953	30.3	6,410	28.7
Antibody subtotal	12,210	62.2	10,553	47.2
Biopharmaceutical products:				
-Nabi-HB	6,790	34.6	10,837	48.4
-Other biopharmaceuticals	634	3.2	985	4.4
Biopharmaceutical subtotal	7,424	37.8	11,822	52.8
Total	$19,634	100.0%	$22,375	100.0%

(In thousands, except percentages)	For the Nine Months Ended September 30, 2006		September 24, 2005	
Antibody products:				
-Specialty antibodies	$19,926	33.5%	$14,121	21.0%
-Non-specific antibodies	16,150	27.1	16,394	24.3
Antibody subtotal	36,076	60.6	30,515	45.3
Biopharmaceutical products:				
-Nabi-HB	21,135	35.5	28,453	42.2
-WinRho	—	—	6,172	9.2
-Other biopharmaceuticals	2,314	3.9	2,239	3.3
Biopharmaceutical subtotal	23,449	39.4	36,864	54.7
Total	$59,525	100.0%	$67,379	100.0%

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006 AND SEPTEMBER 24, 2005

Sales. Total sales for the third quarter of 2006 were $19.6 million compared to $22.4 million for the third quarter of 2005.

Total antibody sales for the third quarter of 2006 were $12.2 million compared to $10.6 million for the third quarter of 2005.

Specialty antibody sales. Specialty antibody sales totaled $6.3 million in the third quarter of 2006 compared to $4.1 million in the third quarter of 2005, primarily reflecting increased sales of anti-HBs antibodies.

Non-specific antibody sales. Sales of non-specific antibodies for the third quarter of 2006 totaled $5.9 million compared to $6.4 million for the third quarter of 2005. Sales of non-specific antibodies decreased as a result of a shift in production to our higher margin specialty antibodies.

Biopharmaceutical sales were $7.4 million in the third quarter of 2006 compared to $11.8 million for the third quarter of 2005.

Nabi-HB® [Hepatitis B Immune Globulin (Human)]. Sales of Nabi-HB were $6.8 million for the third quarter of 2006 compared to $10.8 million for the third quarter of 2005. The level of liver transplants for hepatitis B virus, or HBV, positive patients affects sales of Nabi-HB. During the third quarter of 2006, patient demand for Nabi-HB remained above prior year levels. However, Nabi-HB revenue decreased from prior year levels because of the continued negotiation of a supply agreement with one of our significant customers. As a result, we shipped a minimal amount of Nabi-HB to that customer and estimated inventory levels at wholesalers decreased by approximately one month during the third quarter.

Other biopharmaceutical products. Other biopharmaceutical products primarily include Aloprim™ [(Allopurinol sodium) for injection] and intermediate products manufactured in our plant. We also perform contract manufacturing for others. Other biopharmaceutical products sales for the third quarter of 2006 decreased in comparison to sales of these products during the third quarter of 2005 due primarily to lower contract manufacturing sales which was slightly offset by higher sales of Aloprim.

Gross margin. Gross margin for the third quarter of 2006 was $4.3 million, or 22% of sales, compared to $8.9 million, or 40% of sales, for the third quarter of 2005. The decrease in gross margin as measured in dollars for the third quarter of 2006 is primarily due to decreased sales of Nabi-HB and an increase in excess plant capacity expense, which was $1.7 million during the third quarter of 2006 versus $0.3 million for the third quarter of 2005. Also during the third quarter of 2006, we reserved $0.9 million of Nabi-HB material that was damaged while in transit to a contract filling site. Partially offsetting these decreases in margin were increased margins related to higher sales of specialty antibodies.

Royalty expense for the third quarter of 2006 was $0.3 million, or 4% of biopharmaceutical sales, compared to $0.5 million, or 4% of biopharmaceutical sales, for the third quarter of 2005. The decrease in royalty expense as measured in dollars is mainly due to lower sales of Nabi-HB.

Selling, general and administrative expense. Selling, general and administrative expense was $10.2 million for the third quarter of 2006 compared to $15.7 million for the third quarter of 2005. This decrease in selling, general and administrative expense is primarily due to sales and marketing activities related to the planned commercialization of StaphVAX incurred during 2005 and was partially offset by the costs of retention and equity based compensation programs, the costs for ongoing compliance efforts related to sales rebates, and expenses related to increased investor relations activities in the third quarter of 2006.

Research and development expense. Research and development expense decreased 35% to $10.2 million for the third quarter of 2006 compared to $15.8 million for the third quarter of 2005. During the third quarter of 2005, a significant portion of our expenses were related to the development of StaphVAX. Research and development expense for the third quarter of 2006 primarily reflects activities related to the continuation of our NicVAX Phase II proof-of-concept clinical trial and ongoing expenses related to clinical development of ATG-Fresenius S. The NicVAX clinical trial costs were partially offset by funding from the National Institute on Drug Abuse, a part of the National Institutes of Health. In addition, research and development expense during the third quarter of 2006 included a reversal of $1.1 million of previously recorded depreciation expense.

Amortization of intangible assets. Amortization expense of $0.1 million for the third quarter of 2006 compared to $0.2 million for the third quarter of 2005.

Interest income. Interest income was $0.9 million for the third quarter of 2006 compared to $1.3 million for the third quarter of 2005. Interest income is earned from investing cash and cash equivalents on hand in money market funds and marketable securities, including auction rate securities with maturities or interest reset periods of three months or less. The decrease in interest income was primarily due to a decrease in the average cash balance for the third quarter of 2006 compared to the third quarter of 2005, which was partially offset by an increased return on investments due to higher interest rates in the 2006 period.

Interest expense. Interest expense for the third quarter of 2006 of $0.9 million was flat when compared to interest expense reported for the third quarter of 2005. Included in interest expense for the third quarter of both 2006 and 2005 is $0.8 million of accrued interest associated with our 2.875% Convertible Senior Notes due 2025 issued during the second quarter of 2005.

Equity based compensation. During the first quarter of 2006 we adopted SFAS No. 123R. As a result, during the third quarter of 2006 we recorded compensation expense of $0.9 million related to our equity based compensation plans, of which $49 thousand has been reclassified to discontinued operations, and will have additional expense during the remainder 2006 and during succeeding years. As additional equity based awards are granted, we anticipate that this expense will continue to increase. Refer to Note 8. In addition, during the third quarter of 2006, the Audit Committee of the Board of Directors initiated a voluntary review of our historical and current year equity grant programs and the accounting for these programs. The review identified errors in the determination of the measurement date for certain stock option grants in prior years. This resulted in additional cumulative non-cash compensation expense recorded during the third quarter of 2006 totaling $2.6 million, of which $0.2 million has been reclassified to discontinued operations.

Loss from Discontinued Operations. The loss from discontinued operations reflects the reclassification of the costs and assets related to our PhosLo product line to assets held for sale. The loss from discontinued operations of $5.5 million during the three months ended September 30, 2006 compares to a loss of $0.4 million during the three months ended September 24, 2005. The components of the loss from discontinued operations for both periods include net revenue of PhosLo, the related cost of goods sold and amortization of acquired product rights, as well as certain research and development expenses, selling, general and administrative expenses and interest expense specific to PhosLo. The increase in loss from discontinued operations is primarily related to an impairment charge of $2.9 million that was recorded during the third quarter of 2006 to adjust the assets held for sale related to PhosLo to their fair value less costs to sell the assets and a deferral of $1.9 million of PhosLo revenue. When the sale of the assets is completed, all commercial contracts will be assigned to Fresenius. As a result, it will take longer for our labeled product to move through the pipeline, mainly through government-based programs. As stated in our revenue recognition policy, we do not recognize revenue from, or the cost of such sales, where we believe the customer has more than a demonstrably reasonable level of inventory. This product has been shipped and billed to our customers on normal payment terms. However, revenue will be deferred until there is a reduction in inventory levels at our wholesaler customers measured in terms of patient utilization.

Income taxes. During 2006, we anticipate recording a full valuation allowance against all net deferred tax assets. As a result of this valuation allowance, we expect our full-year effective tax rate to be at or about zero. The tax benefit recorded in the three month period of 2006 is the result of the correction of the error for compensation expense. We previously utilized tax deductions for stock options exercised through Additional Paid in Capital that was reversed in this period as a result of the compensation expense recorded during the quarter for stock options. The tax benefit recorded during the three and nine months periods ended September 24, 2005 was primarily related to operating losses generated during the year for which we had a tax planning strategy that was prudent and feasible and was expected to utilize the majority of our deferred tax assets at that time.

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND SEPTEMBER 24, 2005

Sales. Total sales for the first nine months of 2006 were $59.5 million compared to $67.4 million for the first nine months of 2005.

Total antibody sales for the first nine months of 2006 were $36.1 million compared to $30.5 million for the first nine months of 2005.

Specialty antibody sales. Specialty antibody sales were $19.9 million in the first nine months of 2006 compared to $14.1 million in the first nine months of 2005, primarily reflecting increased production of specialty antibodies.

Non-specific antibody sales. Sales of non-specific antibodies for the first nine months of 2006 were $16.2 million compared to $16.4 million for the first nine months of 2005. Sales of non-specific antibodies decreased as a result of a shift in production to our higher margin specialty antibodies.

Biopharmaceutical sales were $23.4 million for the first nine months of 2006 compared to $36.9 million for the first nine months of 2005. Sales for the first nine months of 2005 included WinRho SDF sales of $6.2 million. Our distribution agreement for WinRho SDF expired on March 24, 2005.

Nabi-HB. Sales of Nabi-HB were $21.1 million for the first nine months of 2006 compared to $28.5 million for the first nine months of 2005. The level of liver transplants for HBV positive patients affects sales of Nabi-HB. Patient demand for Nabi-HB remained above prior year levels. However, Nabi-HB revenue decreased from prior year levels because of the continued negotiation of a supply agreement with one of our significant customers. As a result, we shipped a minimal amount of Nabi-HB to that customer and estimated inventory levels at wholesalers decreased by approximately three months during the first nine months of 2006.

WinRho SDF [Rh_o (D) Immune Globulin Intravenous (Human)]. Our agreement with the manufacturer to distribute WinRho SDF in the U.S. ended on March 24, 2005. Sales of WinRho for the nine months of 2005 totaled $6.2 million.

Other biopharmaceutical products. Other biopharmaceutical products primarily include Aloprim and intermediate products manufactured in our plant. We also perform contract manufacturing for others. Other biopharmaceutical products sales during the first nine months of 2006 were flat in comparison to sales of these products during the first nine months of 2005.

Gross margin. Gross margin for the first nine months of 2006 was $15.4 million, or 26% of sales, compared to $22.7 million, or 34% of sales, for the first nine months of 2005. The decrease in gross margin primarily reflects lower sales of Nabi-HB, the conclusion of a distribution agreement for WinRho in the first quarter of 2005 and increased excess plant capacity expense which totaled $5.4 million for the first nine months of 2006 period compared to $2.4 million for the first nine months of 2005. This change reflected lower contract manufacturing volumes and timing of production of our clinical development products. Also during the nine months ended September 30, 2006, we reserved $0.9 million of Nabi-HB material that was damaged while in transit to a contract filling site. Partially offsetting these decreases in margin were increased margins related to higher sales of specialty antibodies.

Royalty expense for the first nine months of 2006 was $1.0 million, or 4% of biopharmaceutical sales, compared to $3.1 million, or 9% of biopharmaceutical sales, for the first nine months of 2005, reflecting the expiration of a distribution agreement which included a royalty obligation based on product sales.

Selling, general and administrative expense. Selling, general and administrative expense was $33.0 million for the first nine months of 2006 compared to $39.9 million for the first nine months of 2005. Selling, general and administrative expense in the first nine months of 2006 included costs of retention and equity based compensation programs, the costs for ongoing compliance efforts related to sales rebates, and expenses related to increased investor relations activities. The 2005 period included spending on commercialization activities for StaphVAX in Europe.

Research and development expense. Research and development expense decreased 41% to $27.9 million for the first nine months of 2006 compared to $47.7 million for the first nine months of 2005. During 2005, the main focus of our research and development programs related to StaphVAX. The first nine months of 2006 reflected expenses related to initial enrollment and development activities to support our Phase II proof of concept clinical trial for NicVAX, initial development activities and Phase III clinical trial expenses for Fresenius ATG-S and the conclusion of the StaphVAX clinical trial assessment. The NicVAX clinical trial costs were partially offset by funding from the National Institute on Drug Abuse, a part of the National Institutes of Health. In addition, research and development expense during the first nine months of 2006 included a reversal of $1.1 million of previously recorded depreciation expense.

Amortization of intangible assets. Amortization expense was $0.2 million for the first nine months of 2006 compared to $0.5 million for the first nine months of 2005.

Interest income. Interest income for the first nine months of 2006 was $2.9 million compared to $2.7 million for the comparable period of 2005. Interest income is earned from investing cash and cash equivalents on hand in money market funds and marketable securities. The increase in interest income reflects an increase in the average interest rate earned on those investments.

Interest expense. Interest expense for the first nine months of 2006 was $2.8 million compared to $1.5 million of interest expense reported for the first nine months of 2005. Included in interest expense for the first nine months of 2006 and 2005 is $2.4 million and $1.5 million, respectively, of interest associated with our 2.875% Senior Convertible Notes. During the first nine months of 2005, we capitalized interest of $0.1 million related to the construction of our vaccine manufacturing facility in Boca Raton, Florida and did not capitalize any interest amounts in the comparable period in 2006.

Equity based compensation. During the first quarter of 2006 we adopted SFAS No. 123R. As a result, during the first nine months of 2006 we recorded compensation expense of $2.2 million related to our equity-based compensation plans, of which $0.1 million has been reclassified to discontinued operations, and will have additional expense during the remainder 2006 and during succeeding years. As additional equity-based awards are granted, we anticipate that this expense will continue to increase. Refer to Note 8. In addition, during the third quarter of 2006, the Audit Committee of the Board of Directors initiated a voluntary review of our historical and current year equity grant programs and the accounting for these programs. The review identified errors in the determination of the measurement date for certain stock option grants in prior years. This resulted in additional cumulative non-cash compensation expense recorded during the third quarter of 2006 totaling $2.6 million, of which $0.2 million has been reclassified to discontinued operations.

Loss from Discontinued Operations. The loss from discontinued operations reflects the reclassification of the cost and assets related to our PhosLo product line to assets held for sale. The loss from discontinued operations of $9.3 million during the nine months ended September 30, 2006 compares to a loss of $6.7 million during the nine months ended September 24, 2005. The components of the loss from discontinued operations for the nine months ended September 30, 2006 and September 25, 2005 include net revenue of PhosLo, the related cost of goods sold and amortization of acquired product rights, as well as certain research and development expenses, selling, general and administrative expenses and interest expense specific to PhosLo. The increase in loss from discontinued operations is primarily related to an impairment charge of $2.9 million that was recorded within discontinued operations during the third quarter of 2006 to adjust the held for sale PhosLo related assets to their fair value less costs to sell the assets.

Income taxes. During 2006, we anticipate recording a full valuation allowance against all net deferred tax assets. As a result of this valuation allowance, we expect our full year effective tax rate to be at or about zero. The tax benefit recorded in the nine month period of 2006 is the result of the correction of the error for compensation expense. We previously utilized tax deductions for stock options exercised through Additional Paid in Capital that was reversed in this period as a result of the compensation expense recorded during the quarter for stock options. The tax benefit recorded during 2005 was primarily related to operating losses generated during the year for which we had a tax planning strategy that was prudent and feasible and was expected to utilize the majority of our deferred tax assets at that time.

LIQUIDITY AND CAPITAL RESOURCES

Our cash, cash equivalents and marketable securities at September 30, 2006 totaled $64.9 million compared to $106.9 million at December 31, 2005. Cash used by operations for the nine months ended September 30, 2006 was $38.0 million reflecting the net loss and a reduction in accounts payable and accrued expenses as well as an increase in our inventory balance due to the continued negotiation of a supply agreement with a significant customer. During the fourth quarter of 2006, we expect to receive $75 million in cash related to the closing of the PhosLo sale transaction, which is comprised of the $65 million due at closing and an additional $10 million related to the achievement of the specific milestones. We do not expect cash flows from operations to be negatively impacted by the sale of the PhosLo assets as a result of PhosLo being approximately cash flow neutral.

On April 19, 2005, we issued $100 million of 2.875% Convertible Senior Notes due 2025, or the Notes. The Notes were issued through a private offering to qualified institutional buyers as defined under Rule 144A of the Securities Act. On May 13, 2005, the initial purchasers exercised $12.4 million of their option to purchase additional Notes to cover over allotments. A $3.4 million discount was granted to the initial purchasers and an additional $0.3 million in deferred charges were recorded for professional fees related to the issuance. Net cash proceeds from the offering totaled $108.7 million. Interest on the Notes is payable on each April 15 and October 15, beginning October 15, 2005. We can redeem the Notes at 100% of their principal amount, or $112.4 million, plus accrued and unpaid interest, any time on or after April 18, 2010. Holders of the Notes may require us to repurchase the Notes for 100% of their principal amount, plus accrued and unpaid interest, on April 15, 2010, April 15, 2012, April 15, 2015 and April 15, 2020, or following the occurrence of a fundamental change as defined in the indenture agreement.

In conjunction with the acquisition of PhosLo in August 2003, we entered into an obligation to pay the seller $30.0 million over the period ending March 1, 2007. As of September 30, 2006, our remaining obligation, net of discount, was $10.5 million which will be paid on or about March 1, 2007. During the first nine months of 2006, we repaid approximately $3.1 million of this obligation. All payment obligations have been reclassified and reported as liabilities of discontinued operations. In addition, the remaining principal balance will be put into escrow upon the closing of the sale transaction.

Capital expenditures were $2.1 million for the first nine months of 2006. Our capital expenditures are expected to total approximately $4 million for the full year 2006.

In connection with an agreement related to the retirement of our former Chief Executive Officer announced on June 20, 2003, as of September 30, 2006 we had a remaining net obligation of $0.2 million in cash payments extending through December 2006, which is recorded in accrued expenses.

As part of the employee retention program we will make cash payments of up to an aggregate of $1.1 million to participants who are employed by us on March 1, 2007.

During the first nine months of 2006, we received $1.3 million from the exercise of employee stock options.

On September 19, 2001, our Board of Directors approved the expenditure of up to $5.0 million to repurchase shares of our common stock in the open market or in privately negotiated transactions. Repurchases will allow us to have treasury stock available to support our stock option and stock purchase programs. We acquired no shares under this program during the first nine months of 2006 or 2005. We will evaluate market conditions in the future and make decisions to repurchase additional shares of our common stock on a case-by-case basis. We have acquired 345,883 shares of our common stock for a total of $1.9 million since the inception of this buy back program. We also may seek approval of our Board of Directors to repurchase from time to time our Notes in the open market or in privately negotiated transactions.

We believe that cash flow from operations, cash and cash equivalents and marketable securities on hand at September 30, 2006 will be sufficient to meet our anticipated cash requirements for operations and debt service for at least the next twelve months.

CRITICAL ACCOUNTING POLICIES

The consolidated financial statements include the accounts of Nabi Biopharmaceuticals and all of its wholly owned subsidiaries. The preparation of financial statements in conformity with 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 sales and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable and Revenue Recognition

In the nine months ended September 30, 2006, we had biopharmaceutical product sales of $23.4 million. At September 30, 2006, we had $23.6 million of trade accounts receivable including $17.0 million from biopharmaceutical sales, of which $12.4 million has been reclassified to discontinued operations.

Our primary customers for biopharmaceutical products are pharmaceutical wholesalers. In accordance with our revenue recognition policy, revenue from product sales is recognized when title and risk of loss are transferred to the customer. Reported sales are net of estimated customer prompt pay discounts, government payer rebates, customer returns, other customer allowances, other wholesaler fees and chargebacks. At September 30, 2006, we had $12.6 million recorded in other current liabilities related to these contractual obligations as accrued sales deductions. Our policy regarding sales to customers is that we do not recognize revenue from, or the cost of such sales, where we believe the customer has more than a demonstrably reasonable level of inventory. We make this assessment based on historical demand, historical customer ordering patterns for purchases, business considerations for customer purchases and estimated inventory levels. If our actual experience is greater than our assumptions we will then record additional expenses in that period.

We estimate allowances for revenue dilution items using a combination of information received from third parties, including market data, inventory reports from our major U.S. wholesaler customers, historical information and analysis that we perform. The key assumptions used to arrive at our best estimate of revenue dilution allowances are estimated customer inventory levels, contractual prices and related terms**.** Our estimates of inventory at wholesaler customers and in the distribution channels are subject to the inherent limitations of estimates that rely on third-party data, as certain third-party information may itself rely on estimates, and reflect other limitations. Provisions for estimated rebates and other allowances, such as discounts, promotional and other credits are estimated based on historical payment experience, historical relationship to revenues, estimated customer inventory levels, contract terms and actual discounts offered. On January 1, 2006, we entered into a number of agreements with Prescription Drug Plans, or PDPs, to provide PhosLo to patients under the Medicare Prescription Drug Improvement and Modernization Act of 2003's Part D plan. We were required to make a number of assumptions, including how many patients will be covered by these PDP agreements in order to record our liabilities under these agreements. These assumptions were based on our understanding of the PhosLo patient population and expected utilization rates based on historical data. We believe that such provisions are estimable due to the limited number of assumptions involved and the consistency of historical experience. Provisions for chargebacks involve more subjective judgments and are more complex in nature. This provision is discussed in further detail below.

Chargebacks. We market products directly to wholesalers, distributors and homecare companies. We also market products indirectly to group purchasing organizations, managed care organizations, physician practice management groups and hospitals, collectively referred to as indirect customers. We enter into agreements with indirect customers to establish contract pricing for certain products. The indirect customers then select wholesalers from which to actually purchase the products at these contracted prices. Under this arrangement, we will provide credit to the wholesaler for any difference between the contracted price with the indirect party and the wholesaler's invoice price. Such credit is called a chargeback. The provision for chargebacks is a significant and complex estimate used in the recognition of revenue. The provision for chargebacks is based on our historical chargeback experience and estimated wholesaler inventory levels, as well as expected sell-through levels by our wholesaler customers to indirect customers. Our estimates of inventory at wholesaler customers and in the distribution channels are subject to inherent limitations of estimates that rely on third-party data, as certain third-party information may itself rely on estimates, and reflect other limitations. We continually monitor our provision for chargebacks and make adjustments when we believe that actual chargebacks may differ from established allowances. During the second quarter of 2006, we refined our methodology for determining our chargeback liability using more specific information. This resulted in a $0.8 million, or $0.01 per share, increase in sales and reduction to our chargeback liability. Of the $0.8 million adjustment $0.6 million was related to PhosLo and has been reclassified to discontinued operations.

The following table represents the amounts we have accrued for sales deductions:

(In thousands)	Accrued chargebacks	Accrued rebates	Accrued sales discounts	Other accrued sales deductions	Total sales deductions
Balance at December 31, 2005	$ 2,080	$ 7,357	$ 1,350	$ 632	$ 11,419
Provisions	4,692	7,053	3,521	975	16,241
Actual credits utilized during the nine months ended September 30, 2006	(4,947)	(5,598)	(3,800)	(681)	(15,026)
Balance at September 30, 2006	$ 1,825	$ 8,812	$ 1,071	$ 926	$ 12,634

Of the $12.6 million and $11.4 million recorded as accrued sales deductions at September 30, 2006 and December 31, 2005, respectively, $10.3 million and $7.5 million have been reclassified to discontinued operations.

Inventory and Reserves for Slow Moving or Obsolete Inventory

At September 30, 2006, we had inventory, net, of $22.2 million. During the nine months ended September 30, 2006, we recorded a provision for inventory valuation allowance of $1.4 million, of which $0.9 million related to Nabi-HB material that was damaged while in transit to a contract filling site. We review inventory on hand at each reporting period to assess that inventory is stated at the lower of cost or market and that inventory on hand is saleable. Our assessment of inventory includes review of selling price compared to inventory carrying cost, recent sales trends and our expectations for sales trends in future periods, ongoing validation that inventory is maintained within established product specifications and product remaining shelf life expiration. Based on these assessments, we provide for an inventory valuation allowance in the period in which the requirement is identified. If our actual experience is greater than our assumptions we will record additional expenses in that period.

We have made and anticipate in future periods that we will scale-up and make commercial quantities of certain of our product candidates prior to the date we anticipate that such products will receive final European Medicines Agency, or EMEA, approval in the EU or FDA approval in the U.S. (i.e., pre-launch inventories). The scale-up and commercial production of pre-launch inventories involves the risk that such products may not be approved for marketing by the governmental agencies on a timely basis, or ever. As of September 30, 2006 and December 31, 2005 we had fully reserved approximately $4.9 million of pre-launch StaphVAX inventory and $0.8 million of Nabi-HB Intravenous, pending final approval.

We record pre-launch inventory once the product has attained a stage in the development process of having been subject to a Phase III clinical trial or its equivalent, or if a regulatory filing has been made for licensure for marketing the product and the product has a well characterized manufacturing process. In addition, we must have an internal sales forecast that includes an assessment that sales will exceed the manufacturing costs plus the expected cost to distribute the product. Finally, product stability data must exist so that we can assert that capitalized inventory is anticipated to be sold, based on the sales projections noted above, prior to anticipated expiration of a product's shelf life.

Intangible Assets – PhosLo Intangibles

On August 4, 2003, we acquired the worldwide rights to PhosLo. Under the terms of the acquisition agreement we purchased patent rights, trade secrets, the PhosLo trademarks, regulatory approvals and licenses, certain customer and regulatory data and finished product inventory. All assets purchased, except for inventory, have been recorded at their estimated fair value, adjusted by a pro rata portion of the excess of purchase price, and are included in intangible assets. As a result of the definitive agreement to sell certain of the PhosLo related assets, these intangible assets have been reclassified to discontinued operations. In addition, in accordance with SFAS No. 144, as these intangible assets have been classified as an asset held for sale, we will no longer continue to amortize the assets.

Management believes the estimated remaining useful lives of the acquired intangible assets are as follows:

(Dollars in thousands)	September 30, 2006	Estimated Remaining Useful Life
PhosLo Intangibles		
Trademark/tradename	$ 1,423	14.5 years
Tablet patent	11,381	0.5 years
Gelcap patent	80,670	14.5 years
Customer relationships	2,337	1.8 years
Covenant not to compete	508	11.8 years
Total PhosLo related intangible assets	96,319	
Less accumulated amortization	(26,131)	
Total	$ 70,188	

The trademark/tradenames and gelcap patent useful lives are estimated as the remaining patent life of the gelcap patent based on our assessment of the market for phosphate binders to treat hyperphosphatemia in end stage renal failure patients including our assessment of competitive therapies, forecasted growth in the number of patients and trends in patient care. The tablet patent's useful life is estimated as the remaining patent life for the tablet patent in the U.S. based on the direct competitive benefits derived from the patent. The covenant not-to-compete is based on the seller's contractual agreement not to compete directly with PhosLo in dialysis markets for a period of 15 years. We have established a useful life of 5 years for customer relationships based on our review of the time that would be required to establish markets and customer relationships within the nephrology and dialysis marketplace. In future periods, if we assess that circumstances have resulted in changes to the carrying value of the intangible assets or their estimated useful life, we will record those changes in the period of that assessment.

Property, Plant and Equipment and Depreciation

We incurred costs of $90.3 million to construct our biopharmaceutical fractionation manufacturing facility in Florida and received approval from the FDA to manufacture our own antibody-based biopharmaceutical product, Nabi-HB, at this facility in October 2001. In constructing the facility for its intended use, we incurred approximately $26.8 million in direct costs of acquiring the building, building systems, manufacturing equipment and computer systems. We also incurred a total of $63.5 million of costs related to validation of the facility to operate in an FDA approved environment and capitalized interest. Costs related to validation and capitalized interest have been allocated to the building, building systems, manufacturing equipment and computer systems. Buildings and building systems are depreciated on a straight-line basis over 39 years and 20 years, respectively, the estimated useful lives of these assets. The specialized manufacturing equipment and computer systems are depreciated using the units-of-production method of depreciation subject to a minimum level of depreciation based on straight-line depreciation. The units-of-production method of depreciation is based on management's estimate of production levels. Management believes the units-of-production method is appropriate for these specialized assets. Use of the units-of-production method of depreciation may result in significantly different financial results of operation than straight-line depreciation in periods of lower than average or higher than average production levels. However, this differential is limited in periods of lower than average production, as we record a minimum of 60% of the depreciation that would have otherwise been recorded had we used the straight-line method. In the first six months of 2006, we recorded additional depreciation under this policy of $2.0 million, including $0.7 million in the third quarter of 2006. For the comparable periods of 2005, we recorded additional depreciation of $1.6 million and $0.6 million, respectively.

Equity-Based Compensation

Effective January 1, 2006, we adopted the fair value recognition provisions of FASB Statement No. 123R, *Share-Based Payment*, and related interpretations, or SFAS No. 123R. SFAS No. 123R covers a wide range of share-based compensation arrangements including stock options, restricted share plans, and employee stock purchase plans.

In applying SFAS No. 123R, the value of each equity-based award is estimated on the date of grant using the Black-Scholes option-pricing model. The Black-Scholes model takes into account volatility in the price of our stock, the risk-free interest rate, the estimated life of the equity-based award, the closing market price of our stock and the exercise price. We base our estimates of our stock price volatility on our historical stock price over the most recent period commensurate with the expected term of the equity-based award; however, this estimate is neither predictive nor indicative of the future performance of our stock. The estimates utilized in the Black-Scholes calculation involve inherent uncertainties and the application of management judgment. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those options expected to vest.

In addition, we recorded additional cumulative non-cash compensation expense for our historical stock option grants as part of our review of stock option granting practices from January 1, 1997 through September 30, 2006. As a result of certain supporting documentation for the earlier years in period being incomplete or was not able to be located, alternative documentation including contemporaneous memorandums, e-mail and interviews of current and former employees were required in reaching judgments as to the appropriate measurement dates. As a result, in order to determine the appropriate measurement dates and related compensation expense, we were required to make judgments based on the available information.

NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board, or FASB, announced that SFAS No. 151, *Inventory Costs*, or SFAS No. 151, is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. SFAS No. 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS No. 151 requires that those items be recognized as current-period charges regardless of whether they meet the criterion of “so abnormal”, as defined in Accounting Principles Board, or APB, No. 43. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The adoption of SFAS No. 151 in 2006 did not have a material impact on our financial condition or results of operations.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, or SFAS No. 154. SFAS No. 154 replaces APB Opinion No. 20, “Accounting Changes,” or APB No. 20, and SFAS No. 3, “Reporting Accounting Changes in Interim Financial Statements.” SFAS No. 154 requires retrospective application to prior periods’ financial statements of a voluntary change in accounting principle unless it is impracticable. APB No. 20 previously required that most voluntary changes in accounting principle be recognized by including the cumulative effect of changing to the new accounting principle in net income in the period of the change. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 in 2006 did not have a material impact on our financial condition or results of operations.

In November 2005, the FASB issued FASB Staff Position Nos. FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, or FSP Nos. 115-1 and 124-1. The guidance in FSP Nos. 115-1 and 124-1 amends FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and FASB Statement No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, and adds a footnote to APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. FSP Nos. 115-1 and 124-1 address the determination of when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. In addition, FSP Nos. 115-1 and 124-1 include accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in FSP Nos. 115-1 and 124-1 is effective for reporting periods beginning after December 15, 2005. The implementation of FSP Nos. 115-1 and 124-1 in 2006 did not have a material impact on our financial position or results of operations.

Effective January 1, 2006, we adopted the fair value recognition provisions of FASB Statement No. 123R, *Share-Based Payment*, or SFAS No. 123R, using the modified-prospective transition method. In accordance with the provisions of SFAS No. 123R, we are recognizing share-based compensation expense in the Unaudited Condensed Statements of Operations for the three and six months ended July 1, 2006. For additional information related to the adoption of SFAS No. 123R, see Note 8.

In July 2006, the FASB issued Interpretation Number, or FIN, No. 48, Accounting for Uncertainty in Income Taxes, or FIN No. 48. FIN No. 48 applies to all tax positions within the scope of FASB Statement No. 109, applies a "more likely than not" threshold for tax benefit recognition, identifies a defined methodology for measuring benefits and increases the disclosure requirements for companies. FIN No. 48 is mandatory for years beginning after December 15, 2006; accordingly, we will adopt FIN No. 48 in our 2007 fiscal year. We are currently evaluating the impact the adoption of FIN No. 48 will have on our financial position or results of operations.

In September 2006, the FASB issued SFAS Statement No. 157, *Fair Value Measurements*, or SFAS No. 157. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This Statement applies to other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after December 15, 2007. We plan to adopt SFAS No. 157 beginning in the first quarter of fiscal 2008. We are currently evaluating the impact the adoption of SFAS No. 157 will have on our financial position or results of operations.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin, or SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, or SAB No. 108, which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB No. 108 is effective for fiscal years ending after November 15, 2006. Early application is encouraged, but not required. We will adopt SAB No. 108 in the fourth quarter of 2006. We are currently assessing the impact the adoption of SAB No. 108 will have on our financial position or results of operations. The cumulative effect, if any, of applying the provisions of SAB No. 108 will be reported as an adjustment to beginning-of-year retained earnings.

FORWARD LOOKING STATEMENTS

Statements in this Quarterly Report about the Company that are not strictly historical are forward-looking statements and include statements about our products in development, the market for such products, clinical trials and studies, intellectual property position, and alliances and partnerships. These forward-looking statements can be identified because they involve our expectations, beliefs, intentions, plans, projections, or other characterizations of future events or circumstances. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties that may cause actual results to differ materially from those in the forward-looking statements as a result of any number of factors. These factors include, but are not limited to, risks relating to the Company's ability to advance the development of products currently in the pipeline or in clinical trials; maintain the human and financial resources to commercialize current products and bring to market products in development; obtain regulatory approval for its products in the U.S., Europe or other markets; successfully develop, manufacture and market its products; successfully partner with other companies; realize future sales growth for its biopharmaceutical products; prevail in patent litigation; maintain sufficient intellectual property protections or positions; raise additional capital on acceptable terms; re-pay its outstanding convertible senior notes when due. Many of these factors are more fully discussed, as are other factors, in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 filed with the Securities and Exchange Commission.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We do not engage in trading market risk sensitive instruments or purchasing hedging instruments or "other than trading" instruments that are likely to expose us to significant market risk, whether interest rate, foreign currency exchange, commodity price or equity price risk.

Foreign Currency Exchange Risk. We have two wholly owned Irish subsidiaries, one wholly owned United Kingdom subsidiary and one Luxembourg subsidiary. During the nine months ended September 30, 2006, we did not record any sales by our foreign subsidiaries. One subsidiary incurred expenses during this period, primarily relating to our initial activities to obtain regulatory approval in the EU for our pipeline products and products that we currently market in the U.S. If the U.S. dollar weakens relative to a foreign currency, any losses generated in the foreign currency will, in effect, increase when converted into U.S. dollars and vice versa. We do not speculate in the foreign exchange market and do not manage exposures that arise in the normal course of business related to fluctuations in foreign currency exchange rates by entering into offsetting positions through the use of foreign exchange forward contracts. We also do not engage in derivative activities.

Interest Rate Risk. At September 30, 2006, we had $32.0 million of cash and cash equivalents and $32.9 million of marketable securities. In addition, we had outstanding Convertible Senior Notes that incur interest at 2.875% with a face value of $112.4 million, notes payable for the acquisition of PhosLo of $10.5 million, net of imputed discount, and capital lease obligations of $0.3 million.

Cash equivalents consist of money market funds and qualified purchaser funds with maturities of three months or less placed with major financial institutions. Short-term marketable securities consist primarily of taxable municipal bonds, corporate bonds, government agency securities and commercial paper.

Our exposure to market risk relates to our cash and investments and to our borrowings. We maintain an investment portfolio of money market funds, qualified purchaser funds, and short-term marketable securities. The securities in our investment portfolio are not leveraged, and are, due to their very short-term nature, subject to minimal interest rate risk. We currently do not hedge interest rate exposure. Because of the short-term maturities of our investments, we do not believe that a change in market rates would have a significant negative impact on the value of our investment portfolio. The notes payable related to the PhosLo acquisition were discounted at our estimated interest rate under our credit facility on August 4, 2003, the closing date of the acquisition.

The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we invest our excess money market funds, qualified purchaser funds and short-term marketable securities, and, by policy, restrict our exposure to any single corporate issuer by imposing concentration limits. To minimize the exposure due to adverse shifts in interest rates, we maintain investments with an average maturity of generally less than three months. The table below presents the principal amount and the weighted-average interest rates of our investment and debt portfolio:

(In millions, except for percentages)	Estimated Fair Value at September 30, 2006
Assets:	
Cash, cash equivalents and marketable securities	$ 64.9
Average interest rate	4.8%
Liabilities:	
2.875% Convertible Senior Notes due 2025	$ 109.3
Notes payable and capital lease obligations	10.9
Average interest rate	3.2%

Item 4. Controls and Procedures

Evaluation and Conclusion as of September 30, 2006

Our management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of September 30, 2006. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of September 30, 2006. There has been no change in our internal control over financial reporting that occurred during our fiscal quarter ended September 30, 2006 that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

On September 27, 2005, we filed a lawsuit in the United States District Court for the Southern District of Ohio against Roxane Laboratories, Inc., or "Roxane", for infringement of our U.S. Patent Number 6,576,665 for PhosLo GelCaps. We filed this lawsuit under the Hatch-Waxman Act in response to a Paragraph IV Certification notice letter submitted by Roxane to us concerning Roxane's filing of an Abbreviated New Drug Application, or ANDA, with the FDA to market a generic version of PhosLo GelCaps. The lawsuit was filed on the basis that Roxane Laboratories' submission of its ANDA and its proposed generic product infringe the referenced patent which expires in 2021. Under the Hatch-Waxman Act, FDA approval of Roxane Laboratories' proposed generic product will be stayed until the earlier of 30 months or resolution of the patent infringement lawsuit.

On May 25, 2006, we filed an amended complaint in the lawsuit also alleging infringement of U.S. Patent No. 6,875,445. On June 9, 2006, Roxane filed an answer and counterclaims to the amended complaint, in which it denied infringement and asserted several affirmative defenses. Among those defenses, Roxanne has asserted that it does not infringe either patent, that the patents are invalid, and that the patents are unenforceable due to inequitable conduct. In addition, Roxane has asserted a counterclaim for attempted monopolization under the Sherman Act. Roxane seeks unspecified damages incurred and requests that such damages be trebled under the antitrust statute.

On July 18, 2006, we filed a motion to dismiss Roxane's antitrust counterclaim, as well as to stay and bifurcate discovery on that counterclaim. On October 20, 2006, the Magistrate Judge ruled that discovery on the counterclaim should proceed simultaneously with discovery on the underlying patent claim. The District Judge has not yet ruled on the portion of the motion that seeks to dismiss the counterclaim on the pleadings. The parties are in the deposition phase of discovery.

We remain committed to protecting our intellectual property and will take all appropriate steps to vigorously protect our patent rights.

Following the closing of the transaction contemplated by the definitive agreement, Fresenius has agreed to assume certain liabilities associated with PhosLo, including the prosecution of the Roxane patent litigation initiated by us.

Item 1A. Risk Factors

The following risk factor disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2005 has changed materially.

We may not be able to successfully commercialize our Gram-positive infections products in development.

In March 2006, we determined that we would continue development of our Gram-positive program, led by StaphVAX® [*Staphylococcus aureus* Polysaccharide Conjugate Vaccine] and Altastaph® [*Staphylococcus aureus* Immune Globulin Intravenous (Human)]. This decision was based on the conclusions reached by us and an outside advisory panel that reviewed our investigation of the outcome of the StaphVAX confirmatory Phase III clinical study. These conclusions included:

- The quality or functional characteristics of the antibodies generated by the vaccine used in the confirmatory clinical study was inferior to those antibodies generated by vaccine lots used in previous and subsequent clinical studies.
- Medical factors associated with kidney disease in dialysis patients impaired their immune response to the vaccine. When considered in combination with an increase in the virulence of the bacteria, these factors also contributed to the observed lack of protection in this study population.

After working with the advisory panel, we have decided to take the following new approaches to develop our next-generation StaphVAX and Altastaph products:

- We plan to develop a vaccine that will provide the broadest protection to the most vulnerable patients. Initially, we intend to advance a vaccine with antigens to *S. aureus* Types 5, 8 and 336 and *S. epidermidis* PS-1. We are also developing additional antigens to toxins released by the bacteria, which we plan to include in a next generation vaccine. Finally, we plan to advance the vaccine program's clinical development, by partnering with a company that possesses complementary resources and expertise to help fund this program.
- We plan to develop an antibody to treat for patients with persistent *S. aureus* and *S. epidermidis* infections who don't optimally respond to an antibiotic; and to prevent infection in patients at immediate risk for infection (e.g., ICU patients; emergency surgery patients) and a combination antibody and vaccine regimen designed to prevent recurrence of these infections in hospital patients.

If our assessment of the outcome of the StaphVAX confirmatory Phase III clinical study was inaccurate or incomplete, or if the conclusions we drew from the assessment were inaccurate, our plans to develop next generation StaphVAX and Altastaph products may not be successful. Even if our assessment and conclusions were sound, we may not be able to successfully commercialize these products. There can be no assurance that we will be able to successfully partner and fund our continued research and development activities at the level required to commercialize these products. We intend to pursue strategic alliances with third parties to develop, commercialize and/or market our next generation Gram-positive vaccine program and to fund our Altastaph program. We may not be successful in our partnering and funding efforts or, if successful, our collaborative partners may not conduct their activities in a timely and effective manner. Our inability to successfully develop our next generation StaphVAX and Altastaph products, including our inability to fund or successfully partner such development, would adversely affect our future business, financial condition and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None**.**

Item 6. Exhibits

10.1	Plasma Purchase Agreement between Bayer HealthCare LLC and Nabi Biopharmaceuticals dated as of December 3, 2003*
10.2	Plasma Purchase Agreement between Talecris Biotherapeutics, Inc. (successor in interest to the plasma business of Bayer HealthCare LLC) and Nabi Biopharmaceuticals effective as of September 13, 2006*
12.1	Ratio of Earnings to Fixed Charges
31.1	Rule 13a-14(a)/15d-14(a) Certification
31.2	Rule 13a-14(a)/15d-14(a) Certification
32.1	Section 1350 Certification

* The Company has requested confidential treatment of the redacted portions of this exhibit pursuant to Rule 24b-2, under the Securities Exchange Act of 1934, as amended, and has separately filed a complete copy of this exhibit with the Securities and Exchange Commission.

Nabi Biopharmaceuticals

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Nabi Biopharmaceuticals

Date: November 14, 2006

By: /s/ Jordan I. Siegel
Jordan I. Siegel
Senior Vice President, Finance,
Chief Financial Officer,
Chief Accounting Officer and Treasurer

EXHIBIT INDEX

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[*****] A CONFIDENTIAL PORTION OF THE MATERIAL HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.

PLASMA PURCHASE AGREEMENT

THIS PLASMA PURCHASE AGREEMENT ("Agreement") is made and entered into as of this 03 day of December, 2003, by and between Bayer HealthCare LLC, a Delaware limited liability company, with its principal place of business in Tarrytown, New York and an address at 79 T.W. Alexander Dr., 4101 Research Commons, Research Triangle Park, North Carolina 27610 ("Bayer"), and Nabi Biopharmaceuticals (formerly Nabi) a Delaware, corporation, with its principal place of business at 5800 Park of Commerce Blvd NW, Boca Raton, FL, 33487 ("Nabi").

RECITALS

Nabi desires to sell, and Bayer desires to purchase, Normal Source Plasma ("Plasma") solely on the terms and conditions set forth in this Agreement.

PROVISIONS

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and with the intent to be legally bound hereby, Bayer and Nabi agree as follows:

A. Purchase and Sale of Plasma

1. ***Term of Agreement***

Unless terminated earlier as provided in Section C, the term of the Agreement shall commence on the Effective Date hereof and terminate on December 31, 2008 (the "Initial Term"). After the Initial Term, this Agreement may be renewed for additional five (5) year periods upon the mutual consent of the parties. Each party agrees that it will endeavor, in good faith, to conclude any negotiations relating to such renewals no less than one (1) year before the expiration of this Agreement.

2. ***Quantity of Source Plasma***

From and after the Effective Date of this Agreement, Bayer agrees to purchase, and Nabi agrees to sell Plasma, produced from Approved Bayer Centers (as defined in Section A.3 below), in the quantities set forth below for the calendar years referenced below:

Contract Year	Quantity
2004-	[*****] liters
2005-	[*****] liters
2006-	[*****] liters
2007-	[*****] liters
2008-	[*****] liters

The above Plasma volumes/quantities from 2004 through 2008 are firm commitments by both parties.

Nabi will sell and deliver to Bayer Plasma in monthly volume increments in accordance with an agreed upon production and delivery forecast. If Nabi fails to provide the agreed upon volumes to Bayer during any contract year, other than a contract year that begins after the effective date of a notice of termination, then Nabi, at Bayer's sole option, will use commercially reasonable efforts to provide Bayer with acceptable Plasma from other sources approved by Bayer. Notwithstanding the above, Nabi shall have no obligation to provide Plasma to Bayer in the event the failure to provide the agreed upon volumes is due to a Force Majeure event pursuant to Section D.

3. ***Approved Centers***

Nabi will supply Plasma from Approved Bayer Centers. For purposes of this Agreement, a Center is defined as an "Approved Bayer Center", if: (i) the operator and the Center have received all necessary regulatory approvals and permits, including Food and Drug Administration (FDA), Quality Plasma Program (iQPP) including acceptable viral marker rates, required state licensing, and Clinical Laboratory Inspection Act licensure and approval, and (ii) the Center has been added to, and remains on, Bayer's List of Approved Bayer Centers (currently labeled SQID), which List of Approved Bayer Centers, as amended from time to time by Bayer, is incorporated by reference as a material part of this Agreement. All Approved Bayer Centers must be approved by German authorities.

4. ***Quality of Source Plasma***

All Plasma sold to Bayer under this Agreement must be collected and processed at an Approved Bayer Center and in accordance with the specifications currently in effect as written by Bayer (the "Bayer Specifications"). Nabi acknowledges that it has received a full, complete and accurate copy of the Bayer Specifications as in effect as of the date of execution of this Agreement. Any revisions to the Bayer Specifications will be sent to Nabi for review. No such modification of the Bayer Specifications shall be effective until such time as Nabi consents to it in writing, which consent shall be timely determined and not unreasonably withheld. Nabi also agrees to have all of its Approved Bayer Plasma Centers iQPP Certified and to maintain such certification for the entire term (including extension and renewal periods) of this Agreement. Any Bayer Approved Center that is not iQPP Certified during any portion of this Agreement will be excluded from supplying Plasma to Bayer, but Nabi shall still be obligated to provide the annual volumes from one or more other Approved Bayer Centers operated by Nabi or from other sources that are equivalent to Bayer Approved Centers and that meet the Bayer Specifications and are iQPP Certified.

Nabi represents and warrants that all Plasma sold to Bayer under this Agreement will be collected, processed, tested, stored, packaged, labeled and shipped in strict accordance with the Bayer Specifications, including, but not limited to, testing lab pre-approval and viral marker data, and all applicable law, under the exercise of due care by Nabi, and such Plasma will, when

delivered to Bayer, be in accordance with the Bayer Specifications and the FDA regulations, and will be fit for the purpose and use intended by Bayer. Any Plasma which is not produced in accordance with the Bayer Specifications or applicable law or is otherwise not as warranted, can be rejected by Bayer and returned to Nabi, or destroyed if required by the FDA, at Nabi's expense. Bayer shall not be obligated to buy or pay for any which does not, in all respects, comply with the Bayer Specifications and applicable law, or is otherwise not as warranted. Nothing contained in this Section, however, shall limit, modify or waive any other rights or remedies available to Bayer for non-conforming Plasma. If any Center is closed as a result of regulatory sanctions placed on Nabi by the FDA, if Nabi or any Center receives a warning letter or consent decree from the FDA, or if Nabi or any Center is found by the FDA to have compliance problems that might affect the quality of the Plasma, Nabi must notify Bayer immediately, and in any event not later than five (5) business days after Nabi learns of the letter, consent decree or problem. If any Center is found by Bayer to be clearly deficient in its compliance with the Bayer Specifications or applicable law, Nabi will have thirty (30) business days to provide, in writing, a corrective action plan acceptable to Bayer. If the action plan is unacceptable or if the Center cannot provide Plasma within ninety (90) days of any such event, then, at Bayer's option, this Agreement, including the Plasma volumes, can be modified to eliminate such Center.

5. ***Price***

For all Plasma purchased during 2004, the price is to be negotiated (the "Price"). Such Price includes testing for ALT, HIV-1/HIV-2 Antibody, HIV-1 Antigen (p24), Hepatitis B Surface Antigen and Hepatitis C Antibody. As defined in the Amendment to the Plasma Purchase Agreement dated November 7, 1996, the HIV-1 Antigen (p24) test price is $[*****]/liter. In the event such test is no longer required by the FDA, and Bayer chooses to eliminate this test from its plasma testing requirements, a mutually negotiated sum, not to exceed $[*****]/liter, will be deducted from the then current Price.

Beginning on January 1, 2005, and on each January 1 thereafter during the term of this Agreement (including any extension and renewal periods), the Price shall be as mutually agreed upon between Nabi and Bayer, no fewer than ninety (90) days prior to the end of the prior calendar year.

If any new government regulations, FDA required tests or changes in the Bayer Specifications requested by Bayer cause a change in Nabi's cost of production, Nabi and Bayer agree to re-negotiate the Price then in effect as set forth in this Agreement and the change in Price will be retroactive to the time of the change.

In the event the parties are not able to mutually agree on the Price applicable in any given year, the parties shall submit such calculation to an independent third party, not otherwise employed by either party and reasonably acceptable to both parties, to determine an appropriate price that a similarly situated supplier would charge a similarly situated customer in an "arms length" transaction having essentially the identical specifications and regulatory requirements as Bayer. In the event the parties cannot agree on an independent third party, then a list of such

available independent third parties shall be submitted to an arbitrator selected from the National Panel of Arbitrators of the American Arbitration Association ("AAA") who shall select the independent third party. The Price for all sales pending a final determination of the market price by the independent third party shall be the price previously in effect adjusted in proportion to the percentage change in the Consumer Price Index, Urban Wage Earners and Clerical Workers, U.S. City Average, All items, Base 1982-84 = 100, published by the United States Department of Labor, Bureau of Labor Statistics ("CPI") as of the date the matter is submitted to the independent third party. If the change in market price is determined by the independent third party to be more than the Price paid using the CPI as an interim measure, Bayer shall pay an additional amount reflecting what it would have paid had the newly determined market price been in effect at the start of the year in question; if the newly determined market price is less than the interim CPI based Price, Nabi shall refund to Bayer the difference between payments received and that which would have been received had the newly determined Price been in effect at the start of the year in question. The parties agree that the Price determined by the independent third party shall be binding upon the parties and will not be subject to further review.

All shipments of Plasma shall be made F.O.B. Center. Bayer will be responsible for freight charges, insurance, handling and forwarding agent's fees, taxes, storage and all other charges applicable to the Plasma. All Plasma shall be paid for within thirty (30) business days of receipt by Bayer of an invoice together with a copy of the Incoming Plasma Control Sheet and the carrier's Bill of Lading. This documentation must arrive at Bayer no later than four (4) business days after shipment. The Price set forth herein above assumes that Nabi will provide all softgoods, packaging and testing (such testing includes ALT, HIV1/2 Antibody, HIV 1 Antigen, Hepatitis B Surface Antigen, and Hepatitis C Antibody, but not PCR/NAT tests unless otherwise agreed.).

6. ***Cost Allocation***

In the event the costs incurred by Nabi in the collection, packaging, sampling, labeling, testing, processing or storage of Plasma change, the Price per liter shall change accordingly to the extent properly allocable to the Plasma sold to Bayer under this Agreement, using generally accepted cost accounting principles. The direct costs of any new testing required by the FDA, other governmental agency, or Bayer after the Effective Date shall be borne by Bayer. For purposes of this Agreement, "Direct Costs" shall mean costs to the extent directly attributable to testing or associated activities, which shall only include the following: (a) personnel wages and salaries and employee benefits allocation; (b) donor fees and donor recruiting fees paid when applicable; (c) reagents, supplies and materials; (d) laboratory director, physician, physician substitute and consultant services; and (e) contracted and outside services and support costs specifically attributable to the applicable materials, tests, Plasma or Plasma related activities. In the event a government-mandated program significantly affects Nabi's costs, then the parties will negotiate how that cost increase or savings will be shared. If the parties are unable to agree on how that increase or savings will be shared, the matter will be determined by an independent third party according to the process set forth in Section 6.

B. Miscellaneous

1. ***Inspections***

Bayer and any authorized representative of Bayer, the Public Health Service, the FDA, and any state, local or international governmental agency shall have the right to conduct periodic inspections of any Approved Bayer Center and testing facilities. In the case of Bayer, its inspections shall be limited to matters reasonably related to this Agreement and shall be conducted in conformance with generally accepted industry practices. Bayer will provide Nabi with thirty (30) days' notice prior to any of its inspections, unless agreed otherwise by the parties. Upon receipt of Bayer's audit report, Nabi shall have thirty (30) days to send a response to the appropriate Bayer representative. Nabi agrees to provide Bayer with copies of all written reports (including FDA 483's) and correspondence between Nabi and any governmental agency regarding any such inspection or review of records within thirty (30) days of (i) receipt of any such report or correspondence from the governmental agency or (ii) the issuance or delivery of any response or correspondence by Nabi; provided, however, that in the event the report or correspondence relates to a serious problem that could affect the continuous supply or the quality of the Plasma, then Nabi agrees to use all reasonable efforts to notify Bayer within five (5) days of receipt of such report or correspondence and to provide Bayer with a copy of such report or correspondence.

2. ***Confidentiality***

The parties agree to maintain the confidentiality of the contents of this Agreement and the dealings between the parties with the same degree of care as they use to protect their own proprietary, confidential or trade secret information. The parties shall not disclose to any third party any confidential information received from the other hereunder without that other party's prior written consent and shall use it only for the purpose of the Agreement. The said obligation of secrecy shall not apply to any information which (a) was in the public domain at the time of its disclosure or thereafter becomes part of the public domain by publication or otherwise subsequent to the time of disclosure under this Agreement through no fault of the receiving party; or (b) was known to the receiving party or in its possession prior to or at the time of disclosure as shown by written records; or (c) is independently developed by the receiving party without use of the other party's confidential information as shown by written documentation; or (d) is disclosed with the written approval of the disclosing party; or (e) is rightfully furnished to the receiving party by a third party having the authority to disclose such confidential information without restrictions; or (f) is disclosed by law or regulation or in response to a valid order of a court or other governmental body, or is required for registration of a product by competent authorities, but only to the extent of and for the purpose of such law, regulation, order or registration, and only if the receiving party first notifies the disclosing party of the required disclosure and permits the disclosing party, at its expense, to seek an appropriate legal remedy to maintain the information in secret.

The above obligations shall survive the termination of this Agreement and shall continue in respect of donor information without limit of time and in respect of other confidential information for a period of five (5) years. Notwithstanding the foregoing, the parties agree that certain information required in connection with SEC filings concerning the terms of this Agreement may be disclosed for such SEC filings without the prior approval or consent of either party to this Agreement.

3. ***Relationship of the Parties***

The relationship between Bayer and Nabi during the term of this Agreement, including extensions and renewals, is strictly that of buyer and seller. Neither party is, in any way, the legal representative, agent, joint venture or partner of the other for any purpose whatsoever and neither has any control or authority whatsoever to bind the other party or any other person with respect to the other party.

4. ***Indemnification***

Nabi and Bayer hereby indemnify and agree to hold harmless each other and their respective affiliates, agents, employees, officers and directors, from and against any and all claims, losses, liabilities, damages, attorneys' fees, costs and expenses (hereinafter "Claims") which may be sustained by and/or claimed against the other party by virtue of the negligent handling or furnishing of materials or performance of services rendered by the other party, the willful misconduct by the other party or its officers, employees or agents or any representation or warranty contained in this Agreement being breached, untrue or materially misleading, by omission or otherwise, to the extent of each party's insurance coverage. The indemnifying party's liability shall be reduced to the extent any such claims arise as a result of the indemnified party's own conduct or negligence.

IN NO EVENT WILL EITHER PARTY HAVE ANY LIABILITY FOR ANY LOSS OF INCOME, PROFIT, INTEREST OR SAVINGS BY THE OTHER PARTY OR FOR ANY INDIRECT, INCIDENTAL, CONSEQUENTIAL, PUNITIVE OR SPECIAL DAMAGES SUFFERED BY THE OTHER PARTY, ARISING FROM OR RELATED TO THIS AGREEMENT, INCLUDING WITHOUT LIMITATION, THE SALE OR USE OF ANY PLASMA, REGARDLESS OF THE FORM OF ACTION, AND WHETHER IN CONTRACT, INDEMNITY, WARRANTY OR TORT INCLUDING WITHOUT LIMITATION STRICT LIABILITY AND NEGLIGENCE OR ANY OTHER LEGAL OR EQUITABLE GROUNDS, EVEN IF SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH LOSSES OR DAMAGES. THIS LIMITATION WILL NOT APPLY TO ANY LIABILITY FOR DAMAGES THAT MAY RESULT FROM THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF A PARTY.

The party from whom indemnity is sought under this section shall be entitled at its option to defend or control the defense and/or settlement of any such claim.

Each party shall notify the other of any claim or potential claim or liability as soon as it becomes aware that such claim, potential claim or liability has arisen and shall provide to the other, all-reasonable assistance in respect thereof.

5. ***Insurance***

Each party represents and warrants that it will maintain, at all times during the term of this Agreement, including extensions and renewals, property damage and general liability and product liability insurance, which shall not contain any contractual exclusion and which shall cover each party's liability assumed under this Agreement, in an amount not less than $3 million per occurrence and $5 million in the aggregate. Upon request, each party shall provide the other with a certificate or certificates evidencing such coverage and each party agrees to notify the other party in the event such insurance coverage falls below the coverage limits set forth above, or is about to be cancelled or terminated for any reason prior to the occurrence of such event.

C. Termination

1. In addition to any other remedy it may have, either party shall have the right to terminate this Agreement if the other party fails to remedy and make good any material default in the performance of any material condition or obligation under this Agreement within sixty (60) days of written notice thereof.

2. Upon giving the appropriate written notice, either party may terminate this Agreement upon the occurrence of the following event: a proceeding under any bankruptcy, reorganization, arrangement of debts, insolvency or receivership law is filed by or against the other party, and is not dismissed or stayed within sixty (60) days, or a receiver or trustee is appointed for all or a substantial portion of the assets of the other party, or the other party makes an assignment for the benefit of its creditors or becomes insolvent.

3. Upon termination of this Agreement, Bayer must pay for any Plasma already delivered and for any Plasma collected under the terms of this Agreement and subsequently delivered to Bayer.

4. Notwithstanding anything to the contrary set forth herein, the parties' obligations under this Agreement in Sections B, E and J shall survive the termination of this Agreement to the extent necessary to give effect to their reasonable intentions.

D. Force Majeure

(a) Neither party shall be liable for non-performance caused by strikes, fires, explosions, Acts of God, riots, civil or international war, acts of terrorism, an unexpected downturn in the acceptable donor population adversely affecting the industry as a whole, inability to obtain Product because of Force Majeure at the producing location, etc. or any other similar or dissimilar cause beyond the reasonable control of either party which renders the

performance of a party's obligations so difficult or costly as to make such performance commercially unreasonable. The affected party shall immediately inform the other of such occurrences and the termination thereof.

(b) Upon giving notice to the other party, a party affected by an event of Force Majeure shall be released without any liability on its part from the performance of its obligations under this Agreement, except for the obligation to pay and amounts due and owing hereunder, but only to the extent and only for the period that its performance of such obligations is prevented by the event of Force Majeure. Such notice shall include a description of the nature of the event of Force Majeure, and its cause and possible consequences. The party claiming Force Majeure shall promptly notify the other party of the termination of such event.

(c) Should the period of Force Majeure continue for more than six (6) consecutive months, either party may terminate this Agreement upon giving written notice to the other party.

E. Remedies Cumulative; No Waiver

The rights and remedies available to Bayer and Nabi under this Agreement or any other agreement among the parties are cumulative and the exercise of any right or remedy shall not preclude or dismiss Bayer's or Nabi's right to pursue any other or additional right or remedy, including, without limitation, any claim for damages. The failure to exercise any right or remedy in the event of any breach or default shall not constitute a waiver or adversely affect a party's right to exercise any right or remedy in the future for the same or any other breach or default in the future.

F. Assignment

Neither party shall assign this Agreement or any of its rights or obligations hereunder without the express written consent of the other party, except as hereinafter provided. Any such consent shall not be unreasonably withheld. With notice to the other party, either party without the other party's consent may assign this Agreement to (i) its affiliate, or (ii) a successor to all or substantially all of the assets relating to the business of that party which is involved in the fulfillment of its obligations under this Agreement, which shall expressly assume in writing the performance of all of the terms and conditions of this Agreement then to be performed by such successor as if it were named herein as a party.

G. Notice

All notices, demands, requests, consents or approvals required under this Agreement must be in writing and delivered personally to the party or sent by overnight courier service or facsimile, addressed to such party as set forth below:

To Nabi:	Ileana I. Cramer
	Vice President, Plasma Operations
	Nabi Biopharmaceuticals
	5800 Park of Commerce Blvd. NW
	Boca Raton, FL 33487
With a copy to:	General Counsel
	Nabi Biopharmaceuticals
	5800 Park of Commerce Blvd. NW
	Boca Raton, FL 33487
To Bayer:	
	Betty Van Zant
	Director, Plasma Operations and Testing Services
	Biological Products
	Bayer HealthCare LLC
	79 TW Alexander Drive
	4101 Research Commons
	RTP, NC 27709
With copy to	Law and Patent Department
	Bayer HealthCare LLC
	79 TW Alexander Drive
	4101 Research Commons
	RTP, NC 27709

All such communications will be conclusively deemed to have been received by a party and to be effective when so delivered personally, or if sent by overnight courier service, on the day after deposit thereof with such service, or if sent by facsimile upon receipt of confirmation of transmission. Nabi and Bayer may change the place to which notices, requests, and other communications are to be sent to them by giving written notice of such change to the other in the manner set forth above.

H. Number; Gender

Unless the context clearly requires otherwise, whenever used in this Agreement, the singular shall include the plural, the plural shall include the singular and the use of the masculine, feminine or neuter gender shall include all genders.

I. Integration; Effect of Amendment

This Agreement, including all attachments, schedules or other agreements specifically incorporated by reference, constitute the entire agreement among the parties with respect to the subject matter of this Agreement and supersede any and all other prior written or oral agreements, understandings, negotiations or discussions among the parties with respect to the subject matter of this Agreement. This Agreement may not be modified or amended in any respect except by an instrument in writing signed by both of the parties.

J. Choice of Law; Jurisdiction

This Agreement has been made by Bayer at its principal place of business in the State of North Carolina. This Agreement shall be governed by, and construed under, either the internal laws of Florida or the State of North Carolina, without regard to its conflict of laws principles. In the event Bayer chooses to bring an action against Nabi, the jurisdiction shall be in the state or federal courts of Florida and if Nabi chooses to bring an action against Bayer, the jurisdiction shall be in the state or federal courts of North Carolina.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement by their duly authorized officers as of the day and year first written above.

Bayer HealthCare LLC	Nabi Biopharmaceuticals
By: /s/ Gunnar Riemann	By: /s/ C. Thomas Johns
Name: Gunnar Riemann	Name: C. Thomas Johns
Title: President	Title: Sr. VP Mfg. Operations

[*****] A CONFIDENTIAL PORTION OF THE MATERIAL HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.

PLASMA PURCHASE AGREEMENT AMENDMENT

This Plasma Purchase Agreement Amendment ("Amendment") is entered into and effective as of September 13, 2006 ("Amendment Effective Date") by and between Nabi Biopharmaceuticals ("Nabi"), a Delaware corporation having an address at 5800 Park of Commerce Blvd., N.W., Boca Raton, Florida 33487, and Talecris Biotherapeutics, Inc., a Delaware corporation having an address at 79 T.W. Alexander Drive, 4101 Research Commons, Research Triangle Park, North Carolina 27709 ("Talecris"), each of which is at times referred to herein individually as "Party" and collectively as "Parties." The Amendment is intended to supplement and alter the Plasma Purchase Agreement entered into on December 3, 2003 by Nabi and Bayer HealthCare LLC ("Agreement"). The Agreement, except as amended hereby, remains in full force and effect.

RECITALS

WHEREAS, Nabi is in the business of collecting and producing Plasma from human donors at Nabi's collection facilities;

WHEREAS, Nabi and Bayer HealthCare LLC entered into the Agreement on December 3, 2003;

WHEREAS, Talecris purchased certain assets of Bayer HealthCare LLC and assumed the obligations of Bayer HealthCare LLC under the Agreement;

WHEREAS, the Parties wish to amend the Agreement with this Amendment, the Agreement remaining in full force and effect except as amended hereby;

NOW THEREFORE, in consideration of the foregoing recitals and the covenants, agreements and undertakings set forth herein, the sufficiency of such consideration hereby being acknowledged, and with the intent to be legally bound hereby, the Parties agree as follows:

A. Purchase and Sale of Plasma

1. Term of Agreement

The Initial Term of the Agreement shall terminate on December 31, 2011.

2. Quantity of Source Plasma

Commencing on the Amendment Effective Date and continuing through the end of the Initial Term as amended, Nabi shall sell and Talecris shall purchase each calendar year such annual minimum quantities ("Annual Minimum") of Normal Source Plasma (NSP) as is set forth in Schedule "A" attached hereto. Nabi agrees to provide Talecris an eighteen (18) month rolling forecast estimating its shipments. The first six (6) months shall be a binding forecast ("Binding

Forecast") and the remaining twelve (12) months shall constitute Nabi's good faith estimate of its shipments. No later than thirty (30) days prior to the commencement of each year, the annual minimum quantity of Plasma to be purchased will be adjusted to reflect the rolling twelve (12) month period of January through December of the next calendar year. Nabi represents, warrants and covenants that it will sell to Talecris the Annual Minimum. Should Nabi fail to ship to Talecris the penalty triggering amount ("Penalty Triggering Amount") defined in Schedule A To Amendment, then Talecris will invoke a penalty of [*****] times the difference between (i) Penalty Triggering Amount and (ii) the number of liters actually delivered in said calendar year. Should Nabi exceed the Annual Minimum quantities, then Talecris will extend Nabi a bonus of [*****] per liter on any volume exceeding the Annual Minimum.

Under no circumstances may Nabi sell NSP from any former "Approved Bayer Center", hereafter referred to as "Talecris Approved Plasma Center", to any third party during any calendar year in the Initial Term, unless Nabi has first supplied the Annual Minimum for that calendar year to Talecris.

B. Miscellaneous

1. Right to Notice of Transfer

In the event Nabi receives a good faith, final offer directed to the sale or other transfer of its controlling interest in any or all of the Talecris Approved Plasma Centers ("Transfer Offer"), either directly or through any third person acting on Nabi's behalf, Nabi shall, as promptly as reasonably practicable, provide Talecris with advance notice of such Transfer Offer. However, failure to provide such notice to Talecris shall have no effect on the validity of such Transfer Offer, nor delay the closing of same, provided that if any such sale or transfer to any third party occurs, Nabi shall, as a condition thereof, require such third party to assume in full Nabi's obligations hereunder for the Initial Term of this Agreement.

IN WITNESS WHEREOF, the Parties hereby respectively cause this Amendment to be executed and delivered by their duly authorized representatives, who may execute this Amendment in counterparts, each of which shall be deemed an original and both of which together shall constitute one instrument representing the Amendment.

Talecris Biotherapeutics, Inc.
Signed by its duly authorized
representative,

By: /s/ Mark J. Kuhn
Name: Mark J. Kuhn
Title: SVP Operations
Date: 9/13/06

Nabi Biopharmaceuticals
Signed by its duly authorized
representative,

By: /s/ Raafat Fahim
Name: Raafat Fahim, Ph.D
Title: Sr. VP, Research, Technical and Production Operations
Date: Sep 13, 2006

SCHEDULE A TO AMENDMENT

Calendar Year	Annual Minimum Quantity (liters)	Penalty Triggering Amount
2007	[*****]	Less than [*****]
2008	[*****]	Less than [*****]
2009	[*****]	Less than [*****]
2010	[*****]	Less than [*****]
2011	[*****]	Less than [*****]

Notwithstanding the above, Nabi agrees to deliver per calendar quarter, the following quantities:

- 2007 is [*****] liters
- 2008 is [*****] liters
- 2009 is [*****] liters
- 2010 is [*****] liters
- 2011 is [*****] liters

Nabi Biopharmaceuticals

RATIO OF EARNINGS TO FIXED CHARGES
(UNAUDITED)

	For the three months ended September 30, 2006	For the nine months ended September 30, 2006	For the Year Ended December 31, 2005	December 25, 2004	December 27, 2003	December 28, 2002	December 29, 2001
Fixed charges							
Interest expense	1,119	3,266	3,098	2,199	1,350	2,130	2,128
Interest capitalized	—	—	106	326	83	—	5,202
Capitalized expenses related to indebtedness	—	—	—	—	—	—	—
Estimate of interest within rental expense	40	114	183	156	149	218	422
Preference security dividend	—	—	—	—	—	—	—
Total fixed charges	1,159	3,380	3,387	2,681	1,582	2,348	7,752
(Loss) earnings							
Pretax (loss) income from continuing operations	(16,483)	(45,602)	(108,177)	(51,175)	(15,448)	1,738	115,769
Fixed charges	1,159	3,380	3,387	2,681	1,582	2,348	7,752
Amortization of capitalized interest	319	958	1,277	1,266	1,273	1,274	148
Interest capitalized	—	—	(106)	(326)	(83)	—	(5,202)
Total (loss) earnings	(15,005)	(41,264)	(103,619)	(47,554)	(12,676)	5,360	118,467
Ratio							
Adjusted **(loss)** earnings	(15,005)	(41,264)	(103,619)	(47,554)	(12,676)	5,360	118,467
Total fixed charges	1,159	3,380	3,387	2,681	1,582	2,348	7,752
Ratio of earnings to fixed charges	N/A	N/A	N/A	N/A	N/A	2.3	15.3

For the years ended December 27, 2003, December 25, 2004 and December 31, 2005 and the three and nine months ended September 30, 2006, Nabi Biopharmaceuticals did not generate sufficient earning to cover its fixed charges by the following amounts:

Dollar amounts in thousands	For the three months ended September 30, 2006	For the nine months ended September 30, 2006	For the Year Ended December 31, 2005	December 25, 2004	December 27, 2003	December 28, 2002	December 29, 2001
Coverage deficiency	$ 16,164	$ 44,644	$ 107,006	$ 50,235	$ 14,258	N/A	N/A

Exhibit 31.1

Nabi Biopharmaceuticals

CERTIFICATIONS

Rule 13a-14(a)/15d-14(a) CERTIFICATION

I, Thomas H. McLain, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Nabi Biopharmaceuticals;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which could adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2006

By: /s/ Thomas H. McLain
Thomas H. McLain
Chief Executive Officer and President

Exhibit 31.2

Rule 13a-14(a)/15d-14(a) CERTIFICATION

I, Jordan I. Siegel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Nabi Biopharmaceuticals;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which could adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2006

By: /s/ Jordan I. Siegel
Jordan I. Siegel
Chief Financial Officer,
Chief Accounting Officer and Treasurer

EXHIBIT 32.1

Nabi Biopharmaceuticals

SECTION 1350 CERTIFICATION

The undersigned officers of Nabi Biopharmaceuticals (the "Company") hereby certify that, as of the date of this statement, the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2006 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that, to the best of their knowledge, the information contained in the Report fairly presents, in all material respects, the financial condition of the Company as of September 30, 2006 and the results of operations of the Company for the three and nine months ended September 30, 2006.

The purpose of this certification is solely to comply with Title 18, Chapter 63, Section 1350 of the United States Code, as amended by Section 906 of the Sarbanes-Oxley Act of 2002. This statement is not "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Act or any other federal or state law or regulation.

Date: November 14, 2006

By: /s/ Thomas H. McLain
Name: Thomas H. McLain
Title: Chief Executive Officer

Date: November 14, 2006

By: /s/ Jordan I. Siegel
Name: Jordan I. Siegel
Title: Chief Financial Officer