REGENERON PHARMACEUTICALS INC
Form 10-Q
May 08, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2006

OR

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

For the transition period from _____ to _____

Commission File Number 0-19034

REGENERON PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

New York	13-3444607
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
777 Old Saw Mill River Road Tarrytown, New York	10591-6707
(Address of principal executive offices)	(Zip Code)

(914) 347-7000

(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 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

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 o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of April 30, 2006:

Class of Common Stock	Number of Shares
Class A Stock, $0.001 par value	2,307,561
Common Stock, $0.001 par value	54,643,326

REGENERON PHARMACEUTICALS, INC.
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
REGENERON PHARMACEUTICALS, INC.
CONDENSED BALANCE SHEETS AT MARCH 31, 2006 AND DECEMBER 31, 2005 (Unaudited)
(In thousands, except share data)

	March 31, 2006	December 31, 2005
ASSETS		
Current assets		
Cash and cash equivalents	$ 182,332	$ 184,508
Marketable securities	120,061	114,037
Accounts receivable	11,010	36,521
Prepaid expenses and other current assets	2,990	3,422
Inventory	3,254	2,904
Total current assets	319,647	341,392
Marketable securities	21,836	18,109
Property, plant, and equipment, at cost, net of accumulated depreciation and amortization	57,421	60,535
Other assets	3,185	3,465
Total assets	$ 402,089	$ 423,501
LIABILITIES and STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$ 18,383	$ 23,337
Deferred revenue, current portion	15,284	17,020
Total current liabilities	33,667	40,357
Deferred revenue	66,099	69,142
Notes payable	200,000	200,000
Total liabilities	299,766	309,499
Commitments and contingencies		
Stockholders equity		
Preferred stock, $.01 par value; 30,000,000 shares authorized; issued and outstanding-none		
Class A Stock, convertible, $.001 par value; 40,000,000 shares authorized; shares issued and outstanding - 2,307,561 in 2006 and 2,347,073 in 2005	2	2
Common Stock, $.001 par value; 160,000,000 shares authorized; shares issued and outstanding - 54,614,557 in 2006 and 54,092,268 in 2005	55	54

Additional paid-in capital	708,297	700,011
Unearned compensation		(315)
Accumulated deficit	(605,660)	(585,280)
Accumulated other comprehensive loss	(371)	(470)
Total stockholders equity	102,323	114,002
Total liabilities and stockholders equity	$ 402,089	$ 423,501

The accompanying notes are an integral part of the financial statements.

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REGENERON PHARMACEUTICALS, INC.
CONDENSED STATEMENTS OF OPERATIONS (Unaudited)
(In thousands, except per share data)

	Three months ended March 31,	
	2006	**2005**
Revenues		
Contract research and development	$ 14,587	$ 13,502
Contract manufacturing	3,632	2,707
	18,219	16,209
Expenses		
Research and development	32,084	35,912
Contract manufacturing	1,852	2,491
General and administrative	5,946	6,146
	39,882	44,549
Loss from operations	(21,663)	(28,340)
Other income (expense)		
Other contract income		25,000
Investment income	3,481	2,230
Interest expense	(3,011)	(3,013)
	470	24,217
Net loss before cumulative effect of a change in accounting principle	(21,193)	(4,123)
Cumulative effect of adopting Statement of Financial Accounting Standards No. 123R (SFAS 123R)	813	
Net loss	($ 20,380)	($ 4,123)
Net loss per share amounts, basic and diluted:		
Net loss before cumulative effect of a change in accounting principle	($ 0.37)	($ 0.07)
Cumulative effect of adopting SFAS 123R	0.01	
Net loss	($ 0.36)	($ 0.07)
Weighted average shares outstanding, basic and diluted	56,727	55,815

The accompanying notes are an integral part of the financial statements.

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REGENERON PHARMACEUTICALS, INC.
CONDENSED STATEMENT OF STOCKHOLDERS EQUITY (Unaudited)
For the three months ended March 31, 2006
(In thousands)

	Class A Stock Shares	Class A Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Unearned Compensation	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders Equity	Comprehensive Loss
Balance, December 31, 2005	2,347	$2	54,092	$54	$700,011	$(315)	$(585,280)	$(470)	$114,002	
Issuance of Common Stock in connection with exercise of stock options, net of shares tendered			364	1	3,415				3,416	
Issuance of Common Stock in connection with Company 401(k) Savings Plan contribution			121		1,884				1,884	
Conversion of Class A Stock to Common Stock	(40)		40							
Forfeitures of restricted Common Stock under Long-Term Incentive Plan			(2)							
Stock-based compensation expense					4,115				4,115	
Adjustment to reduce unearned compensation upon adoption of SFAS 123R					(315)	315				
Cumulative effect of adopting SFAS 123R					(813)				(813)	

Net loss						(20,380)		(20,380)	$ (20,380)
Change in net unrealized loss on marketable securities							99	99	99
Balance, March 31, 2006	2,307	$ 2	54,615	$ 55	$ 708,297	$ (605,660)	$ (371)	$ 102,323	$ (20,281)

The accompanying notes are an integral part of the financial statements.

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REGENERON PHARMACEUTICALS, INC.
CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)
(In thousands)

	Three months ended March 31,	
	2006	**2005**
Cash flows from operating activities		
Net loss	$ (20,380)	$ (4,123)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	3,798	3,858
Non-cash compensation expense	4,079	5,881
Cumulative effect of a change in accounting principle	(813)	
Changes in assets and liabilities		
Decrease in accounts receivable	25,511	32,731
Decrease (increase) in prepaid expenses and other assets	1,023	(40)
(Increase) decrease in inventory	(92)	527
Decrease in deferred revenue	(4,779)	(4,653)
Decrease in accounts payable, accrued expenses, and other liabilities	(3,069)	(1,049)
Total adjustments	25,658	37,255
Net cash provided by operating activities	5,278	33,132
Cash flows from investing activities		
Purchases of marketable securities	(74,541)	(35,601)
Sales or maturities of marketable securities	64,317	55,385
Capital expenditures	(646)	(1,359)
Net cash (used in) provided by investing activities	(10,870)	18,425
Cash flows from financing activities		
Net proceeds from the issuance of stock	3,416	1,030
Net cash provided by financing activities	3,416	1,030
Net (decrease) increase in cash and cash equivalents	(2,176)	52,587
Cash and cash equivalents at beginning of period	184,508	95,229
Cash and cash equivalents at end of period	$ 182,332	$ 147,816

The accompanying notes are an integral part of the financial statements.

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REGENERON PHARMACEUTICALS, INC.
Notes to Condensed Financial Statements (Unaudited)
(Unless otherwise noted, dollars in thousands, except per share data)

1. Interim Financial Statements

The interim Condensed Financial Statements of Regeneron Pharmaceuticals, Inc. (Regeneron or the Company) have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and disclosures necessary for a presentation of the Company s financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. In the opinion of management, these financial statements reflect all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the Company s financial position, results of operations, and cash flows for such periods. The results of operations for any interim periods are not necessarily indicative of the results for the full year. The December 31, 2005 Condensed Balance Sheet data were derived from audited financial statements, but do not include all disclosures required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2005.

2. Per Share Data

The Company s basic and diluted net loss per share amounts have been computed by dividing net loss by the weighted average number of shares of Common Stock and Class A Stock outstanding. For the three months ended March 31, 2006 and 2005, the Company reported net losses and, therefore, no common stock equivalents were included in the computation of diluted net loss per share for these periods, since such inclusion would have been antidilutive. The calculations of basic and diluted net loss per share are as follows:

	Three Months Ended March 31,	
	2006	2005
Net loss (Numerator)	($ 20,380)	($ 4,123)
Weighted-average shares, in thousands (Denominator)	56,727	55,815
Basic and diluted net loss per share	($ 0.36)	($ 0.07)

Shares issuable upon the exercise of stock options, vesting of restricted stock awards, and conversion of convertible debt, which have been excluded from the March 31, 2006 and 2005 diluted per share amounts because their effect would have been antidilutive, include the following:

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REGENERON PHARMACEUTICALS, INC.
Notes to Condensed Financial Statements (Unaudited)
(Unless otherwise noted, dollars in thousands, except per share data)

	Three months ended March 31,	
	2006	2005
Stock Options:		
Weighted average number, in thousands	14,401	13,476
Weighted average exercise price	$ 14.27	$ 14.73
Restricted Stock:		
Weighted average number, in thousands	54	213
Convertible Debt:		
Weighted average number, in thousands	6,611	6,611
Conversion price	$ 30.25	$ 30.25

3. Stock-based Employee Compensation

Adoption of Statement of Financial Accounting Standards Nos. 123 and 123R

Effective January 1, 2005, the Company adopted the fair value based method of accounting for stock-based employee compensation under the provisions of Statement of Financial Accounting Standards No. (SFAS) 123, *Accounting for Stock-Based Compensation*, using the modified prospective method as described in SFAS 148, *Accounting for Stock-Based Compensation- Transition and Disclosure*. As a result, in 2005, the Company recognized compensation expense, in an amount equal to the fair value of share-based payments (including stock option awards) on their date of grant, over the vesting period of the awards using graded vesting, which is an accelerated expense recognition method. Under the modified prospective method, compensation expense for the Company is recognized for (a) all share based payments granted on or after January 1, 2005 and (b) all awards granted to employees prior to January 1, 2005 that were unvested on that date.

Effective January 1, 2006, the Company adopted the provisions of SFAS 123R, *Share-Based Payment*, which is a revision of SFAS 123. SFAS 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions, and requires the recognition of compensation expense in an amount equal to the fair value of the share-based payment (including stock options and restricted stock) issued to employees. SFAS 123R requires companies to estimate the number of awards that are expected to be forfeited at the time of grant and to revise this estimate, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Prior to the adoption of SFAS 123R, the Company recognized the effect of forfeitures in stock-based compensation cost in the period when they occurred, in accordance with SFAS 123. Upon adoption of SFAS 123R effective January 1, 2006, the Company was required to record a cumulative effect adjustment to reflect the effect of estimated forfeitures related to outstanding awards that are not expected to vest as of the SFAS 123R adoption date. This adjustment reduced the Company s loss by $813 and is

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REGENERON PHARMACEUTICALS, INC.
Notes to Condensed Financial Statements (Unaudited)
(Unless otherwise noted, dollars in thousands, except per share data)

included in the Company s operating results for the first quarter of 2006 as a cumulative-effect adjustment of a change in accounting principle.

Long-Term Incentive Plans

The Regeneron Pharmaceuticals, Inc. 2000 Long-Term Incentive Plan (2000 Incentive Plan), as amended, provides for the issuance of up to 18,500,000 shares of Common Stock in respect of awards. In addition, certain shares of Common Stock previously approved by shareholders for issuance under the Regeneron Pharmaceuticals, Inc. 1990 Long-Term Incentive Plan (1990 Incentive Plan) that are not issued under the 1990 Incentive Plan, may be issued as awards under the 2000 Incentive Plan. The 1990 Incentive Plan, as amended, provided for a maximum of 6,900,000 shares of Common Stock in respect of awards. Under the provisions of the 1990 Incentive Plan, there will be no future awards from the plan. The Company has issued Incentive Stock Options (ISOs) and Nonqualified Stock Options, and shares of Restricted Stock from the 1990 and 2000 Incentive Plans. The terms of the awards are determined by the Compensation Committee of the board of directors; however, in the case of an ISO, the option exercise price will not be less than the fair market value of a share of Common Stock on the date the ISO is granted and no ISO is exercisable more than ten years after the date of grant. As of March 31, 2006, there were 6,490,581 shares available for future grants under the 2000 Incentive Plan.

a. Stock Options

At March 31, 2006, there were 14,199,554 stock options outstanding with exercise prices ranging from $4.83 to $51.56. Options granted to employees generally vest annually on a pro rata basis over a four to five year period beginning one year from the date of grant. Certain performance-based options granted to the Company s executive vice president and senior vice presidents vest if both (i) the Company s products have achieved defined sales targets and (ii) the option recipient has remained employed by the Company for at least three years from the date of grant. Options granted to members of the Company s board of directors vest annually on a pro rata basis over three years beginning one year from the date of grant. A summary of the Company s stock option activity for the three months ended March 31, 2006 is presented in the following table:

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REGENERON PHARMACEUTICALS, INC.
Notes to Condensed Financial Statements (Unaudited)
(Unless otherwise noted, dollars in thousands, except per share data)

	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Intrinsic Value (in thousands)
Stock options outstanding at January 1, 2006	14,719,492		$ 14.23	
Stock options granted	138,700		$ 15.99	
Stock options exercised	(393,526)		$ 9.93	
Stock options forfeited	(152,016)		$ 10.60	
Stock options expired	(113,096)		$ 26.52	
Stock options outstanding at March 31, 2006	14,199,554	6.8	$ 14.31	$ 67,940
Stock options vested and exercisable	7,226,662	5.3	$ 17.68	$ 27,579

The total intrinsic value of stock options exercised during the first quarter of 2006 and 2005 was $2,592 and $200, respectively. The intrinsic value represents the amount by which the market price of the underlying stock exceeds the exercise price of an option.

For the three months ended March 31, 2006 and 2005, non-cash stock-based employee compensation expense related to stock option awards (Stock Option Expense) totaled $3,931 and $5,541, respectively. Stock Option Expense recognized in operating expenses for the three months ended March 31, 2006 and 2005 was $3,895 and $5,379, respectively, and $36 and $162, respectively, was capitalized into inventory. As of March 31, 2006, there was $27,331 of stock-based compensation cost related to outstanding nonvested stock options, net of estimated forfeitures, which had not yet been recognized in operating expenses. The Company expects to recognize this compensation cost over a weighted-average period of 1.8 years. In addition, there are 723,092 options which are unvested as of March 31, 2006 and would become vested upon the attainment of certain performance and service conditions. Potential compensation cost, measured on the grant date, related to these performance options totals $2,688 and will begin to be recognized only if, and when, these options performance condition becomes probable of attainment.

Fair Value Assumptions:

The fair value of each option granted during the three months ended March 31, 2006 and 2005 was estimated on the date of grant using the Black-Scholes option-pricing model. Using this model, fair value is calculated based on assumptions with respect to (i) expected volatility of the Company s Common Stock price, (ii) the periods of time over which employees and board directors are expected to hold their options prior to exercise

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REGENERON PHARMACEUTICALS, INC.
Notes to Condensed Financial Statements (Unaudited)
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(expected lives), (iii) expected dividend yield on the Company s Common Stock, and (iv) risk-free interest rates, which are based on quoted U.S. Treasury rates for securities with maturities approximating the options expected lives. Expected volatility has been estimated based on actual movements in the Company s stock price over the most recent historical periods equivalent to the options expected lives. Expected lives are principally based on the Company s limited historical exercise experience with option grants with similar exercise prices. The expected dividend yield is zero as the Company has never paid dividends and does not currently anticipate paying any in the foreseeable future. The weighted-average fair value of the options granted during the three months ended March 31, 2006 and 2005 was $11.28 and $5.86 per option, respectively. The following table summarizes the weighted average values of the assumptions used in computing the fair value of option grants.

	Three months ended March 31,	
	2006	2005
Expected volatility	69%	75%
Expected lives from grant date	7.7 years	6.2 years
Expected dividend yield	0%	0%
Risk-free interest rate	4.67%	3.96%

b. Restricted Stock

A summary of the Company s activity related to Restricted Stock awards for the three months ended March 31, 2006 is presented in the following table:

	Number in Shares	Weighted Average Grant Date Fair Value
Restricted stock outstanding as of January 1, 2006	95,188	$ 11.16
Restricted stock released	(45,040)	$ 13.00
Restricted stock forfeited	(1,703)	$ 9.74
Restricted stock outstanding as of March 31, 2006	48,445	$ 9.49

In accordance with generally accepted accounting principles, the Company recorded unearned compensation in Stockholders Equity related to these Restricted Stock awards. The amount was based on the fair market value of shares of the Company s Common Stock on the date of grant and is expensed, on a pro rata basis, over the period that the restrictions lapse, which is approximately two years for grants issued in 2003 and 18 months for grants issued in 2004. No Restricted Stock awards were granted in 2005 or during the three months ended March 31, 2006. For the three months ended March 31, 2006 and 2005, the Company recognized compensation expense related to Restricted Stock awards of $184 and $502, respectively. Unrecognized compensation cost at March

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REGENERON PHARMACEUTICALS, INC.
Notes to Condensed Financial Statements (Unaudited)
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31, 2006 related to outstanding Restricted Stock awards totaled $115, which the Company expects to recognize over a weighted-average period of approximately 2.5 months.

4. Statement of Cash Flows

Supplemental disclosure of noncash investing and financing activities:

Included in accounts payable and accrued expenses at March 31, 2006 and December 31, 2005 are $233 and $234, respectively, of accrued capital expenditures. Included in accounts payable and accrued expenses at March 31, 2005 and December 31, 2004 are $827 and $550, respectively, of accrued capital expenditures.

Included in accounts payable and accrued expenses at December 31, 2005 and 2004 are $1,884 and $632, respectively, of accrued Company 401(k) Savings Plan contribution expense. In the first quarter of 2006 and 2005, the Company contributed 120,960 and 90,385 shares, respectively, of Common Stock to the 401(k) Savings Plan in satisfaction of these obligations.

Included in marketable securities at March 31, 2006 and December 31, 2005 are $656 and $1,228, respectively, of accrued interest income. Included in marketable securities at March 31, 2005 and December 31, 2004 are $1,760 and $2,601, respectively, of accrued interest income.

5. Severance Costs

In September 2005, the Company announced plans to reduce its workforce by approximately 165 employees in connection with narrowing the focus of the Company s research and development efforts, substantial improvements in manufacturing productivity, the June 2005 expiration of the Company s collaboration with The Procter & Gamble Company, and the expected completion of contract manufacturing for Merck & Co., Inc. in late 2006. The majority of the headcount reduction occurred in the fourth quarter of 2005, with the remainder planned for 2006 following the completion of the Company s contract manufacturing activities for Merck.

Costs associated with the workforce reduction are comprised principally of severance payments and related payroll taxes, employee benefits, and outplacement services. Termination costs related to 2005 workforce reductions were expensed in the fourth quarter of 2005. Estimated termination costs associated with the planned workforce reduction in 2006 were measured in October 2005 and are being expensed ratably over the expected service period of the affected employees in accordance with SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*. The Company estimates that total costs associated with the 2005 and planned 2006 workforce reductions will approximate $2.6 million, including $0.2 million of non-cash expenses in 2005.

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REGENERON PHARMACEUTICALS, INC.
Notes to Condensed Financial Statements (Unaudited)
(Unless otherwise noted, dollars in thousands, except per share data)

Severance costs associated with the workforce reduction plan that were charged to expense in the first quarter of 2006 consist of the following:

	Accrued liability at December 31, 2005	Three months ended March 31, 2006 Costs charged to expense	Costs paid or settled in 2006	Accrued liability at March 31, 2006
Employee severance, payroll taxes, and benefits	$ 907	$ 159	$ 641	$ 425
Other severance costs	176	14	190	
Total	$ 1,083	$ 173	$ 831	$ 425

These severance costs are included in the Company s Statement of Operations for the three months ended March 31, 2006 as follows:

	Research & development	General & administrative
Employee severance, payroll taxes, and benefits	$ 161	($ 2)
Other severance costs	14	
Total	$ 175	($ 2)

For segment reporting purposes (see Note 10), all severance-related expenses are included in the Research & Development segment.

6. Accounts Receivable

Accounts receivable as of March 31, 2006 and December 31, 2005 consist of the following:

	March 31, 2006	December 31, 2005
Receivable from the sanofi-aventis Group	$ 10,972	$ 36,412
Receivable from Merck & Co., Inc.	38	27
Other		82
	$ 11,010	$ 36,521

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REGENERON PHARMACEUTICALS, INC.
Notes to Condensed Financial Statements (Unaudited)
(Unless otherwise noted, dollars in thousands, except per share data)

7. Inventories

Inventories consist of raw materials, work-in process, and finished products associated with the production of an intermediate for a Merck & Co., Inc. pediatric vaccine under a long-term manufacturing agreement which will expire in October 2006.

Inventories as of March 31, 2006 and December 31, 2005 consist of the following:

	March 31, 2006	December 31, 2005
Raw materials	$ 279	$ 278
Work-in-process	785	1,423
Finished products	2,190	1,203
	$ 3,254	$ 2,904

8. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses as of March 31, 2006 and December 31, 2005 consist of the following:

	March 31, 2006	December 31, 2005
Accounts payable	$ 3,758	$ 4,203
Accrued payroll and related costs	3,638	10,713
Accrued clinical trial expense	3,723	3,081
Accrued expenses, other	2,222	3,048
Interest payable on convertible notes	5,042	2,292
	$ 18,383	$ 23,337

9. Comprehensive Loss

Comprehensive loss represents the change in net assets of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive loss of the Company includes net loss adjusted for the change in net unrealized gain (loss) on marketable securities. The net effect of income taxes on comprehensive loss is immaterial. For the three months ended March 31, 2006 and 2005, the components of comprehensive loss are:

	Three months ended March 31,	
	2006	2005
Net loss	($ 20,380)	($ 4,123)
Change in net unrealized gain (loss) on marketable securities	99	(341)
Total comprehensive loss	($ 20,281)	($ 4,464)

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REGENERON PHARMACEUTICALS, INC.
Notes to Condensed Financial Statements (Unaudited)
(Unless otherwise noted, dollars in thousands, except per share data)

10. Segment Information

The Company s operations are managed in two business segments: research and development, and contract manufacturing.

Research and development: Includes all activities related to the discovery of pharmaceutical products for the treatment of serious medical conditions, and the development and commercialization of these discoveries. Also includes revenues and expenses related to (i) the development of manufacturing processes prior to commencing commercial production of a product under contract manufacturing arrangements, and (ii) the supply of research materials based on Regeneron-developed proprietary technology.

Contract manufacturing: Includes all revenues and expenses related to the commercial production of products under contract manufacturing arrangements. The Company produces an intermediate for a Merck & Co., Inc. pediatric vaccine under a long-term manufacturing agreement which will expire in October 2006.

The table below presents information about reported segments for the three months ended March 31, 2006 and 2005.

	Three months ended March 31, 2006			
	Research & Development	Contract Manufacturing	Reconciling Items	Total
Revenues	$ 14,587	$ 3,632		$ 18,219
Depreciation and amortization	3,537	[1]	$ 261	3,798
Non-cash compensation expense	3,984	95	(813)[2]	3,266
Interest expense			3,011	3,011
Net (loss) income	(23,443)	1,780	1,283[3]	(20,380)
Capital expenditures	645			645
Total assets	67,159	4,526	330,404[4]	402,089

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REGENERON PHARMACEUTICALS, INC.
Notes to Condensed Financial Statements (Unaudited)
(Unless otherwise noted, dollars in thousands, except per share data)

	Three months ended March 31, 2005			
	Research & Development	Contract Manufacturing	Reconciling Items	Total
Revenues	$ 13,502	$ 2,707		$ 16,209
Depreciation and amortization	3,597	(1)	$ 261	3,858
Non-cash compensation expense	5,881			5,881
Other contract income	25,000			25,000
Interest expense			3,013	3,013
Net (loss) income	(3,556)	216	(783)(3)	(4,123)
Capital expenditures	1,637			1,637
Total assets	77,527	4,986	387,779(4)	470,292

(1) Depreciation and amortization related to contract manufacturing is capitalized into inventory and included in contract manufacturing expense when the product is shipped.

(2) Represents the cumulative effect of adopting SFAS 123R (see Note 3).

(3) Represents investment income, net of interest expense related primarily to convertible notes issued in October 2001. For the three months ended

March 31, 2006, also includes the cumulative effect of adopting SFAS 123R.

(4) Includes cash and cash equivalents, marketable securities, prepaid expenses and other current assets, and other assets.

11. Legal Matters

From time to time, the Company is a party to legal proceedings in the course of the Company s business. The Company does not expect any such current legal proceedings to have a material adverse effect on the Company s business or financial condition.

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

The discussion below contains forward-looking statements that involve risks and uncertainties relating to future events and the future financial performance of Regeneron Pharmaceuticals, Inc. and actual events or results may differ materially. These statements concern, among other things, the possible success and therapeutic applications of our product candidates and research programs, the timing and nature of the clinical and research programs now underway or planned, and the future sources and uses of capital and our financial needs. These statements are made by us based on management s current beliefs and judgment. In evaluating such statements, stockholders and potential investors should specifically consider the various factors identified under the caption Risk Factors which could cause actual results to differ materially from those indicated by such forward-looking statements. We do not undertake any obligation to update publicly any forward-looking statement, whether as a result of new information, future events, or otherwise, except as required by law.

Overview

Regeneron Pharmaceuticals, Inc. is a biopharmaceutical company that discovers, develops, and intends to commercialize pharmaceutical products for the treatment of serious medical conditions. We are currently focused on three development programs: VEGF Trap in oncology, VEGF Trap eye formulation (VEGF Trap-Eye) in eye diseases using intraocular delivery, and IL-1 Trap in various inflammatory indications. The VEGF Trap is being developed in oncology in collaboration with the sanofi-aventis Group. Our preclinical research programs are in the areas of oncology and angiogenesis, ophthalmology, metabolic and related diseases, muscle diseases and disorders, inflammation and immune diseases, bone and cartilage, pain, and cardiovascular diseases. We expect that our next generation of product candidates will be based on our proprietary technologies for developing Traps and Human Monoclonal Antibodies. Developing and commercializing new medicines entails significant risk and expense. Since inception we have not generated any sales or profits from the commercialization of any of our product candidates.

Our core business strategy is to maintain a strong foundation in basic scientific research and discovery-enabling technology and combine that foundation with our manufacturing and clinical development capabilities to build a successful, integrated biopharmaceutical company. Our efforts have yielded a diverse pipeline of product candidates that we believe has the potential to address a variety of serious medical conditions. We believe that our ability to develop product candidates is enhanced by the application of our technology platforms. Our discovery platforms are designed to identify specific genes of therapeutic interest for a particular disease or cell type and validate targets through high-throughput production of mammalian models. Our Traps, Human Monoclonal Antibody (VelocImmune™), and cell line expression technologies may then be utilized to design and produce new product candidates directed against the disease target. We continue to invest in the development of enabling technologies to assist in our efforts to identify, develop, and commercialize new product candidates.

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Clinical Programs:

Below is a summary of the clinical status of our clinical candidates as of March 31, 2006:

1. VEGF Trap Oncology

The VEGF Trap is a protein-based product candidate designed to bind all forms of Vascular Endothelial Growth Factor-A (called VEGF-A, also known as Vascular Permeability Factor or VPF) and the related Placental Growth Factor (called PlGF), and prevent their interaction with cell surface receptors. VEGF-A (and to a less validated degree, PlGF) is required for the growth of new blood vessels that are needed for tumors to grow and is a potent regulator of vascular permeability and leakage. The VEGF Trap is being developed in cancer indications in collaboration with sanofi-aventis, as described below. In September 2005, we and sanofi-aventis announced plans to expand our joint development program.

In the first quarter of 2006, we and sanofi-aventis initiated our phase 2 single-agent program for the VEGF Trap in cancer. Patient enrollment is underway in non-small cell adenocarcinoma and two additional safety/efficacy studies in advanced ovarian cancer and symptomatic malignant ascites are planned to begin shortly. In 2004, the United States Food and Drug Administration (FDA) granted Fast Track designation to the VEGF Trap for the treatment of symptomatic malignant ascites.

The companies also plan to conduct three efficacy/safety trials using the VEGF Trap in combination with standard chemotherapy regimens, the first of which is planned to begin in the second half of 2006, assuming successful completion of initial safety and tolerability studies. Currently there are five safety and tolerability studies underway for the VEGF Trap in combination with standard chemotherapy regimens in a variety of cancer types. The companies are also finalizing plans with the National Cancer Institute (NCI) Cancer Therapeutics Evaluation Program to commence at least ten additional cancer trials in 2006.

Cancer is a heterogeneous set of diseases and one of the leading causes of death in the developed world. A mutation in any one of dozens of normal genes can eventually result in a cell becoming cancerous; however, a common feature of cancer cells is that they need to obtain nutrients and remove waste products, just as normal cells do. The vascular system normally supplies nutrients to and removes waste from normal tissues. Cancer cells can use the vascular system either by taking over preexisting blood vessels or by promoting the growth of new blood vessels (a process known as angiogenesis). VEGF is secreted by many tumors to stimulate the growth of new blood vessels to support the tumor. Countering the effects of VEGF, thereby blocking the blood supply to tumors, has been shown to provide therapeutic benefits. This approach of inhibiting angiogenesis as a mechanism of action for an oncology medicine was validated in February 2004, when the FDA approved Genentech, Inc. s VEGF inhibitor, Avastin®. Avastin is an antibody product designed to inhibit VEGF and interfere with the blood supply to tumors.

In September 2003, we entered into a collaboration agreement with Aventis Pharmaceuticals, Inc. (now a member of the sanofi-aventis Group) to collaborate on the development and commercialization of the VEGF Trap in all countries other than Japan, where we retained the

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exclusive right to develop and commercialize the VEGF Trap. In January 2005, we and sanofi-aventis amended the collaboration agreement to exclude from the scope of the collaboration the development and commercialization of the VEGF Trap for intraocular delivery to the eye. In December 2005, we and sanofi-aventis amended our collaboration agreement to expand the territory in which the companies are collaborating on the development of the VEGF Trap to include Japan. Under the collaboration agreement, as amended, we and sanofi-aventis will share co-promotion rights and profits on sales, if any, of the VEGF Trap outside of Japan for disease indications included in our collaboration. In Japan, we are entitled to a royalty of approximately 35% on annual sales of the VEGF Trap, subject to certain potential adjustments. We may also receive up to $400.0 million in milestone payments upon receipt of specified marketing approvals, including up to $360.0 million in milestone payments related to up to eight VEGF Trap oncology and other indications in the United States or the European Union.

Under the collaboration agreement, as amended, agreed upon worldwide development expenses incurred by both companies during the term of the agreement will be funded by sanofi-aventis. If the collaboration becomes profitable, we will be obliged to reimburse sanofi-aventis for 50% of the VEGF Trap development expenses in accordance with a formula based on the amount of development expenses and our share of the collaboration profits and Japan royalties, or at a faster rate at our option. (See The sanofi-aventis Group Agreement below.)

2. VEGF Trap Eye Diseases

We are developing the VEGF Trap-Eye for the treatment of certain eye diseases. This product candidate has been purified and formulated in concentrations suitable for direct injection into the eye. We retain the exclusive right to develop and commercialize the VEGF Trap-Eye for the treatment of eye diseases utilizing local (intravitreal) delivery to the eye. We recently announced that we have initiated a phase 2 trial of the VEGF Trap-Eye delivered intravitreally in patients with the neovascular form of age-related macular degeneration (wet AMD).

At the May 2006 Annual Meeting of the Association for Research in Vision and Ophthalmology (ARVO), we reported positive preliminary results from a phase 1 trial of the VEGF Trap-Eye in patients with the neovascular form of wet AMD. A total of 21 patients received a single dose of VEGF Trap-Eye at doses ranging of 0.05, 0.15, 0.5, 1, 2, and 4 milligrams (mg) intravitreally (direct injection into the eye) and were evaluated for six weeks to measure the durability of effects and provide guidance for dosing regimens to be used in future trials. All dose levels were generally well tolerated, and a maximum tolerated dose was not reached in the study. Patients receiving the VEGF Trap-Eye demonstrated large, rapid, and sustained (at least six weeks) reductions in retinal thickness, a clinical measure of disease activity in wet AMD as measured by ocular coherence tomography (OCT). As measured by the OCT reading center (posterior pole OCT scans), the median excess retinal thickness was 194 microns at baseline and 60 microns at 6 weeks. As measured by the computerized Fast Macular Scan protocol, the median excess retinal thickness was 119 microns at baseline and 27 microns at 6 weeks.

Of the 20 patients evaluable for efficacy, 95 percent had stabilization or improvement in visual acuity, defined as £ 15 letter loss on the Early Treatment of Diabetic Retinopathy Study (ETDRS) eye chart. Patients were also evaluated for best-corrected visual acuity (BCVA), the

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best acuity a person can achieve with glasses. BCVA for all patients in the study increased by a mean of 4.8 letters at 6 weeks. In the two highest dose groups (2 mg and 4 mg), the mean improvement in BCVA was 13.5 letters, with three of six patients showing an improvement in BCVA of 15 or more letters.

Based on the preliminary phase 1 results in wet AMD, we initiated a 150 patient, 12 week, phase 2 trial of the VEGF Trap in wet AMD. The trial is designed to evaluate treatment with multiple doses of the VEGF Trap-Eye using different doses and different dosing regimens, as well as safety and efficacy. We plan to conduct an initial evaluation of phase 2 study results after all patients have completed 12 weeks of treatment, which is expected to be prior to the end of 2006. Subject to a review of the initial phase 2 study results, we plan to initiate a phase 3 trial of the VEGF Trap in wet AMD in early 2007.

VEGF-A both stimulates angiogenesis and increases vascular permeability. It has been shown in preclinical studies to be a major pathogenic factor in both wet AMD and Diabetic Retinopathy, and it is believed to be involved in other medical problems affecting the eyes. In clinical trials, blocking VEGF-A has been shown to be effective in patients with wet AMD, and Macugen® (OSI Pharmaceuticals, Inc.) has been approved to treat patients with this condition.

Wet AMD and Diabetic Retinopathy (DR) are two of the leading causes of adult blindness in the developed world. In both conditions, severe visual loss is caused by a combination of retinal edema and neovascular proliferation. It is estimated that in the U.S. 6% of individuals aged 65-74 and 20% of those older than 75 are affected with wet AMD. DR is a major complication of diabetes mellitus that can lead to significant vision impairment. DR is characterized, in part, by vascular leakage, which results in the collection of fluid in the retina. When the macula, the central area of the retina that is responsible for fine visual acuity, is involved, loss of visual acuity occurs. This is referred to as Diabetic Macular Edema (DME). DME is the most prevalent cause of moderate visual loss in patients with diabetes.

3. IL-1 Trap Inflammatory Diseases

The IL-1 Trap is a protein-based product candidate designed to bind the interleukin-1 (called IL-1) cytokine and prevent its interaction with cell surface receptors.

We are evaluating the IL-1 Trap in a number of diseases and disorders where IL-1 may play an important role, including a spectrum of rare diseases called *CIAS*1-Associated Periodic Syndrome (CAPS) and diseases associated with inflammation. These include Systemic Juvenile Idiopathic Arthritis (SJIA) and certain inflammatory vascular diseases.

In April 2006, we completed enrollment of the pivotal study of the IL-1 Trap in patients with CAPS. The six-month, placebo-controlled efficacy phase is expected to be completed by the end of 2006. This phase will be followed by a six-month open-label extension phase. In December 2004, the FDA granted orphan drug status to the IL-1 Trap for the treatment of CAPS. In April 2005, the FDA also granted orphan drug status to the IL-1 Trap for the treatment of SJIA.

An IL-1 receptor antagonist, Kineret® (Amgen Inc.), has been approved by the FDA for the treatment of rheumatoid arthritis. It has been publicly reported that in small trials Kineret

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appears to reduce the symptoms in CAPS patients and SJIA patients, which supports the role of IL-1 in these diseases. CAPS includes rare genetic disorders, such as Familial Cold Auto-Inflammatory Syndrome (FCAS), Muckle Wells Syndrome, and Neonatal Onset Multisystem Inflammatory Disorder (NOMID), which affect a small group of people. Patients with these disorders develop fever, joint aches, headaches, and rashes. In certain indications, these symptoms can be extremely serious. There are no currently approved therapies for CAPS. SJIA is a severe inflammatory disorder which may be debilitating or fatal. It is estimated that there are between 5,000 and 10,000 children with SJIA in the United States.

Under a March 2003 collaboration agreement with Novartis Pharma AG, we retain the right to elect to collaborate in the future development and commercialization of a Novartis IL-1 antibody, which is in clinical development. Following completion of phase 2 development and submission to us of a written report on the Novartis IL-1 antibody, we have the right, in consideration for an opt-in payment, to elect to co-develop and co-commercialize the Novartis IL-1 antibody in North America. If we elect to exercise this right, we are responsible for paying 45% of post-election North American development costs for the antibody product. In return, we are entitled to co-promote the Novartis IL-1 antibody and to receive 45% of net profits on sales of the antibody product in North America. Under certain circumstances, we are also entitled to receive royalties on sales of the Novartis IL-1 antibody in Europe.

In addition, under the collaboration agreement, Novartis has the right to elect to collaborate in the development and commercialization of a second generation IL-1 Trap following completion of its phase 2 development, should we decide to clinically develop such a second generation product candidate. Novartis does not have any rights or options with respect to our IL-1 Trap currently in clinical development.

General

Developing and commercializing new medicines entails significant risk and expense. Since inception we have not generated any sales or profits from the commercialization of any of our product candidates and may never receive such revenues. Before revenues from the commercialization of our product candidates can be realized, we (or our collaborators) must overcome a number of hurdles which include successfully completing research and development and obtaining regulatory approval from the FDA and regulatory authorities in other countries. In addition, the biotechnology and pharmaceutical industries are rapidly evolving and highly competitive, and new developments may render our products and technologies uncompetitive or obsolete.

From inception on January 8, 1988 through March 31, 2006, we had a cumulative loss of $605.7 million. In the absence of revenues from the commercialization of our product candidates or other sources, the amount, timing, nature, or source of which cannot be predicted, our losses will continue as we conduct our research and development activities. We expect to incur substantial losses over the next several years as we continue the clinical development of the VEGF Trap-Eye and IL-1 Trap; advance new product candidates into clinical development from our existing research programs; continue our research and development programs; and commercialize product candidates that receive regulatory approval, if any. Also, our activities may expand over time and require additional resources, and we expect our operating losses to be

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substantial over at least the next several years. Our losses may fluctuate from quarter to quarter and will depend, among other factors, on the progress of our research and development efforts, the timing of certain expenses, and the amount and timing of payments that we receive from collaborators.

The planning, execution, and results of our clinical programs are significant factors that can affect our operating and financial results. In our clinical programs, key events and plans in 2006 are as follows:

Product candidate	2006 Events	2006 Plans
VEGF Trap Oncology	Initiated phase 2 study of the VEGF Trap as a single agent in non-small cell lung adenocarcinoma Initiated two safety and tolerability studies of the VEGF Trap in combination with standard chemotherapy regimens	Initiate two efficacy/safety studies of the VEGF Trap as a single agent in advanced ovarian cancer and symptomatic malignant ascites Initiate an efficacy/safety study of the VEGF Trap in combination with a standard chemotherapy regimen in cancer patients Design two additional efficacy/safety trials of the VEGF Trap in combination with standard chemotherapy regimens in different cancer indications Finalize plans with the NCI to sponsor at least ten exploratory efficacy/safety studies evaluating the VEGF Trap in a variety of cancer types
VEGF Trap-Eye	Reported positive preliminary results from phase 1 trial in wet AMD utilizing intravitreal injections in 21 patients up to a top dose of 4 mg Initiated a phase 2 trial in wet AMD utilizing intravitreal injections	Report preliminary results of a phase 2 trial in wet AMD utilizing intravitreal injections
IL-1 Trap	Completed enrollment of pivotal trial of IL-1 Trap in CAPS	Complete efficacy portion of pivotal study in CAPS Evaluate the IL-1 Trap for SJIA

Accounting for Stock-based Employee Compensation

Effective January 1, 2005, we adopted the fair value based method of accounting for stock-based employee compensation under the provisions of Statement of Financial Accounting Standards No. (SFAS) 123, *Accounting for Stock-Based Compensation*, using the modified prospective method as described in SFAS 148, *Accounting for Stock-Based Compensation- Transition and Disclosure*. As a result, in 2005, we recognized compensation expense, in an amount equal to the fair value of share-based payments (including stock option awards) on their date of grant, over the vesting period of the awards using graded vesting, which is an accelerated

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expense recognition method. Under the modified prospective method, compensation expense for Regeneron is recognized for (a) all share based payments granted on or after January 1, 2005 and (b) all awards granted to employees prior to January 1, 2005 that were unvested on that date.

Effective January 1, 2006, we adopted the provisions of SFAS 123R, Share-Based Payment, which is a revision of SFAS 123. SFAS 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions, and requires the recognition of compensation expense in an amount equal to the fair value of the share-based payment (including stock options and restricted stock) issued to employees. SFAS 123R requires companies to estimate the number of awards that are expected to be forfeited at the time of grant and to revise this estimate, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Prior to the adoption of SFAS 123R, we recognized the effect of forfeitures in stock-based compensation cost in the period when they occurred, in accordance with SFAS 123. Upon adoption of SFAS 123R effective January 1, 2006, we were required to record a cumulative effect adjustment to reflect the effect of estimated forfeitures related to outstanding awards that are not expected to vest as of the SFAS 123R adoption date. This adjustment reduced our loss by $0.8 million and is included in our operating results for the first quarter of 2006 as a cumulative-effect adjustment of a change in accounting principle.

For the three months ended March 31, 2006 and 2005, non-cash stock-based employee compensation expense related to stock option awards (Stock Option Expense) totaled $3.9 million and $5.6 million, respectively, of which $3.9 million and $5.4 million was recognized in operating expenses. Stock Option Expense of $0.2 million was capitalized into inventory in the first quarter of 2005. As of March 31, 2006, there was $27.3 million of stock-based compensation cost related to outstanding nonvested stock options, net of estimated forfeitures, which had not yet been recognized in operating expenses. We expect to recognize this compensation cost over a weighted-average period of 1.8 years. In addition, there are 723,092 options which are unvested as of March 31, 2006 and would become vested upon the attainment of certain performance and service conditions. Potential compensation cost, measured on the grant date, related to these performance options totals $2.7 million and will begin to be recognized only if, and when, these options performance condition becomes probable of attainment.

Assumptions

We use the Black-Scholes model to estimate the fair value of each option granted under the Regeneron Pharmaceuticals, Inc. 2000 Long-Term Incentive Plan. Using this model, fair value is calculated based on assumptions with respect to (i) expected volatility of our Common Stock price, (ii) the periods of time over which employees and Board Directors are expected to hold their options prior to exercise (expected lives), (iii) expected dividend yield on our Common Stock, and (iv) risk-free interest rates, which are based on quoted U.S. Treasury rates for securities with maturities approximating the options expected lives. Expected volatility has been estimated based on actual movements in our stock price over the most recent historical periods equivalent to the options expected lives. Expected lives are principally based on our limited historical exercise experience with option grants with similar exercise prices. The expected dividend yield is zero as we have never paid dividends and do not currently anticipate paying any in the foreseeable future. The following table summarizes the weighted average

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values of the assumptions we used in computing the fair value of option grants during the three months ended March 31, 2006 and 2005:

	Three months ended March 31,	
	2006	2005
Expected volatility	69%	75%
Expected lives from grant date	7.7 years	6.2 years
Expected dividend yield	0%	0%
Risk-free interest rate	4.67%	3.96%

Changes in any of these estimates may materially affect the fair value of stock options granted and the amount of stock-based compensation recognized in any period.

Results of Operations

Three Months Ended March 31, 2006 and 2005

Net Income (Loss):

Regeneron reported a net loss of $20.4 million, or $0.36 per share (basic and diluted), for the first quarter of 2006 compared to a net loss of $4.1 million, or $0.07 per share (basic and diluted), for the first quarter of 2005. Results for the first quarter of 2005 included a $25.0 million one-time, non-recurring payment from sanofi-aventis, which was recognized as other contract income, in connection with the January 2005 amendment to our collaboration agreement to exclude from the scope of the collaboration the development and commercialization of the VEGF Trap for intraocular delivery to the eye.

Revenues:

Revenues for the three months ended March 31, 2006 and 2005 consist of the following:

(In millions)	2006	2005	Increase (Decrease)
Contract research & development revenue			
The sanofi-aventis Group	$ 13.9	$ 9.8	$ 4.1
The Procter & Gamble Company		3.1	(3.1)
Other	0.7	0.6	0.1
Total contract research & development revenue	14.6	13.5	1.1
Contract manufacturing revenue	3.6	2.7	0.9
Total revenue	$ 18.2	$ 16.2	$ 2.0

We earn contract research and development revenue from sanofi-aventis in connection with the companies VEGF Trap collaboration which, as detailed below, consists partly of reimbursement for research and development expenses and partly of the recognition of revenue related to $105.0 million of non-refundable, up-front payments received in 2003 and 2006. Non-refundable, up-front payments are recorded as deferred revenue and recognized ratably over the

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period over which we are obligated to perform services in accordance with Staff Accounting Bulletin No. 104, *Revenue Recognition* (SAB 104).

Sanofi-aventis Contract Research & Development Revenue

	Three months ended March 31,	
(In millions)	**2006**	**2005**
Regeneron expense reimbursement	$ 10.8	$ 7.4
Recognition of deferred revenue related to up-front payments	3.1	2.4
Total	$ 13.9	$ 9.8

Sanofi-aventis reimbursement of Regeneron VEGF Trap expenses increased in the first quarter of 2006 from the same period in 2005, primarily due to higher costs in 2006 related to the Company s manufacture of VEGF Trap clinical supplies**.** Recognition of deferred revenue related to sanofi-aventis up-front payments also increased in the first quarter of 2006 from the same period in 2005, due to our January 2006 receipt of a $25.0 million non-refundable, up-front payment from sanofi-aventis related to the expansion of the companies VEGF Trap collaboration to include Japan. As of March 31, 2006, $78.3 million of the original $105.0 million of up-front payments was deferred and will be recognized as revenue in future periods.

Contract research and development revenue earned from Procter & Gamble decreased in the first quarter of 2006 compared to the same period of 2005, as the research activities being pursued under our December 2000 collaboration agreement with Procter & Gamble, as amended, were completed on June 30, 2005. Since the second quarter of 2005, we have not received, and do not expect to receive, any further contract research and development revenue from Procter & Gamble.

Contract manufacturing revenue relates to our long-term agreement with Merck, which expires in October 2006, to manufacture a vaccine intermediate at our Rensselaer, New York facility. Contract manufacturing revenue increased in the first quarter of 2006 from the same period of 2005 as we shipped more product to Merck in 2006. Revenue and the related manufacturing expense are recognized as product is shipped, after acceptance by Merck. Included in contract manufacturing revenue in both the first three months of 2006 and 2005 were $0.4 million and $0.3 million, respectively, of deferred revenue associated with capital improvement reimbursements paid by Merck prior to commencement of production. As of March 31, 2006, the remaining deferred balance of Merck s capital improvement reimbursements totaled $0.9 million, which will be recognized as revenue as product is shipped based upon Merck s order quantities through October 2006.

Expenses:

Total operating expenses decreased to $39.9 million in the first quarter of 2006 from $44.5 million in the same period of 2005, due, in part, to our lower headcount. Our average headcount declined to 587 in the first quarter of 2006 from 734 in the same period of 2005 primarily as a result of workforce reductions made in the fourth quarter of 2005. (See Severance Costs below.)

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Operating expenses in the first quarter of 2006 and 2005 include a total of $3.9 million and $5.4 million of Stock Option Expense, respectively, as detailed below:

(In millions)	For the three months ended March 31, 2006		
Expenses	**Expenses before inclusion of Stock Option Expense**	**Stock Option Expense**	**Expenses as Reported**
Research and development	$ 30.1	$ 2.0	$ 32.1
Contract manufacturing	1.8	0.1	1.9
General and administrative	4.1	1.8	5.9
Total operating expenses	$ 36.0	$ 3.9	$ 39.9

(In millions)	For the three months ended March 31, 2005		
Expenses	**Expenses before inclusion of Stock Option Expense**	**Stock Option Expense**	**Expenses as Reported**
Research and development	$ 32.5	$ 3.4	$ 35.9
Contract manufacturing	2.5		2.5
General and administrative	4.1	2.0	6.1
Total operating expenses	$ 39.1	$ 5.4	$ 44.5

Research and Development Expenses:

Research and development expenses decreased to $32.1 million in the first quarter of 2006 from $35.9 million in the same period of 2005. The following table summarizes the major categories of our research and development expenses for the three months ended March 31, 2006 and 2005:

(In millions)	Three months ended March 31,		
Research and development expenses	**2006**	**2005**	**Increase (Decrease)**
Payroll and benefits (1)	$ 10.0	$ 14.4	$ (4.4)
Clinical trial expenses	3.4	2.1	1.3
Clinical manufacturing costs (2)	9.3	9.0	0.3
Research and preclinical development costs	3.5	4.9	(1.4)
Occupancy and other operating costs	5.9	5.5	0.4
Total research and development	$ 32.1	$ 35.9	$ (3.8)

(1) Includes $1.6 million and

$3.0 million of Stock Option Expense for the three months ended March 31, 2006 and 2005, respectively.

(2) Represents the full cost of manufacturing drug for use in research, preclinical development, and clinical trials, including related payroll and benefits, Stock Option Expense, manufacturing materials and supplies, depreciation, and occupancy costs of our Rensselaer manufacturing facility. Includes $0.3 million and $0.4 million of Stock Option Expense for the three months ended March 31, 2006 and 2005, respectively.

Payroll and benefits decreased principally due to our lower headcount in the first quarter of 2006, as described above. Clinical trial expenses increased due to higher 2006 costs associated with (i) preparation for initiating a VEGF Trap-Eye phase 2 clinical trial in wet AMD utilizing intravitreal injections in the first half of 2006 and (ii) several IL-1 Trap clinical studies that were initiated in the fourth quarter of 2005. Clinical manufacturing costs increased as higher costs in 2006 related to manufacturing VEGF Trap clinical supplies were partially offset by lower costs

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related to manufacturing IL-1 Trap clinical supplies. Research and preclinical development costs decreased primarily as a function of our lower 2006 headcount. Occupancy and other operating costs increased primarily due to higher costs for utilities in 2006.

Contract Manufacturing Expenses:

Contract manufacturing expenses decreased to $1.9 million in the first quarter of 2006 from $2.5 million in the comparable quarter of 2005. Although we shipped more product to Merck in the first quarter of 2006 than the comparable quarter of 2005, we incurred higher expenses in 2005 resulting from unfavorable manufacturing costs which were expensed in the period incurred.

General and Administrative Expenses:

General and administrative expenses decreased to $5.9 million in the first quarter of 2006 from $6.1 million in the same period of 2005. In 2006, lower administrative personnel costs and legal expenses related to general corporate matters were partly offset by higher patent- related expenses.

Other Income and Expense:

As described above, in January 2005 we received a one-time $25.0 million payment from sanofi-aventis, which was recognized as other contract income in the first quarter of 2005.

Investment income increased to $3.5 million in the first quarter of 2006 from $2.2 million in the same period of 2005 due primarily to higher effective interest rates on investment securities in 2006. Interest expense was $3.0 million in the first quarter of 2006 and 2005. Interest expense is attributable primarily to $200.0 million of convertible notes issued in October 2001, which mature in 2008 and bear interest at 5.5% per annum.

Liquidity and Capital Resources

Since our inception in 1988, we have financed our operations primarily through offerings of our equity securities, a private placement of convertible debt, revenue earned under our past and present research and development and contract manufacturing agreements, including our agreements with sanofi-aventis, Procter & Gamble, and Merck, and investment income.

Three Months Ended March 31, 2006 and 2005

Cash Provided by Operations:

At March 31, 2006, we had $324.2 million in cash, cash equivalents, and marketable securities compared with $316.7 million at December 31, 2005. In January 2006, we received a $25.0 million non-refundable, up-front payment from sanofi-aventis related to the expansion of the companies VEGF Trap collaboration to include Japan.

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In the first quarter of 2006, our net loss was $20.4 million, however cash provided by our operations was $5.3 million, principally because the above-described $25.0 million payment from sanofi-aventis was receivable at December 31, 2005 and paid in January 2006. In the first quarter of 2005, our net loss was $4.1 million, however cash provided by operations was $33.1 million, principally due to our receipt from sanofi-aventis in the first quarter of 2005 of outstanding year-end 2004 receivables for (i) reimbursement of VEGF Trap development expenses incurred by us and (ii) a $25.0 million clinical milestone payment earned in December 2004.

Cash (Used in) Provided by Investing Activities:

Net cash used in investing activities was $10.9 million in the first quarter of 2006 compared to net cash provided by investing activities of $18.4 million in the same period in 2005, due primarily to an increase in purchases of marketable securities net of sales or maturities. In the first quarter of 2006, purchases of marketable securities exceeded sales or maturities by $10.2 million, whereas in the first quarter of 2005, sales or maturities of marketable securities exceeded purchases by $19.8 million.

Cash Provided by Financing Activities:

Cash provided by financing activities increased to $3.4 million in the first quarter of 2006 from $1.0 million in the same period in 2005 due to an increase in issuances of Common Stock in connection with exercises of stock options.

The sanofi-aventis Group Agreement:

Under our collaboration agreement with sanofi-aventis, agreed upon worldwide VEGF Trap development expenses incurred by both companies during the term of the agreement, including costs associated with the manufacture of clinical drug supply, will be funded by sanofi-aventis. If the collaboration becomes profitable, we will be obligated to reimburse sanofi-aventis for 50% of these development expenses, including 50% of the $25.0 million payment received in connection with the January 2005 amendment to our collaboration agreement, in accordance with a formula based on the amount of development expenses and our share of the collaboration profits and Japan royalties, or at a faster rate at our option. In addition, if the first commercial sale of a VEGF Trap product for intraocular delivery to the eye predates the first commercial sale of a VEGF Trap product under the collaboration by two years, we will begin reimbursing sanofi-aventis for up to $7.5 million of VEGF Trap development expenses in accordance with a formula until the first commercial VEGF Trap sale under the collaboration occurs. We and sanofi-aventis plan to initiate in 2006 multiple additional clinical studies to evaluate the VEGF Trap as both a single agent and in combination with other therapies in various cancer indications.

Sanofi-aventis has the right to terminate the agreement without cause with at least twelve months advance notice. Upon termination of the agreement for any reason, any remaining obligation to reimburse sanofi-aventis for 50% of VEGF Trap development expenses will terminate and we will retain all rights to the VEGF Trap.

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Severance Costs:

In September 2005, we announced plans to reduce our workforce by approximately 165 employees in connection with narrowing the focus of our research and development efforts, substantial improvements in manufacturing productivity, the June 2005 expiration of our collaboration with Procter & Gamble, and the expected completion of contract manufacturing for Merck in late 2006. The majority of the headcount reduction occurred in the fourth quarter of 2005, with the remainder planned for 2006 following the completion of our contract manufacturing activities for Merck.

Costs associated with the workforce reduction are comprised principally of severance payments and related payroll taxes, employee benefits, and outplacement services. Termination costs related to 2005 workforce reductions were expensed in the fourth quarter of 2005, and included $0.2 million of non-cash expenses. Estimated termination costs associated with the planned workforce reduction in 2006 were measured in October 2005 and are being expensed ratably over the expected service period of the affected employees in accordance with SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*. We estimate that total costs associated with the 2005 and planned 2006 workforce reductions will approximate $2.6 million, of which $2.2 million was charged to expense in the fourth quarter of 2005 and $0.2 million was charged to expense in the first quarter of 2006. We anticipate cost savings of approximately $8 million in 2006 resulting from the implementation of our workforce reduction.

Capital Expenditures:

Our additions to property, plant, and equipment totaled $0.6 million and $1.6 million for the first three months of 2006 and 2005, respectively. During the remainder of 2006, we expect to incur approximately $4 million to $6 million in capital expenditures which will primarily consist of equipment for our manufacturing, research, and development activities.

Funding Requirements:

We expect to continue to incur substantial funding requirements primarily for research and development activities (including preclinical and clinical testing). We currently anticipate that approximately 55%-65% of our expenditures for 2006 will be directed toward the preclinical and clinical development of product candidates, including the VEGF Trap, VEGF Trap-Eye, and IL-1 Trap; approximately 20%-25% of our expenditures for 2006 will be applied to our basic research activities and the continued development of our novel technology platforms; and the remainder of our expenditures for 2006 will be used for capital expenditures and general corporate purposes.

The amount we need to fund operations will depend on various factors, including the status of competitive products, the success of our research and development programs, the potential future need to expand our professional and support staff and facilities, the status of patents and other intellectual property rights, the delay or failure of a clinical trial of any of our potential drug candidates, and the continuation, extent, and success of our collaboration with sanofi-aventis. Clinical trial costs are dependent, among other things, on the size and duration of trials, fees charged for services provided by clinical trial investigators and other third parties, the costs for

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manufacturing the product candidate for use in the trials, supplies, laboratory tests, and other expenses. The amount of funding that will be required for our clinical programs depends upon the results of our research and preclinical programs and early-stage clinical trials, regulatory requirements, the clinical trials underway plus additional clinical trials that we decide to initiate, and the various factors that affect the cost of each trial as described above. In the future, if we are able to successfully develop, market, and sell certain of our product candidates, we may be required to pay royalties or otherwise share the profits generated on such sales in connection with our collaboration and licensing agreements.

We expect that expenses related to the filing, prosecution, defense, and enforcement of patent and other intellectual property claims will continue to be substantial as a result of patent filings and prosecutions in the United States and foreign countries.

We believe that our existing capital resources will enable us to meet operating needs through at least mid-2008. However, this is a forward-looking statement based on our current operating plan, and there may be a change in projected revenues or expenses that would lead to our capital being consumed significantly before such time. If there is insufficient capital to fund all of our planned operations and activities, we believe we would prioritize available capital to fund preclinical and clinical development of our product candidates. We have no off-balance sheet arrangements and do not guarantee the obligations of any other entity. As of March 31, 2006, we had no established banking arrangements through which we could obtain short-term financing or a line of credit. In the event we need additional financing for the operation of our business, we will consider collaborative arrangements and additional public or private financing, including additional equity financing. In January 2005, we filed a shelf registration statement on Form S-3 to sell, in one or more offerings, up to $200.0 million of equity or debt securities, together or separately, which registration statement was declared effective in February 2005. However, there is no assurance that we will be able to complete any such offerings of securities. Factors influencing the availability of additional financing include our progress in product development, investor perception of our prospects, and the general condition of the financial markets. We may not be able to secure the necessary funding through new collaborative arrangements or additional public or private offerings. If we cannot raise adequate funds to satisfy our capital requirements, we may have to delay, scale-back, or eliminate certain of our research and development activities or future operations. This could harm our business.

Critical Accounting Policies and Significant Judgments and Estimates

During the three months ended March 31, 2006, there were no changes to our critical accounting policies and significant judgments and estimates, as described in our Annual Report on Form 10-K for the year ended December 31, 2005.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Our earnings and cash flows are subject to fluctuations due to changes in interest rates primarily from our investment of available cash balances in investment grade corporate and U.S. government securities. We do not believe we are materially exposed to changes in interest rates. Under our current policies we do not use interest rate derivative instruments to manage exposure to interest rate changes. We estimated that a one percent change in interest rates would result in

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an approximately $0.9 million and $1.2 million change in the fair market value of our investment portfolio at March 31, 2006 and 2005, respectively. The decrease in the impact of an interest rate change at March 31, 2006, compared to March 31, 2005, is due to decreases in our investment portfolio s balance and duration to maturity at the end of March 2006 versus the end of March 2005.

Item 4. Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)), as of the end of the period covered by this report. Based on this evaluation, our chief executive officer and chief financial officer each concluded that, as of the end of such period, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in applicable rules and forms of the Securities and Exchange Commission, and is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 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

From time to time, we are a party to legal proceedings in the course of our business. We do not expect any such current legal proceedings to have a material adverse effect on our business or financial condition.

Item 1A. Risk Factors

We operate in an environment that involves a number of significant risks and uncertainties. We caution you to read the following risk factors, which have affected, and/or in the future could affect, our business, operating results, financial condition, and cash flows. The risks described below include forward-looking statements, and actual events and our actual results may differ substantially from those discussed in these forward-looking statements. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also impair our business operations. Furthermore, additional risks and uncertainties are described under other captions in this report and in our Annual Report on Form 10-K for the year ended December 31, 2005 and should be considered by our investors.

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Risks Related to Our Financial Results and Need for Additional Financing

We have had a history of operating losses and we may never achieve profitability. If we continue to incur operating losses, we may be unable to continue our operations.

From inception on January 8, 1988 through March 31, 2006, we had a cumulative loss of $605.7 million. If we continue to incur operating losses and fail to become a profitable company, we may be unable to continue our operations. We have no products that are available for sale and do not know when we will have products available for sale, if ever. In the absence of revenue from the sale of products or other sources, the amount, timing, nature or source of which cannot be predicted, our losses will continue as we conduct our research and development activities. We currently receive contract manufacturing revenue from our agreement with Merck and, until June 30, 2005, we received contract research and development revenue from our agreement with The Procter & Gamble Company. Our agreement with Procter & Gamble expired in June 2005 and our agreement with Merck will expire before the end of 2006. The expiration of these agreements results in a significant loss of revenue to the Company.

We will need additional funding in the future, which may not be available to us, and which may force us to delay, reduce or eliminate our product development programs or commercialization efforts.

We will need to expend substantial resources for research and development, including costs associated with clinical testing of our product candidates. We believe our existing capital resources will enable us to meet operating needs through at least mid-2008; however, our projected revenue may decrease or our expenses may increase and that would lead to our capital being consumed significantly before such time. We will likely require additional financing in the future and we may not be able to raise such additional funds. If we are able to obtain additional financing through the sale of equity or convertible debt securities, such sales may be dilutive to our shareholders. Debt financing arrangements may require us to pledge certain assets or enter into covenants that would restrict our business activities or our ability to incur further indebtedness and may contain other terms that are not favorable to our shareholders. If we are unable to raise sufficient funds to complete the development of our product candidates, we may face delay, reduction or elimination of our research and development programs or preclinical or clinical trials, in which case our business, financial condition or results of operations may be materially harmed.

We have a significant amount of debt and may have insufficient cash to satisfy our debt service and repayment obligations. In addition, the amount of our debt could impede our operations and flexibility.

We have a significant amount of convertible debt and semi-annual interest payment obligations. This debt, unless converted to shares of our common stock, will mature in October 2008. We may be unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments on our debt. Even if we are able to meet our debt service obligations, the amount of debt we already have could hurt our ability to obtain any necessary financing in the future for working capital, capital expenditures, debt service requirements, or other purposes. In addition, our debt obligations could require us to use a substantial portion of cash to pay

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principal and interest on our debt, instead of applying those funds to other purposes, such as research and development, working capital, and capital expenditures.

Risks Related to Development of Our Product Candidates

Successful development of any of our product candidates is highly uncertain.

Only a small minority of all research and development programs ultimately result in commercially successful drugs. We have never developed a drug that has been approved for marketing and sale, and we may never succeed in developing an approved drug. Even if clinical trials demonstrate safety and effectiveness of any of our product candidates for a specific disease and the necessary regulatory approvals are obtained, the commercial success of any of our product candidates will depend upon their acceptance by patients, the medical community, and third-party payers and on our partners ability to successfully manufacture and commercialize our product candidates. Our product candidates are delivered either by intravenous infusion or by intravitreal or subcutaneous injections, which are generally less well received by patients than tablet or capsule delivery. If our products are not successfully commercialized, we will not be able to recover the significant investment we have made in developing such products and our business would be severely harmed.

We intend to study our lead product candidates, the VEGF Trap, VEGF Trap-Eye, and IL-1 Trap, in a wide variety of indications. We intend to study the VEGF Trap in a variety of cancer settings, the VEGF Trap-Eye in different eye diseases and ophthalmologic indications, and the IL-1 Trap in a variety of systemic inflammatory disorders. Most of these current trials are exploratory studies designed to identify what diseases and uses, if any, are best suited for our product candidates. It is likely that our product candidates will not demonstrate the requisite efficacy and/or safety profile to support continued development for most of the indications that are to be studied. In fact, our product candidates may not demonstrate the requisite efficacy and safety profile to support the continued development for any of the indications or uses.

Clinical trials required for our product candidates are expensive and time-consuming, and their outcome is highly uncertain. If any of our drug trials are delayed or achieve unfavorable results, we will have to delay or may be unable to obtain regulatory approval for our product candidates.

We must conduct extensive testing of our product candidates before we can obtain regulatory approval to market and sell them. We need to conduct both preclinical animal testing and human clinical trials. Conducting these trials is a lengthy, time-consuming, and expensive process. These tests and trials may not achieve favorable results for many reasons, including, among others, failure of the product candidate to demonstrate safety or efficacy, the development of serious or life-threatening adverse events (or side effects) caused by or connected with exposure to the product candidate, difficulty in enrolling and maintaining subjects in the clinical trial, lack of sufficient supplies of the product candidate, and the failure of clinical investigators, trial monitors and other consultants, or trial subjects to comply with the trial plan or protocol. A clinical trial may fail because it did not include a sufficient number of patients to detect the endpoint being measured or reach statistical significance. A clinical trial may also fail because the dose(s) of the investigational drug included in the trial were either too low or too high to

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determine the optimal effect of the investigational drug in the disease setting. For example, we are studying higher doses of the IL-1 Trap in different diseases after a phase 2 trial using lower doses of the IL-1 Trap in subjects with rheumatoid arthritis failed to achieve its primary endpoint.

We will need to reevaluate any drug candidate that does not test favorably and either conduct new trials, which are expensive and time consuming, or abandon the drug development program. Even if we obtain positive results from preclinical or clinical trials, we may not achieve the same success in future trials. Many companies in the biopharmaceutical industry, including us, have suffered significant setbacks in clinical trials, even after promising results have been obtained in earlier trials. The failure of clinical trials to demonstrate safety and effectiveness for the desired indication(s) could harm the development of the product candidate(s), and our business, financial condition, and results of operations may be materially harmed.

The development of serious or life-threatening side effects with any of our product candidates would lead to delay or discontinuation of development, which could severely harm our business.

During the conduct of clinical trials, patients report changes in their health, including illnesses, injuries, and discomforts, to their study doctor. Often, it is not possible to determine whether or not the drug candidate being studied caused these conditions. Various illnesses, injuries, and discomforts have been reported from time-to-time during clinical trials of our product candidates. Although our current drug candidates appeared to be generally well tolerated in clinical trials conducted to date, it is possible as we test any of them in larger, longer, and more extensive clinical programs, illnesses, injuries, and discomforts that were observed in earlier trials, as well as conditions that did not occur or went undetected in smaller previous trials, will be reported by patients. Many times, side effects are only detectable after investigational drugs are tested in large scale, phase 3 clinical trials or, in some cases, after they are made available to patients after approval. If additional clinical experience indicates that any of our product candidates has many side effects or causes serious or life-threatening side effects, the development of the product candidate may fail or be delayed, which would severely harm our business.

Our VEGF Trap is being studied for the potential treatment of certain types of cancer and our VEGF Trap-Eye candidate is being studied in diseases of the eye. There are many potential safety concerns associated with significant blockade of vascular endothelial growth factor, or VEGF. These risks, based on the clinical and preclinical experience of systemically delivered VEGF inhibitors, including the systemic delivery of the VEGF Trap, include bleeding, hypertension, and proteinuria. These serious side effects and other serious side effects have been reported in our systemic VEGF Trap studies in cancer and diseases of the eye. In addition, patients given infusions of any protein, including the VEGF Trap delivered through intravenous administration, may develop severe hypersensitivity reactions, referred to as infusion reactions. These and other complications or side effects could harm the development of the VEGF Trap for the treatment of cancer or the VEGF Trap-Eye for the treatment of diseases of the eye.

Although the IL-1 Trap was generally well tolerated and was not associated with any drug-related serious adverse events in the phase 2 rheumatoid arthritis study completed in 2003, safety or tolerability concerns may arise as we test higher doses of the IL-1 Trap in patients with other

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inflammatory diseases and disorders. Like TNF-antagonists such as EnbrelÒ (Amgen) and RemicadeÒ (Centocor), the IL-1 Trap affects the immune defense system of the body by blocking some of its functions. Therefore, there may be an increased risk for infections to develop in patients treated with the IL-1 Trap. In addition, patients given infusions of the IL-1 Trap have developed hypersensitivity reactions, referred to as infusion reactions. These and other complications or side effects could harm the development of the IL-1 Trap.

Our product candidates in development are recombinant proteins that could cause an immune response, resulting in the creation of harmful or neutralizing antibodies against the therapeutic protein.

In addition to the safety, efficacy, manufacturing, and regulatory hurdles faced by our product candidates, the administration of recombinant proteins frequently causes an immune response, resulting in the creation of antibodies against the therapeutic protein. The antibodies can have no effect or can totally neutralize the effectiveness of the protein, or require that higher doses be used to obtain a therapeutic effect. In some cases, the antibody can cross react with the patient s own proteins, resulting in an auto-immune type disease. Whether antibodies will be created can often not be predicted from preclinical or clinical experiments, and their appearance is often delayed, so that there can be no assurance that neutralizing antibodies will not be created at a later date in some cases even after pivotal clinical trials have been completed. Subjects who received the IL-1 Trap in clinical trials have developed antibodies. It is possible that as we test the VEGF Trap with more sensitive assays in different patient populations and larger clinical trials, we will find that subjects given the VEGF Trap develop antibodies to the product candidate.

We may be unable to formulate or manufacture our product candidates in a way that is suitable for clinical or commercial use.

Changes in product formulations and manufacturing processes may be required as product candidates progress in clinical development and are ultimately commercialized. If we are unable to develop suitable product formulations or manufacturing processes to support large scale clinical testing of our product candidates, including the VEGF Trap, VEGF Trap-Eye, IL-1 Trap, and IL-4/13 Trap, we may be unable to supply necessary materials for our clinical trials, which would delay the development of our product candidates. Similarly, if we are unable to supply sufficient quantities of our product or develop product formulations suitable for commercial use, we will not be able to successfully commercialize our product candidates.

Risks Related to Intellectual Property

If we cannot protect the confidentiality of our trade secrets or our patents are insufficient to protect our proprietary rights, our business and competitive position will be harmed.

Our business requires using sensitive and proprietary technology and other information that we protect as trade secrets. We seek to prevent improper disclosure of these trade secrets through confidentiality agreements. If our trade secrets are improperly exposed, either by our own employees or our collaborators, it would help our competitors and adversely affect our business. We will be able to protect our proprietary rights from unauthorized use by third parties only to

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the extent that our rights are covered by valid and enforceable patents or are effectively maintained as trade secrets. The patent position of biotechnology companies involves complex legal and factual questions and, therefore, enforceability cannot be predicted with certainty. Our patents may be challenged, invalidated, or circumvented. Patent applications filed outside the United States may be challenged by third parties who file an opposition. Such opposition proceedings are increasingly common in the European Union and are costly to defend. We have patent applications that are being opposed and it is likely that we will need to defend additional patent applications in the future. Our patent rights may not provide us with a proprietary position or competitive advantages against competitors. Furthermore, even if the outcome is favorable to us, the enforcement of our intellectual property rights can be extremely expensive and time consuming.

We may be restricted in our development and/or commercialization activities by, and could be subject to damage awards if we are found to have infringed, third party patents or other proprietary rights.

Our commercial success depends significantly on our ability to operate without infringing the patents and other proprietary rights of third parties. Other parties may allege that they have blocking patents to our products in clinical development, either because they claim to hold proprietary rights to the composition of a product or the way it is manufactured or used.

We are aware of patents and pending applications owned by Genentech that claim certain chimeric VEGF receptor compositions. Although we do not believe that the VEGF Trap or VEGF Trap-Eye infringes any valid claim in these patents or patent applications, Genentech could initiate a lawsuit for patent infringement and assert its patents are valid and cover the VEGF Trap or VEGF Trap-Eye. Genentech may be motivated to initiate such a lawsuit at some point in an effort to impair our ability to develop and sell the VEGF Trap or VEGF Trap-Eye, which represents a potential competitive threat to Genentech s VEGF-binding products and product candidates. An adverse determination by a court in any such potential patent litigation would likely materially harm our business by requiring us to seek a license, which may not be available, or resulting in our inability to manufacture, develop and sell the VEGF Trap or VEGF Trap-Eye or in a damage award.

We are aware of certain United States and foreign patents relating to particular IL-4 and IL-13 receptors. Our IL-4/13 Trap includes portions of the IL-4 and IL-13 receptors. In addition, we are aware of a broad patent held by Genentech relating to proteins fused to certain immunoglobulin domains. Our Trap product candidates include proteins fused to immunoglobulin domains. Although we do not believe that we are infringing valid and enforceable third party patents, the holders of these patents may sue us for infringement and a court may find that we are infringing one or more validly issued patents, which may materially harm our business.

Any patent holders could sue us for damages and seek to prevent us from manufacturing, selling, or developing our drug candidates, and a court may find that we are infringing validly issued patents of third parties. In the event that the manufacture, use, or sale of any of our clinical candidates infringes on the patents or violates other proprietary rights of third parties, we may be prevented from pursuing product development, manufacturing, and commercialization of our

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drugs and may be required to pay costly damages. Such a result may materially harm our business, financial condition, and results of operations. Legal disputes are likely to be costly and time consuming to defend.

We seek to obtain licenses to patents when, in our judgment, such licenses are needed. If any licenses are required, we may not be able to obtain such licenses on commercially reasonable terms, if at all. The failure to obtain any such license could prevent us from developing or commercializing any one or more of our product candidates, which could severely harm our business.

Regulatory and Litigation Risks

If we do not obtain regulatory approval for our product candidates, we will not be able to market or sell them.

We cannot sell or market products without regulatory approval. If we do not obtain and maintain regulatory approval for our product candidates, the value of our company and our results of operations will be harmed. In the United States, we must obtain and maintain approval from the United States Food and Drug Administration (FDA) for each drug we intend to sell. Obtaining FDA approval is typically a lengthy and expensive process, and approval is highly uncertain. Foreign governments also regulate drugs distributed in their country and approval in any country is likely to be a lengthy and expensive process, and approval is highly uncertain. None of our product candidates has ever received regulatory approval to be marketed and sold in the United States or any other country. We may never receive regulatory approval for any of our product candidates.

If the testing or use of our products harms people, we could be subject to costly and damaging product liability claims. We could also face costly and damaging claims arising from employment law, securities law, environmental law, or other applicable laws governing our operations.

The testing, manufacturing, marketing, and sale of drugs for use in people expose us to product liability risk. Any informed consent or waivers obtained from people who sign up for our clinical trials may not protect us from liability or the cost of litigation. Our product liability insurance may not cover all potential liabilities or may not completely cover any liability arising from any such litigation. Moreover, we may not have access to liability insurance or be able to maintain our insurance on acceptable terms.

Our operations may involve hazardous materials and are subject to environmental, health, and safety laws and regulations. We may incur substantial liability arising from our activities involving the use of hazardous materials.

As a biopharmaceutical company with significant manufacturing operations, we are subject to extensive environmental, health, and safety laws and regulations, including those governing the use of hazardous materials. Our research and development and manufacturing activities involve the controlled use of chemicals, viruses, radioactive compounds, and other hazardous materials. The cost of compliance with environmental, health, and safety regulations is substantial. If an

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accident involving these materials or an environmental discharge were to occur, we could be held liable for any resulting damages, or face regulatory actions, which could exceed our resources or insurance coverage.

Changes in the securities laws and regulations have increased, and are likely to continue to increase, our costs.

The Sarbanes-Oxley Act of 2002, which became law in July 2002, has required changes in some of our corporate governance, securities disclosure and compliance practices. In response to the requirements of that Act, the SEC and the NASDAQ Stock Market have promulgated new rules and listing standards covering a variety of subjects. Compliance with these new rules and listing standards has increased our legal costs, and significantly increased our accounting and auditing costs, and we expect these costs to continue. These developments may make it more difficult and more expensive for us to obtain directors and officers liability insurance. Likewise, these developments may make it more difficult for us to attract and retain qualified members of our board of directors, particularly independent directors, or qualified executive officers.

In future years, if we or our independent registered public accounting firm are unable to conclude that our internal control over financial reporting is effective, the market value of our common stock could be adversely affected.

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, the SEC adopted rules requiring public companies to include a report of management on the Company s internal control over financial reporting in their annual reports on Form 10-K that contains an assessment by management of the effectiveness of our internal control over financial reporting. In addition, the independent registered public accounting firm auditing our financial statements must attest to and report on management s assessment and on the effectiveness of our internal control over financial reporting. Our independent registered public accounting firm provided us with an unqualified report as to our assessment and the effectiveness of our internal control over financial reporting as of December 31, 2005, which report was included in our Annual Report on Form 10-K for the year ended December 31, 2005. However, we cannot assure you that management or our independent registered public accounting firm will be able to provide such an assessment or unqualified report as of future year-ends. In this event, investors could lose confidence in the reliability of our financial statements, which could result in a decrease in the market value of our common stock.

Risks Related to Our Dependence on Third Parties

If our collaboration with sanofi-aventis for the VEGF Trap is terminated, our business operations and our ability to develop, manufacture, and commercialize the VEGF Trap in the time expected, or at all, would be harmed.

We rely heavily on sanofi-aventis to assist with the development of the VEGF Trap oncology program. Sanofi-aventis funds all of the development expenses incurred by both companies in connection with the VEGF Trap oncology program. If the VEGF Trap oncology program continues, we will rely on sanofi-aventis to assist with funding the VEGF Trap program, provide commercial manufacturing capacity, enroll and monitor clinical trials, obtain regulatory approval,

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particularly outside the United States, and provide sales and marketing support. While we cannot assure you that the VEGF Trap will ever be successfully developed and commercialized, if sanofi-aventis does not perform its obligations in a timely manner, or at all, our ability to develop, manufacture, and commercialize the VEGF Trap in cancer indications will be significantly adversely affected. Sanofi-aventis has the right to terminate its collaboration agreement with us at any time upon twelve months advance notice. If sanofi-aventis were to terminate its collaboration agreement with us, we would not have the resources or skills to replace those of our partner, which could cause significant delays in the development and/or manufacture of the VEGF Trap and result in substantial additional costs to us. We have no sales, marketing, or distribution capabilities and would have to develop or outsource these capabilities. Termination of the sanofi-aventis collaboration agreement would create substantial new and additional risks to the successful development of the VEGF Trap oncology program.

Our collaborators and service providers may fail to perform adequately in their efforts to support the development, manufacture, and commercialization of our drug candidates.

We depend upon third-party collaborators, including sanofi-aventis and service providers such as clinical research organizations, outside testing laboratories, clinical investigator sites, and third-party manufacturers and product packagers and labelers, to assist us in the development of our product candidates. If any of our existing collaborators or service providers breaches or terminates its agreement with us or does not perform its development or manufacturing services under an agreement in a timely manner or at all, we could experience additional costs, delays, and difficulties in the development or ultimate commercialization of our product candidates.

Risks Related to the Manufacture of Our Product Candidates

We have limited manufacturing capacity, which could inhibit our ability to successfully develop or commercialize our drugs.

Before approving a new drug or biologic product, the FDA requires that the facilities at which the product will be manufactured be in compliance with current good manufacturing practices, or cGMP requirements. Manufacturing product candidates in compliance with these regulatory requirements is complex, time-consuming, and expensive. To be successful, our products must be manufactured for development, following approval, in commercial quantities, in compliance with regulatory requirements, and at competitive costs. If we or any of our product collaborators or third-party manufacturers, product packagers, or labelers are unable to maintain regulatory compliance, the FDA can impose regulatory sanctions, including, among other things, refusal to approve a pending application for a new drug or biologic product, or revocation of a pre-existing approval. As a result, our business, financial condition, and results of operations may be materially harmed.

Our manufacturing facility is likely to be inadequate to produce sufficient quantities of product for commercial sale. We intend to rely on our corporate collaborators, as well as contract manufacturers, to produce the large quantities of drug material needed for commercialization of our products. We rely entirely on third-party manufacturers for filling and finishing services. We will have to depend on these manufacturers to deliver material on a timely basis and to comply with regulatory requirements. If we are unable to supply sufficient material on acceptable terms,

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or if we should encounter delays or difficulties in our relationships with our corporate collaborators or contract manufacturers, our business, financial condition, and results of operations may be materially harmed.

We may expand our own manufacturing capacity to support commercial production of active pharmaceutical ingredients, or API, for our product candidates. This will require substantial additional funds, and we will need to hire and train significant numbers of employees and managerial personnel to staff our facility. Start-up costs can be large and scale-up entails significant risks related to process development and manufacturing yields. We may be unable to develop manufacturing facilities that are sufficient to produce drug material for clinical trials or commercial use. In addition, we may be unable to secure adequate filling and finishing services to support our products. As a result, our business, financial condition, and results of operations may be materially harmed.

We may be unable to obtain key raw materials and supplies for the manufacture of our product candidates. In addition, we may face difficulties in developing or acquiring production technology and managerial personnel to manufacture sufficient quantities of our product candidates at reasonable costs and in compliance with applicable quality assurance and environmental regulations and governmental permitting requirements.

If any of our clinical programs are discontinued, we may face costs related to the unused capacity at our manufacturing facilities.

We have large-scale manufacturing operations in Rensselaer, New York. Under a long-term manufacturing agreement with Merck, which expires in October 2006, we produce an intermediate for a Merck pediatric vaccine at our facility in Rensselaer, New York. We also use our facilities to produce API for our own clinical and preclinical candidates. When we no longer use our facilities to manufacture the Merck intermediate or if clinical candidates are discontinued, we will have to absorb overhead costs and inefficiencies.

Certain of our raw materials are single-sourced from third parties; third-party supply failures could adversely affect our ability to supply our products.

Certain raw materials necessary for manufacturing and formulation of our product candidates are provided by single-source unaffiliated third-party suppliers. We would be unable to obtain these raw materials for an indeterminate period of time if these third-party single-source suppliers were to cease or interrupt production or otherwise fail to supply these materials or products to us for any reason, including due to regulatory requirements or action, due to adverse financial developments at or affecting the supplier, or due to labor shortages or disputes. This, in turn, could materially and adversely affect our ability to manufacture our product candidates for use in clinical trials, which could materially and adversely affect our business and future prospects.

Also, certain of the raw materials required in the manufacturing and the formulation of our clinical candidates may be derived from biological sources, including mammalian tissues, bovine serum, and human serum albumin. There are certain European regulatory restrictions on using these biological source materials. If we are required to substitute for these sources to comply with

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European regulatory requirements, our clinical development activities may be delayed or interrupted.

Risks Related to Commercialization of Products

If we are unable to establish sales, marketing, and distribution capabilities, or enter into agreements with third parties to do so, we will be unable to successfully market and sell future products.

We have no sales or distribution personnel or capabilities and have only a small staff with marketing capabilities. If we are unable to obtain those capabilities, either by developing our own organizations or entering into agreements with service providers, we will not be able to successfully sell any products that we may obtain regulatory approval for and bring to market in the future. In that event, we will not be able to generate significant revenue, even if our product candidates are approved. We cannot guarantee that we will be able to hire the qualified sales and marketing personnel we need or that we will be able to enter into marketing or distribution agreements with third-party providers on acceptable terms, if at all. Under the terms of our collaboration agreement with sanofi-aventis, we currently rely on sanofi-aventis for sales, marketing, and distribution of the VEGF Trap in cancer indications, should it be approved in the future by regulatory authorities for marketing. We will have to rely on a third party or devote significant resources to develop our own sales, marketing, and distribution capabilities for our other product candidates, including the VEGF Trap-Eye, and we may be unsuccessful in developing our own sales, marketing, and distribution organization.

Even if our product candidates are approved for marketing, their commercial success is highly uncertain because our competitors may get to the marketplace before we do with better or lower cost drugs or the market for our product candidates may be too small to support commercialization or sufficient profitability.

There is substantial competition in the biotechnology and pharmaceutical industries from pharmaceutical, biotechnology, and chemical companies. Many of our competitors have substantially greater research, preclinical and clinical product development and manufacturing capabilities, and financial, marketing, and human resources than we do. Our smaller competitors may also enhance their competitive position if they acquire or discover patentable inventions, form collaborative arrangements, or merge with large pharmaceutical companies. Even if we achieve product commercialization, our competitors have achieved, and may continue to achieve, product commercialization before our products are approved for marketing and sale.

Genentech has an approved VEGF antagonist, Avastin® (Genentech), on the market for treating certain cancers and many different pharmaceutical and biotechnology companies are working to develop competing VEGF antagonists, including Novartis, OSI Pharmaceuticals, and Pfizer. Many of these molecules are farther along in development than the VEGF Trap and may offer competitive advantages over our molecule**.** Novartis has an ongoing phase 3 clinical development program evaluating an orally delivered VEGF tyrosine kinase inhibitor in different cancer settings. Onyx Pharmaceuticals and Bayer have received approval from the FDA to market and sell the first oral medication that targets tumor cell growth and new vasculature formation that fuels the growth of tumors. The marketing approvals for Genentech s VEGF

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antagonist, Avastin, and their extensive, ongoing clinical development plan for Avastin in other cancer indications, may make it more difficult for us to enroll patients in clinical trials to support the VEGF Trap and to obtain regulatory approval of the VEGF Trap in these cancer settings. This may delay or impair our ability to successfully develop and commercialize the VEGF Trap. In addition, even if the VEGF Trap is ever approved for sale for the treatment of certain cancers, it will be difficult for our drug to compete against Avastin and the Onyx/Bayer kinase inhibitor, because doctors and patients will have significant experience using these medicines. In addition, an oral medication may be considerably less expensive for patients than a biologic medication, providing a competitive advantage to companies that market such products.

The market for eye diseases is also very competitive. OSI Pharmaceuticals and Pfizer are marketing an approved VEGF inhibitor for age-related macular degeneration (wet AMD). Novartis and Genentech are collaborating on the development of a VEGF antibody fragment for the treatment of wet AMD that is in phase 3 development. In December 2005, Genentech announced that it filed an application with the FDA to market and sell this VEGF inhibitor in patients with wet AMD. In addition, it has been reported that ophthalmologists are using a third-party reformulated version of Genentech s approved VEGF antagonist, Avastin, with success for the treatment of wet AMD. The marketing approval of the OSI/Pfizer VEGF inhibitor and the potential off-label use of Avastin and approval of the Novartis/Genentech VEGF antibody fragment make it more difficult for us to successfully develop the VEGF Trap-Eye. Even if the VEGF Trap-Eye is ever approved for sale for the treatment of eye diseases, it will be difficult for our drug to compete against the OSI/Pfizer drug and, if approved by the FDA, the Novartis/Genentech VEGF inhibitor, because doctors and patients will have significant experience using these medicines. Moreover, the relatively low cost of therapy with Avastin in patients with wet AMD presents a further competitive challenge in this indication.

The availability of highly effective FDA approved TNF-antagonists such as Enbrel® (Amgen), Remicade® (Centocor), and Humira® (Abbott Laboratories), and the IL-1 receptor antagonist Kineret® (Amgen), and other marketed therapies makes it more difficult to successfully develop and commercialize the IL-1 Trap. This is one of the reasons we discontinued the development of the IL-1 Trap in adult rheumatoid arthritis. In addition, even if the IL-1 Trap is ever approved for sale, it will be difficult for our drug to compete against these FDA approved TNF-antagonists in indications where both are useful because doctors and patients will have significant experience using these effective medicines. Moreover, in such indications these approved therapeutics may offer competitive advantages over the IL-1 Trap, such as requiring fewer injections.

There are both small molecules and antibodies in development by third parties that are designed to block the synthesis of interleukin-1 or inhibit the signaling of interleukin-1. For example, Novartis is developing an antibody to interleukin-1 and Amgen is developing an antibody to the interleukin-1 receptor. These drug candidates could offer competitive advantages over the IL-1 Trap. The successful development of these competing molecules could delay or impair our ability to successfully develop and commercialize the IL-1 Trap. For example, we may find it difficult to enroll patients in clinical trials for the IL-1 Trap if the companies developing these competing interleukin-1 inhibitors commence clinical trials in the same indications.

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We are developing the IL-1 Trap for the treatment of a spectrum of rare diseases associated with mutations in the *CIAS*1 gene. These rare genetic disorders affect a small group of people, estimated to be between several hundred and a few thousand. There may be too few patients with these genetic disorders to profitably commercialize the IL-1 Trap in this indication.

The successful commercialization of our product candidates will depend on obtaining coverage and reimbursement for use of these products from third-party payers.

Sales of biopharmaceutical products largely depend on the reimbursement of patients medical expenses by government health care programs and private health insurers. Without the financial support of the governments or third-party payers, the market for any biopharmaceutical product will be limited. These third-party payers increasingly challenge the price and examine the cost-effectiveness of products and services. Significant uncertainty exists as to the reimbursement status of any new therapeutic, particularly if there exist lower-cost standards of care. Third-party payers may not reimburse sales of our products, which would harm our business.

Risk Related to Employees

We are dependent on our key personnel and if we cannot recruit and retain leaders in our research, development, manufacturing, and commercial organizations, our business will be harmed.

We are highly dependent on our executive officers. If we are not able to retain any of these persons or our Chairman, our business may suffer. In particular, we depend on the services of P. Roy Vagelos, M.D., the Chairman of our board of directors, Leonard Schleifer, M.D., Ph.D., our President and Chief Executive Officer, George D. Yancopoulos, M.D., Ph.D., our Executive Vice President, Chief Scientific Officer and President, Regeneron Research Laboratories, Murray A. Goldberg, our Senior Vice President, Finance & Administration, Chief Financial Officer, Treasurer, and Assistant Secretary, Neil Stahl, Ph.D., our Senior Vice President, Preclinical Development and Biomolecular Science, and Randall G. Rupp, Ph.D., our Senior Vice President, Manufacturing Operations. There is intense competition in the biotechnology industry for qualified scientists and managerial personnel in the development, manufacture, and commercialization of drugs. We may not be able to continue to attract and retain the qualified personnel necessary for developing our business.

Risks Related to Our Common Stock

Our stock price is extremely volatile.

There has been significant volatility in our stock price and generally in the market prices of biotechnology companies securities. Various factors and events may have a significant impact on the market price of our common stock. These factors include, by way of example:

progress, delays, or adverse results in clinical trials;

announcement of technological innovations or product candidates by us or competitors;

fluctuations in our operating results;

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public concern as to the safety or effectiveness of our product candidates;

developments in our relationship with collaborative partners;

developments in the biotechnology industry or in government regulation of healthcare;

large sales of our common stock by our executive officers, directors, or significant shareholders;

arrivals and departures of key personnel; and

general market conditions.

The trading price of our common stock has been, and could continue to be, subject to wide fluctuations in response to these and other factors, including the sale or attempted sale of a large amount of our common stock in the market. Broad market fluctuations may also adversely affect the market price of our common stock.

Future sales of our common stock by our significant shareholders or us may depress our stock price and impair our ability to raise funds in new share offerings.

A small number of our shareholders beneficially own a substantial amount of our common stock. As of April 13, 2006, our seven largest shareholders, including sanofi-aventis, beneficially owned 47.9% of our outstanding shares of Common Stock, assuming, in the case of Leonard S. Schleifer, M.D. Ph.D., our Chief Executive Officer, and P. Roy Vagelos, M.D., our Chairman, the conversion of their Class A Stock into Common Stock and the exercise of all options held by them which are exercisable within 60 days of April 13, 2006. As of April 13, 2006, sanofi-aventis owned 2,799,552 shares of Common Stock, representing approximately 5.1% of the shares of Common Stock then outstanding. Under our stock purchase agreement with sanofi-aventis, through September 5, 2006, sanofi-aventis may sell no more than 250,000 of these shares in any calendar quarter. After September 5, 2006, sanofi-aventis may sell no more than 500,000 of these shares in any calendar quarter. If sanofi-aventis, or our other significant shareholders or we, sell substantial amounts of our Common Stock in the public market, or the perception that such sales may occur exists, the market price of our Common Stock could fall. Sales of Common Stock by our significant shareholders, including sanofi-aventis, also might make it more difficult for us to raise funds by selling equity or equity-related securities in the future at a time and price that we deem appropriate.

Our existing shareholders may be able to exert significant influence over matters requiring shareholder approval.

Holders of Class A Stock, who are generally the shareholders who purchased their stock from us before our initial public offering, are entitled to ten votes per share, while holders of Common Stock are entitled to one vote per share. As of April 13, 2006, holders of Class A Stock held 4.1% of all shares of Common Stock and Class A Stock then outstanding, and had 29.7% of the combined voting power of all of Common Stock and Class A Stock then outstanding. These shareholders, if acting together, would be in a position to significantly influence the election of our directors and to effect or prevent certain corporate transactions that require majority or supermajority approval of the combined classes, including mergers and other business combinations. This may result in our company taking corporate actions that you may not consider to be in your best interest and may affect the price of our Common Stock. As of April 13, 2006:

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our current officers and directors beneficially owned 14.6% of our outstanding shares of Common Stock, assuming conversion of their Class A Stock into Common Stock and the exercise of all options held by such persons which are exercisable within 60 days of April 13, 2006, and 33.2% of the combined voting power of our outstanding shares of Common Stock and Class A Stock, assuming the exercise of all options held by such persons which are exercisable within 60 days of April 13, 2006; and

our seven largest shareholders beneficially owned 47.9% of our outstanding shares of Common Stock assuming, in the case of Leonard S. Schleifer, M.D., Ph.D., our Chief Executive Officer, and P. Roy Vagelos, M.D., our Chairman, the conversion of their Class A Stock into Common Stock and the exercise of all options held by them which are exercisable within 60 days of April 13, 2006. In addition, these seven shareholders held 54.3% of the combined voting power of our outstanding shares of Common Stock and Class A Stock, assuming the exercise of all options held by our Chief Executive Officer and our Chairman which are exercisable within 60 days of April 13, 2006.

The anti-takeover effects of provisions of our charter, by-laws, and rights agreement, and of New York corporate law, could deter, delay, or prevent an acquisition or other change in control of us and could adversely affect the price of our common stock.

Our amended and restated certificate of incorporation, our by-laws, our rights agreement and the New York Business Corporation Law contain various provisions that could have the effect of delaying or preventing a change in control of our company or our management that shareholders may consider favorable or beneficial. Some of these provisions could discourage proxy contests and make it more difficult for you and other shareholders to elect directors and take other corporate actions. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock. These provisions include:

authorization to issue blank check preferred stock, which is preferred stock that can be created and issued by the board of directors without prior shareholder approval, with rights senior to those of our common shareholders;

a staggered board of directors, so that it would take three successive annual meetings to replace all of our directors;

a requirement that removal of directors may only be effected for cause and only upon the affirmative vote of at least eighty percent (80%) of the outstanding shares entitled to vote for directors, as well as a requirement that any vacancy on the board of directors may be filled only by the remaining directors;

any action required or permitted to be taken at any meeting of shareholders may be taken without a meeting, only if, prior to such action, all of our shareholders consent, the effect of which is to require that shareholder action may only be taken at a duly convened meeting;

any shareholder seeking to bring business before an annual meeting of shareholders must provide timely notice of this intention in writing and meet various other requirements; and

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under the New York Business Corporation Law, a plan of merger or consolidation of the Company must be approved by two-thirds of the votes of all outstanding shares entitled to vote thereon. See the risk factor immediately above captioned *Our existing shareholders may be able to exert significant influence over matters requiring shareholder approval.*

We have a shareholder rights plan which could make it more difficult for a third party to acquire us without the support of our board of directors and principal shareholders. In addition, many of our stock options issued under our 2000 Long-Term Incentive Plan may become fully vested in connection with a change in control of the Company, as defined in the plan.

Item 6. Exhibits

(a) Exhibits

Exhibit Number	**Description**
12.1	Statement re: computation of ratio of earnings to combined fixed charges.
31.1	Certification of CEO pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934.
31.2	Certification of CFO pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934.
32	Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350.

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SIGNATURE

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.

Regeneron Pharmaceuticals, Inc.

Date: May 8, 2006

By: /s/ Murray A. Goldberg

Murray A. Goldberg
Senior Vice President, Finance & Administration, Chief Financial Officer, Treasurer, and Assistant Secretary