

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K**

(Mark One)

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

**For the fiscal year ended December 31, 2002**

**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**

*(State or other jurisdiction of  
incorporation or organization)*

**777 Old Saw Mill River Road, Tarrytown, New York**

*(Address of principal executive offices)*

**13-3444607**

*(I.R.S. Employer  
Identification No )*

**10591-6707**

*(Zip code)*

**(914) 347-7000**

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

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

**None**

*(Title of Class)*

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

**Common Stock — par value \$.001 per share**

*(Title of Class)*

**Preferred Share Purchase Rights expiring October 18, 2006**

*(Title of Class)*

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  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 28, 2002, was \$483,449,000.

Indicate the number of shares outstanding of each of Registrant's classes of common stock as of March 14, 2003:

<b>Class of Common Stock</b>	<b>Number of Shares</b>
Class A Stock, \$.001 par value	2,486,181
Common Stock, \$.001 par value	42,017,103

**DOCUMENTS INCORPORATED BY REFERENCE:**

The Registrant's definitive proxy statement to be filed in connection with solicitation of proxies for its Annual Meeting of Shareholders to be held on June 13, 2003, is incorporated by reference into Parts II and III of this Form 10-K, where indicated. Exhibit index is located on pages 30 to 32 of this filing.



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## PART I

### Item 1. **Business**

*This Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties relating to the future financial performance of Regeneron Pharmaceuticals, Inc. and actual events or results may differ materially. These statements concern, among other things, the possible 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 "Factors That May Affect Future Operating Results" 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.*

#### **General**

Regeneron Pharmaceuticals, Inc. is a biopharmaceutical company that discovers, develops, and intends to commercialize pharmaceutical products for the treatment of serious medical conditions. Our product pipeline includes product candidates for the treatment of obesity, rheumatoid arthritis and other inflammatory conditions, cancer and related disorders, allergies, asthma, and other diseases and disorders. Developing and commercializing new medicines entails risk and significant 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 combine our strong foundation in basic scientific research and discovery-enabling technology with our manufacturing and clinical development capabilities to build a successful, integrated biopharmaceutical company. Our efforts have yielded a diverse and growing pipeline of product candidates that have the potential to address a variety of unmet medical needs. We believe that our ability to develop product candidates is enhanced by the application of our technology platforms, which are designed to discover specific genes of therapeutic interest for a particular disease or cell type and validate targets through high-throughput production of mammalian models in which a specific gene is removed (referred to as "knock-out") or is overproduced (referred to as "transgenic"). We will continue to invest in the development of enabling technologies to assist in our efforts to identify, develop, and commercialize new product candidates.

Below is a summary of our leading clinical and preclinical research programs. We currently retain sole ownership and marketing rights for each of these programs, and we are developing them independent of any corporate partners except for the IL-1 Trap, as described in the Recent Developments section.

- **AXOKINE®**: Acts on the brain region regulating food intake and energy expenditure and is being developed for the treatment of obesity. In July 2001, we initiated a Phase III clinical program of AXOKINE in overweight and obese subjects. We began enrolling subjects in the initial pivotal trial in September 2001 and in January 2002 completed enrollment of approximately 2,000 subjects in 65 sites across the United States. This pivotal trial included a 12-month treatment period, which the Company announced was completed in January 2003, in which subjects received daily subcutaneous self-injections of placebo or AXOKINE. As described in the Recent Developments section, we reported data from the 12-month treatment period of the AXOKINE pivotal trial on March 31, 2003. The treatment period is being followed by a twelve-month open-label extension phase, during which all study subjects receive AXOKINE. As of December 31, 2002, the average treatment period for people in this pivotal trial was 14 months.

In June 2002, we announced the initiation of a clinical trial to assess the safety and efficacy of AXOKINE in overweight and obese individuals with type 2 diabetes mellitus. In July 2002, we announced that we had completed enrollment for two additional trials, each of which includes approximately 300 subjects, that are designed to evaluate the safety of intermittent treatment with AXOKINE and to study maintenance of weight loss following short-term treatment regimens. The

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Company announced in January 2003 that AXOKINE has received fast track designation from the United States Food and Drug Administration, or FDA, for the treatment of severely obese people who are unresponsive to, intolerant of, or unsuitable candidates for certain FDA-approved medicines for the long-term treatment of obesity.

- **INTERLEUKIN-1 CYTOKINE TRAP (IL-1 Trap):** Protein-based product candidate designed to bind the Interleukin-1 (called IL-1) cytokine and prevent its interaction with cell surface receptors. IL-1 is thought to play a major role in rheumatoid arthritis and other inflammatory diseases. In July 2002, we announced the initiation of a dose-ranging Phase II trial that will involve approximately 200 participants to study the safety and efficacy of the IL-1 Trap in people with rheumatoid arthritis. Subjects in the study will receive, in a double-blind manner, either placebo or one of three different dose levels of the IL-1 Trap. The results from this trial are expected to be available mid-year 2003.
- **VEGF TRAP:** Protein-based therapeutic candidate designed to bind Vascular Endothelial Growth Factor (called VEGF, also known as Vascular Permeability Factor or VPF) and prevent its interaction with cell surface receptors. VEGF is required for the growth of blood vessels that are needed for tumors to grow and is a potent regulator of vascular permeability and leak. In 2001, we initiated a dose-escalation Phase I clinical trial designed to assess the safety and tolerability of VEGF Trap in subjects with solid tumor malignancies and/or non-Hodgkin's lymphoma. This trial currently is in progress and is expected to end in 2003.
- **INTERLEUKIN-4/ INTERLEUKIN-13 CYTOKINE TRAP (IL-4/13 Trap):** Protein-based product candidate designed to bind the interleukin-4 and interleukin-13 (called IL-4 and IL-13) cytokines and prevent their interaction with cell surface receptors. IL-4 and IL-13 are thought to play a major role in diseases such as asthma, allergic disorders, and other inflammatory diseases. In October 2002, we initiated a Phase I trial for the IL-4/13 Trap in adult subjects with mild to moderate asthma. This trial is a placebo-controlled, double-blind, dose escalation study to assess the safety and tolerability of the molecule.
- **PEGYLATED AXOKINE:** Chemically modified version of AXOKINE that is being evaluated for its potential to remain in the bloodstream longer than unmodified AXOKINE in obese subjects. Preliminary results of a Phase I trial demonstrated a long pharmacokinetic half-life, potentially compatible with once-per-week dosing regimens. In its current form, the molecule is not optimally absorbed into the blood stream and has caused unacceptable injection site reactions. We are currently working to develop an improved form of PegAXOKINE.
- **ANGIOPOIETINS:** A new family of growth factors that act specifically on the endothelium cells that line blood vessels. Angiopoietins may be useful for growing blood vessels in diseased hearts and other tissues with decreased blood flow and for repairing blood vessel leaks that cause swelling and edema in many different diseases such as stroke, diabetic retinopathy, and inflammatory diseases. We have an active preclinical research program covering this family of growth factors. We have not yet selected a specific molecule to advance into clinical development or a specific indication for such development.

In addition to the above programs which we are conducting independent of any corporate partners, we have formed collaborations to advance other research and development efforts. We are conducting research with The Procter & Gamble Company in muscle diseases and other fields. We are also collaborating with Medarex, Inc. to discover, develop, and commercialize certain human antibodies as therapeutics. In partnership with Amgen Inc., we have development rights to Neurotrophin-3, or NT-3, a clinical compound for the treatment of constipating conditions, although there are no ongoing development activities for NT-3 at this time. In all of these research collaborations, we retain 50% of the commercialization rights.

## Recent Developments

### Result of Phase III Obesity Study

On March 31, 2003, Regeneron announced preliminary results of its initial double-blind, placebo-controlled Phase III study evaluating AXOKINE in obese and overweight subjects. The study included 1467 AXOKINE treated subjects, who received daily subcutaneous injections of AXOKINE at a dose of 1.0 microgram per kilogram, and 501 subjects who received placebo. After twelve months, the preliminary findings from the study were as follows:

- AXOKINE treatment, when compared to placebo, achieved statistical significance with regard to both primary endpoints of the study:
  - An increased proportion of AXOKINE-treated patients lost at least 5% of their initial body weight compared to placebo-treated patients (25.1% vs. 17.6%,  $p < .001$ )
  - Participants receiving AXOKINE experienced a greater average weight loss than those receiving placebo (6.2 lbs vs. 2.6 lbs,  $p < .001$ )
- AXOKINE treatment achieved statistically significant results in two of the three secondary endpoints, such as proportion of subjects losing at least 10% of their initial body weight (11.3% vs. 4.2%,  $p < .001$ )
- AXOKINE treatment was generally well-tolerated. Adverse events were generally characterized as mild to moderate and no pattern of serious or severe adverse events emerged. The most notable adverse effects as compared to placebo were injection site reactions, nausea and cough, which were largely characterized as mild
- AXOKINE associated weight loss was limited by the development of antibodies beginning after about three months of AXOKINE treatment. However, more than 30% of the total 1467 subjects treated with AXOKINE did not develop antibodies by the end of one year
- In comparison with placebo subjects who completed one year of treatment, AXOKINE-treated participants who completed one year without developing antibodies:
  - Achieved greater average weight loss (12.6 lbs vs. 4.5 lbs,  $p < .001$ )
  - Resulted in a higher proportion of subjects who lost at least 5% of initial body weight (46% vs. 24%,  $p < .001$ )
  - Resulted in a higher proportion of subjects who lost at least 10% of initial body weight (24% vs. 6.6%,  $p < .001$ )
  - Included more than 50% who were early responders (i.e., those who lost at least 4 lbs in the first month of treatment), and who experienced average weight loss of 19.4 lbs
- Greater than 5% weight loss in both the AXOKINE-treated and placebo populations was associated with expected trends in improvements in obesity-related parameters such as blood pressure, blood glucose and lipids

The reference to “p” value (relative to placebo) means the probability of being wrong when asserting that a true difference exists between the results for the patient group in question and the placebo group. For example, a p-value of less than 0.001 indicates that there is a less than one in one thousand chance that the mean weight loss observed in the group treated with drug and the mean weight loss observed in the group treated with placebo are the same.

Although the results of this Phase III study were statistically significant, the average weight loss for the entire AXOKINE-treated population was small. AXOKINE associated weight loss was limited by the development of antibodies beginning after about 3 months of treatment, as noted above. We intend to finish the analysis of our recently concluded study in obese individuals with type II diabetes and complete our on-going AXOKINE short-term treatment studies and to evaluate the resulting data at that time.

**Trial Design**

The double-blind, randomized, placebo-controlled trial included 501 placebo-treated and 1467 AXOKINE-treated participants from 65 study sites across the United States. The average baseline for all participants was approximately 235 lbs. For 12 months, subjects received daily subcutaneous injections of either placebo or AXOKINE at a dose of 1.0 microgram per kilogram of body weight. To be included in the study, participants could not have diabetes, and had to have a body mass index (BMI) of 30 to 55 without obesity-related risk factors, or 27 to 55 if they had obesity-related risk factors such as high blood pressure or high blood lipids.

BMI is calculated as the weight of an individual in kilograms divided by the square of their height in meters. Normal weight is designated by BMIs of 18.5-24.9, overweight by BMIs of 25-29.9 and obesity by BMIs of 30 and above.

The 12-month treatment period is being followed by a 12-month open-label safety extension phase during which all participants receive AXOKINE and are further monitored for side effects.

The preliminary data from the study are summarized below. The Intent-to-Treat Analysis includes all randomized subjects whether or not they completed the full twelve months of treatment. The Completer Analysis includes only those subjects who completed the full twelve months of treatment. In the tables below, "n" refers to the number of patients in each patient group.

**Comparison of Placebo versus Total AXOKINE-Treated Participants:**

## Average Weight Loss vs. Baseline:

	Placebo	AXOKINE	p-value
Intent-to-Treat Analysis	2.6 lbs n=501	6.2 lbs n=1467	<.001
Completer Analysis	4.5 lbs n= 304 (61%)	7.9 lbs n= 979 (67%)	<.001

## Percentage of Patients Losing at Least 5% of Body Weight (i.e., &gt; • 12 lbs on average):

	Placebo	AXOKINE	p-value
Intent-to-Treat Analysis	17.6% n=88/501	25.1% n=368/1467	<.001
Completer Analysis	24.0% n=73/304	32.4% n=317/979	=.005

## Percentage of Patients Losing at Least 10% of Body Weight (i.e., &gt; • 24 lbs on average):

	Placebo	AXOKINE	p-value
Intent-to-Treat Analysis	4.2% n=21/501	11.3% n=166/1467	<.001
Completer Analysis	6.6% n=20/304	15.5% n=152/979	<.001

**Comparison of Participants Completing One-Year of Treatment:  
Placebo-Treated (Pbo) vs. AXOKINE-Treated Who Developed Antibodies (Ab-Pos)  
and AXOKINE-Treated Who Did Not Develop Antibodies (Ab-Neg)**

Average Weight Loss vs. Baseline:

Placebo n=304	AXOKINE (Ab-Pos) n=720	AXOKINE (Ab-Neg) n=259	p-value (Ab-Neg vs. Pbo)
4.5 lbs	6.4 lbs	12.6 lbs	<.001

Average Weight Loss in Early Responders (Participants who lost at least 4 lbs in the first month):

Placebo n=94	AXOKINE (Ab-Pos) n=383	AXOKINE (Ab-Neg) n=135	p-value (Ab-Neg vs. Pbo)
12.2 lbs	10.6 lbs	19.4 lbs	<.001

Percentage of Patients Losing at Least 5% of Body Weight (i.e. > approximately 12 lbs on average):

Placebo	AXOKINE (Ab-Pos)	AXOKINE (Ab-Neg)	p-value (Ab-Neg vs. Pbo)
24.0% n=73/304	27.4% n=197/720	46.3% n=120/259	<.001

Percentage of Patients Losing at Least 10% of Body Weight (i.e., > approximately 24 lbs on average):

Placebo	AXOKINE (Ab-Pos)	AXOKINE (Ab-Neg)	p-value (Ab-Neg vs. Pbo)
6.6% n=20/304	12.5 % n=90/720	23.9% n=62/259	<.001

**IL-1 Trap Collaboration, License and Option Agreement**

On March 28, 2003, we entered into a Collaboration, License and Option Agreement with Novartis Pharma AG to develop and commercialize the IL-1 Trap in rheumatoid arthritis and other indications throughout the world with the exception of Japan, where product rights remain with Regeneron. We and Novartis will share equally in all profits from future sales of the IL-1 Trap in North America and Europe. In other markets, Novartis will be entitled to receive 75 percent of the profits and we will be entitled to 25 percent of the profits. We may co-promote the IL-1 Trap in all territories under the agreement.

Novartis also purchased \$48.0 million of newly issued Regeneron common stock. The exact number of shares will be determined based on the average closing price of the common stock for the 20 consecutive trading days ending May 9, 2003. In addition, Novartis made an up-front payment to us of \$27.0 million for our future development activities in the United States in support of the IL-1 Trap. Regeneron may receive up to \$275.0 million in milestone payments upon the receipt of regulatory approvals and achieving certain product revenues targets. The agreement provides Novartis with the right of early termination with specified advance notice.

Development expenses incurred during 2003 will be shared equally by the companies. Our portion will be financed by a loan from Novartis that will be forgiven, together with accrued interest, should certain pre-clinical and clinical milestones be reached and is otherwise payable on July 1, 2004. After 2003, Novartis will be responsible for any additional pre-Phase III development expenses. Phase III development expenses and pre-launch expenses in North America and Europe will be shared equally by the companies. Novartis will provide an interest bearing loan to finance our share of these expenses as well. The loan and accrued interest are repayable in full five years after the initial product launch of the IL-1 Trap or five years after termination of Novartis' rights to the IL-1 Trap under the agreement, whichever occurs first.

Novartis will be responsible for providing commercial scale manufacturing capacity for the IL-1 Trap. Regeneron will continue to manufacture clinical supplies of the IL-1 Trap at its plant in Rensselaer, New



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York. Under the agreement, each company also has the right to elect to collaborate on the development and commercialization of other pre-clinical/early development IL-1 antagonists that we and Novartis currently are developing independently.

**Our Independent Programs**

The following table lists the programs and product candidates for which we retain sole ownership and marketing rights except for the IL-1 Trap, as described in the Recent Developments section.

<u>Program and Product Candidate</u>	<u>Targeted Indication</u>	<u>Stage</u>
AXOKINE®	Obesity	Clinical
Pegylated AXOKINE	Obesity	Preclinical
IL-1 Trap	Rheumatoid arthritis	Clinical
VEGF Trap	Cancer and related conditions	Clinical
IL-4/13 Trap	Asthma and allergic disorders	Clinical
Traps for IL-2, IL-3, IL-4, IL-5, IL-6, IL-15, gamma-interferon, TGF-beta and others	Multiple diseases	Research
Angiopoietin-1	Vascular leak and edema	Research
Ephrins, Angiopoietin-2	Cancer and ischemia	Research
Regeneron Orphan Receptors (RORs)	Osteoarthritis and other cartilage diseases	Research

**AXOKINE.** We are developing AXOKINE for the treatment of obesity. AXOKINE is our patented molecule, which is a genetically re-engineered form of ciliary neurotrophic factor, called CNTF.

Obesity is a major health problem in all developed countries. The prevalence of obesity in the United States has increased substantially during the past decade. A 1999 Congressional Report funded by the National Institutes of Health confirmed that obesity significantly increases a number of health risks, including Type 2 diabetes. Obesity-related conditions, such as stroke and myocardial infarct are estimated to contribute to about 300,000 deaths yearly, ranking second only to smoking as a cause of preventable death. Several studies published in 2002 demonstrate that even modest levels of weight loss, when maintained over an extended period of time, can significantly reduce the risk of developing Type 2 diabetes. Health care expenditures for obesity-related conditions now total over \$200 billion a year in the United States. Current treatment of obesity consists of diet, exercise, and other lifestyle changes, and a limited number of medicines. There are several approved medicines currently indicated for the treatment of obesity, including sibutramine (Meridia®, a registered trademark of Abbott Laboratories) and orlistat (Xenical®, a registered trademark of Hoffmann-LaRoche, Inc.).

In July 2001, we initiated a Phase III clinical program of AXOKINE in overweight and obese subjects. We announced in January 2002 that this pivotal trial was fully enrolled with approximately 2,000 subjects at 65 sites across the United States. This trial is a double-blind, randomized, placebo-controlled study. It had a 12-month treatment period, which was completed in January 2003, in which subjects received daily subcutaneous self-injections of placebo or AXOKINE at a dose of 1.0 microgram (mcg) per kilogram (kg) of body weight. The treatment period is being followed by a 12-month open-label safety extension phase, during which all subjects receive AXOKINE. Endpoints of the study are based on changes in body weight versus baseline during the treatment period. As of December 31, 2002, the average treatment period for people in this trial was 14 months.

In addition to the pivotal trial described above, the Company has several other smaller trials underway or in planning phases. In June 2002, we announced the initiation of a clinical trial to assess the safety and efficacy of AXOKINE in overweight and obese individuals with type 2 diabetes mellitus. In July 2002, we announced that we had completed enrollment for two additional trials, each of which includes approximately 300 subjects, that are designed to evaluate the safety of intermittent treatment with AXOKINE and to study maintenance of weight loss following short-term treatment regimens. The Company announced in January 2003 that AXOKINE has received fast track designation from the FDA for the treatment of severely obese people who

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are unresponsive to, intolerant of, or unsuitable candidates for certain FDA-approved medicines for the long-term treatment of obesity. The Phase III program is expected to enroll approximately 4,000 subjects in total.

In March 2000, we established a research and development collaboration with Emisphere Technologies, Inc. to utilize Emisphere's oral drug delivery technology for AXOKINE. In preliminary preclinical pharmacokinetic studies, the Emisphere technology was able to achieve measurable blood levels of AXOKINE.

**Pegylated AXOKINE.** We are developing a pegylated version of AXOKINE (pegAXOKINE) as a more potent, longer-acting form of the protein. PegAXOKINE may allow for less frequent and/or lower dosing in subjects. In its current form, the molecule is not optimally absorbed into the blood stream and has caused unacceptable injection site reactions. We are currently working to develop an improved form of PegAXOKINE. Nektar Therapeutics (formerly Shearwater Corporation) has contracted with us to develop and supply the pegylated reagent for this product candidate.

**Cytokine Traps.** Our research on the CNTF class of neurotrophic factors led to the discovery that CNTF, although it is a neurotrophic factor, belongs to the "superfamily" of signaling molecules referred to as cytokines. Cytokines are soluble proteins secreted by the cells of the body. In many cases, cytokines act as messengers to help regulate immune and inflammatory responses. In excess, cytokines can be harmful and have been linked to a variety of diseases. Blocking cytokines and growth factors is a proven therapeutic approach with a number of medicines or product candidates already approved or in clinical development. The cytokine superfamily includes factors such as erythropoietin, thrombopoietin, granulocyte-colony stimulating factor, and the interleukins (or ILs).

In 1994, our scientists made a breakthrough in understanding how receptors work for an entire class of interleukins in the human body. Based on this finding, we developed a family of antagonists referred to as "Cytokine Traps." This family includes Cytokine Traps for IL-1, IL-4, and IL-6 and a single Trap that blocks both IL-4 and IL-13. Because these Traps mimic the body's natural receptors, they are effective at catching and holding the cytokines. With the cytokines trapped, the immune system responds as if the perceived threat is under control.

In preclinical studies, these Cytokine Traps are more potent than other antagonists, potentially allowing lower levels of these drug candidates to be used. Moreover, because these Cytokine Traps are comprised entirely of natural human-derived protein sequences, they may be less likely to induce an immune reaction in humans. Because pathological levels of IL-1, IL-4, IL-6, and IL-13 seem to contribute to a variety of diseases, these Cytokine Traps have the potential to be important therapeutic agents.

*IL-1 Trap.* We initiated a Phase II study of the IL-1 Trap in subjects with rheumatoid arthritis in July 2002. This trial continues to enroll subjects. A total of approximately 200 subjects will receive weekly self-injections of one of three fixed doses of IL-1 Trap or placebo for 12 weeks, followed by 10 weeks of open-label follow-up. The results from this trial are expected to be available mid-year 2003. The IL-1 Trap is also being evaluated for potential uses in treating other inflammatory diseases.

Rheumatoid arthritis is a chronic disease in which the immune system attacks the tissue that lines and cushions joints. Over time, the cartilage, bone, and ligaments of the joint erode, leading to progressive joint deformity and joint destruction, generally in the hand, wrist, knee, and foot. Joints become painful and swollen and motion is limited. Over time, the cartilage erodes, resulting in structural damage to the joint. Over two million people, 1% of the U.S. population, are estimated to have rheumatoid arthritis, and 10% of those eventually become disabled. Women account for roughly two-thirds of these patients.

*IL-4/13 Trap.* Antagonists for IL-4 and IL-13 may be therapeutically useful in a number of allergy and asthma-related conditions, including as an adjunct to vaccines where blocking IL-4 and IL-13 may help to elicit more of the desired type of immune response to the vaccine. We have developed both an IL-4 Trap and an IL-4/13 Trap, which is a single molecule that can block both interleukin-4 and interleukin-13. In October 2002, we initiated a Phase I clinical trial of a dual IL-4/13 Trap to assess the safety and tolerability of

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increasing dose levels of the molecule in subjects with mild to moderate asthma. This trial continues to enroll subjects.

One in 13 Americans suffers from allergies and one in 18 suffers from asthma. The number of people afflicted with these diseases has been growing at an alarming rate. It is believed that IL-4 and IL-13 play a role in these diseases. These two cytokines are essential to the normal functioning of the immune system, creating a vital communication link between white blood cells. In the case of asthma and allergies, however, there are too many interleukins present, causing the immune system to overact.

*Other Cytokine Traps.* We have a late stage research program underway for an IL-6 Trap. IL-6 has been implicated in the pathology and progression of multiple myeloma, certain solid tumors, AIDS, lymphomas (both AIDS-related and non-AIDS-related), osteoporosis, and other conditions. We also have patents covering additional Cytokine Traps for IL-2, IL-3, IL-5, IL-15, gamma-interferon, transforming growth factor beta, and others, which are being pursued at the research level. Our research regarding protein-based cytokine antagonists currently includes molecular and cellular research to improve or modify Cytokine Trap technology, process development efforts to produce experimental and clinical research supplies, and in vivo and in vitro studies to further understand and demonstrate the efficacy of the Cytokine Traps.

**VEGF Trap and Angiopoietins.** A plentiful blood supply is required to nourish every tissue and organ of the body. Diseases such as diabetes and atherosclerosis wreak their havoc, in part, by destroying blood vessels (arteries, veins, and capillaries) and compromising blood flow. Decreases in blood flow (known as ischemia) can result in non-healing skin ulcers and gangrene, painful limbs that cannot tolerate exercise, loss of vision, and heart attacks. In other cases, disease processes can damage blood vessels by breaking down vessel walls, resulting in defective and leaky vessels. Leaking vessels can lead to swelling and edema, as occurs in brain tumors following ischemic stroke, in diabetic retinopathy, and in arthritis and other inflammatory diseases. Finally, some disease processes, such as tumor growth, depend on the induction of new blood vessels.

Depending on the clinical situation, positively or negatively regulating blood vessel growth could have important therapeutic benefits, as could the repair of damaged and leaky vessels. Thus, building new vessels, by a process known as angiogenesis, can improve circulation to ischemic limbs and heart, and aid in healing of skin ulcers or other chronic wounds, and in establishing tissue grafts. Reciprocally, blocking tumor-induced angiogenesis can blunt tumor growth. In addition, repairing leaky vessels can reverse swelling and edema.

Vascular endothelial growth factor (VEGF) was the first growth factor shown to be specific for blood vessels, by virtue of having its receptor specifically expressed on blood vessel cells. In 1994, our scientists discovered a second family of angiogenic growth factors, termed the Angiopoietins, and we have received patents for the members of this family. The Angiopoietins include naturally occurring positive and negative regulators of angiogenesis, as described in numerous scientific manuscripts published by our scientists and their collaborators.

Our studies have revealed that VEGF and the Angiopoietins normally function in a coordinated and collaborative manner during blood vessel growth. Thus, the growth of new blood vessels to nourish ischemic tissue appears to require use of both these agents. In addition, Angiopoietin-1 seems to play a critical role in stabilizing the vessel wall, and the use of this growth factor can prevent or repair leaky vessels in animal models. In terms of blocking vessel growth, manipulation of both VEGF and Angiopoietin seems to be of value.

In November 2001, we initiated a Phase I clinical trial designed to assess the safety and tolerability of the VEGF Trap in subjects with solid tumor malignancies and/or subjects with non-Hodgkin's lymphoma. The Phase I trial is an open-label study in subjects with advanced tumors and is evaluating the VEGF Trap in increasing dose levels. The ongoing study is being conducted at 3 clinical sites in the United States and is expected to end in 2003.

We and others have identified a family of growth factors termed the Ephrins and their receptors termed the Ephs. Members of this family have specific roles in angiogenesis and hemopoiesis, which are being pursued in preclinical studies.

**Cartilage Growth Factor System and Osteoarthritis.** Osteoarthritis results from the wearing down of the articular cartilage surfaces that cover joints. Thus, growth factors that specifically act on cartilage cells could have utility in osteoarthritis. Our scientists have discovered a growth factor receptor system selectively expressed by cartilage cells, termed Regeneron Orphan Receptor 2 (ROR2). We have also demonstrated that this growth factor receptor system is required for normal cartilage development in mice. In addition, together with collaborators, we have proven that mutations in this growth factor receptor system cause inherited defects in cartilage development in humans. Thus, this growth factor receptor system is a promising new target for cartilage diseases such as osteoarthritis, but we have not yet identified any therapeutic molecules from our research to advance to clinical development.

#### **Our Collaborative Programs**

**Muscle Atrophy and Related Disorders.** Muscle atrophy occurs in many neuromuscular diseases and also when muscle is unused, as often occurs during prolonged hospital stays and during convalescence. Currently, physicians have few options to treat subjects with muscle atrophy or other muscle conditions which afflict millions of people globally. Thus, a factor that has beneficial effects on skeletal muscle could have significant clinical benefit. Our muscle program is currently focused on conducting in vivo and in vitro experiments with the objective of demonstrating and further understanding the molecular mechanisms involved in muscle atrophy and hypertrophy. This work is being conducted in collaboration with scientists at Procter & Gamble.

**Other Early Stage Programs: Fibrosis and G-Protein Coupled Receptors.** Fibrotic diseases, such as cirrhosis, result from the excess production of fibrous extracellular matrix by certain cell types. We and our collaborators identified orphan receptors, termed Discoidin Domain Receptors 1 and 2 (DDR1 and DDR2), that are expressed by the activated cell types in fibrotic disease.

Our work in this area is currently focused on determining whether selective inhibition or activation of DDR1 and DDR2 would be beneficial in the setting of fibrotic disease. Further, we are studying key signaling pathways which allow particular fibrosis-inducing cells to multiply. Inhibition of such pathways may be useful in preventing the development of fibrosis. These research activities are being conducted in collaboration with scientists at Procter & Gamble.

We also have a research program focused on the discovery and characterization of G-Protein Coupled Receptors, which have historically been among the most useful targets for pharmaceuticals. We use a genomics approach to discover new receptors and then we characterize these receptors in our disease models by examining their expression. Early stage research work on selected G-Protein Coupled Receptors is being conducted in collaboration with scientists at Procter & Gamble.

#### **Our Technology Platforms**

Our ability to discover and develop product candidates for a wide variety of serious medical conditions results from the leveraging of our powerful technology platforms, many of which were developed or enhanced by us. Although the primary use of these technology platforms is for our own research and development programs, we are also exploring the possibilities of exploiting these technologies commercially through, for example, direct licensing or sale of technology, or the establishment of research collaborations to discover and develop drug targets. In December 2002, we entered into a supply agreement with Serono S.A. to provide them with mammalian models utilizing our Velocigene™ technology.

**Targeted Genomics™.** In contrast to basic genomics approaches, which attempt to identify every gene in a cell or genome, we use Targeted Genomics approaches to identify specific genes likely to be of therapeutic interest. These approaches do not depend on random gene sequencing, but rather on function-based approaches to specifically target the discovery of genes for growth factors, peptides, and their receptors that are most likely to have use for developing drug candidates. This technology has already led to our discovery of the Angiotensin and Ephrin growth factor families for angiogenesis and vascular disorders, the MuSK growth factor receptor system for muscle disorders, and the Regeneron Orphan Receptor (ROR) growth factor receptor system that regulates cartilage formation.

**Velocigene™**: A major challenge facing the biopharmaceutical industry in the post-genomic era is the efficient assignment of function to random gene sequences to enable the identification of validated drug targets. One way to help determine the function of a gene is to generate mammalian models in which the gene is removed (referred to as “knock-out mammalian models”), or is over-produced (referred to as “transgenic mammalian models”), or in which a color-producing gene is substituted for the gene of interest (referred to as “reporter knockin mammalian models”) to identify which cells in the model are expressing the gene. Until recently, technical hurdles involved in the generation of mammalian models restricted the ability to produce multiple models quickly and efficiently. We have developed proprietary technology that we believe will allow for the rapid and efficient production of models on a high throughput scale, enabling rapid assignment of function to gene sequences.

**Designer Protein Therapeutics™**. In cases in which the natural gene product is itself not a product candidate, we utilize our Designer Protein Therapeutics platform to genetically engineer product candidates with the desired properties. We use these technologies to develop derivatives of growth factors and their receptors, which can allow for modified agonistic or antagonistic properties that may prove to be therapeutically useful. Examples include the generation of AXOKINE and the development of Cytokine Traps and the VEGF Trap. This technology platform has already produced more than 10 patented proteins, including the IL-1 Trap currently in Phase II clinical testing, and several others in preclinical development.

## **Collaborative Relationships**

In addition to our independent programs, we currently conduct programs in collaboration with academic and corporate partners. We have entered into research collaboration and licensing agreements with various corporate partners, including Procter & Gamble, Medarex, and Sumitomo Pharmaceuticals. In the future, we may enter into additional strategic collaborations focusing on one or more of our product candidates, research programs, or technology platforms.

*Procter & Gamble*. In May 1997, we entered into a long-term collaboration agreement with Procter & Gamble to discover, develop, and commercialize pharmaceutical products. In connection with the collaboration, Procter & Gamble made Regeneron equity purchases of \$42.9 million in June 1997 and \$17.1 million in August 2000. These equity purchases were in addition to a purchase by Procter & Gamble of \$10.0 million of our common stock that was completed in March 1997. Procter & Gamble also agreed to provide funding in support of our research efforts related to the collaboration, of which we received \$69.5 million through December 31, 2002. From 1997 to 1999, Procter & Gamble also provided research support for our AXOKINE program. As a result, Procter & Gamble will be entitled to receive a small royalty on any sales of AXOKINE.

In August 2000, Procter & Gamble made two non-recurring research progress payments to us totaling \$3.5 million. Effective December 31, 2000, we and Procter & Gamble entered into a new long-term collaboration agreement, replacing the companies' 1997 agreement. The new agreement extends Procter & Gamble's obligation to fund our research under the new collaboration agreement through December 2005, with no further research obligations by either party thereafter, and focuses the companies' collaborative research on therapeutic areas that are of particular interest to Procter & Gamble, including muscle atrophy and muscle diseases, fibrotic diseases, and selected G-Protein Coupled Receptors. For each of these program areas, the parties contribute research activities and necessary intellectual property rights pursuant to mutually agreed upon plans and budgets established by operating committees. During the first five years of the agreement, neither party will independently perform research on targets included in the collaboration.

We and Procter & Gamble have divided rights to the programs from the 1997 collaboration agreement that are no longer part of the companies' collaboration. Procter & Gamble has obtained rights to certain early stage programs. We have rights to all other research programs including exclusive rights to the VEGF Trap, the Angiopoietins, and Regeneron's Orphan Receptors (RORs). Any product candidates that result from the new collaboration will continue to be jointly developed and marketed worldwide, with the companies equally sharing development costs and profits. Under the new agreement, beginning in the first quarter of 2001, research support from Procter & Gamble is \$2.5 million per quarter (before adjustments for inflation) through December 2005.

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The new collaboration agreement will expire on the later of December 31, 2005 or the termination of research, development, or commercial activities relating to compounds that meet predefined success criteria before that date. In addition, if either party successfully develops a compound covered under the agreement to a predefined development stage during the two-year period following December 31, 2005, the parties shall meet to determine whether to reconvene joint development of the compound under the agreement. The agreement is also subject to termination if either party enters bankruptcy, breaches its material obligations, or undergoes a change of control. In addition to termination rights, our new collaboration agreement with Procter & Gamble has an "opt-out" provision, whereby a party may decline to participate further in a research or product development program. In such cases, the opting-out party will generally not have any further funding obligation and will not have any rights to the product or program in question (but may be entitled to a royalty on any product sales). If Procter & Gamble opts out of a product development program, and we do not find a new partner, we would bear the full cost of the program.

*Medarex.* In March 2000, we entered into a collaboration under a binding memorandum of understanding with Medarex to discover, develop, and commercialize human antibodies as therapeutics. We agreed to contribute our expertise in discovering and characterizing proteins as drug targets, and Medarex agreed to contribute its HuMAb-Mouse<sup>TM</sup> technology to create fully human antibody products for those targets. We and Medarex agreed to prioritize targets based upon a variety of criteria, including target validation, reagent availability, market opportunity, competitive factors, intellectual property position, and the expected feasibility of obtaining antibodies that have the desired properties. The HuMAb-Mouse is a transgenic mouse whose genes for creating mouse antibodies have been inactivated and replaced by human antibody genes. This makes it possible to rapidly create and develop fully human antibodies as drug candidates.

Under the agreement, Medarex and we share all development, manufacturing, and clinical costs of jointly developed products and all net profits and losses. Each of us has the right to opt out of the joint development of the antigen target and receive instead certain milestones and royalty payments on net sales. The agreement terminates when neither party is exploiting any antibody products developed under the collaboration. The agreement is also subject to termination if either party enters bankruptcy or breaches its material obligations thereunder.

*Emisphere.* In March 2000, we signed an agreement with Emisphere Technologies, Inc. to establish a research and development collaboration to utilize Emisphere's oral drug delivery technology for AXOKINE. In preliminary preclinical pharmacokinetic studies, the Emisphere technology was able to achieve measurable blood levels of AXOKINE. Under the terms of the agreement, we support research at Emisphere and make license and milestone payments based on the satisfaction of pre-determined criteria during the development of orally delivered AXOKINE. The parties established a steering committee to determine these milestones, which trigger either payment obligations or termination rights for either party. The first of these milestones, as amended, is based on the status of the program as of May 31, 2003. The steering committee meets on at least a quarterly basis to review the results of the program. The agreement is subject to termination if either party breaches its material obligations thereunder. During the term of the agreement, we will receive exclusive worldwide commercialization rights to oral products that result from the collaboration and pay Emisphere a royalty on sales of any such products.

*Nektar.* In December 2000, we entered into a license and supply agreement with Shearwater Corporation, now Nektar Therapeutics, under which Nektar agreed to develop and supply a pegylated reagent that could be used to formulate a modified form of AXOKINE. In preclinical studies, a pegylated AXOKINE was substantially longer lasting than unmodified AXOKINE. This may allow less frequent and/or lower dosing in subjects. Under the terms of the agreement, Nektar agreed to develop and supply the reagent and we manufacture and have exclusive rights to pegylated AXOKINE. Nektar is entitled to receive milestone payments based on the development of the modified AXOKINE and will be the exclusive supplier of the reagent. We will pay Nektar a royalty not to exceed 2.5% on sales of any pegylated AXOKINE. The agreement remains in force until the later of ten years from the grant of the first marketing approval for a pegylated AXOKINE or the last to expire patent covering Nektar's pegylated reagent. In addition, each party has the right to terminate the agreement upon bankruptcy of the other party or the other party's breach of a

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material obligation under the agreement. We have additional termination rights if market or other conditions, including regulatory restrictions, seriously inhibit the ability to develop or market pegylated AXOKINE.

*Amgen.* Amgen-Regeneron Partners has the development rights to NT-3 and brain-derived neurotrophic factor, or BDNF, in the United States. We are required to fund 50% of the development costs of Amgen-Regeneron Partners to maintain 50% of the commercialization rights. Assuming equal capital contributions to Amgen-Regeneron Partners, we and Amgen share any profits or losses of the partnership equally. Amgen-Regeneron Partners has conducted clinical trials of NT-3 and BDNF in the past. Following a review of available clinical trial data, we and Amgen discontinued the development of BDNF for the treatment of amyotrophic lateral sclerosis, or ALS, in January 2001. Currently, there are no ongoing development activities for NT-3.

Our agreement with Amgen will continue for the longer of the life of the patents covering NT-3 or fifteen years from the date on which NT-3 is approved for commercial marketing in any country. The agreement is also subject to termination if either party enters bankruptcy or breaches its material obligations thereunder. During the term of the agreement, there are restrictions on the ability of either party to independently conduct research or development of NT-3 without the other party. Our aggregate capital contribution to Amgen-Regeneron Partners from the partnership's inception in June 1993 through December 31, 2001 was \$57.9 million. In 2002, we made no capital contributions to the partnership and received a capital withdrawal of \$0.5 million. We do not expect to make capital contributions to the partnership in 2003. Additional contributions may be required, depending upon, among other things, whether and how Amgen-Regeneron Partners proceeds with the development of NT-3.

The development and commercialization of NT-3 outside of the United States, Japan, China, and certain other Pacific Rim countries, if any, will be conducted solely by Amgen through a license from us and from Takeda Chemical Industries, Ltd. In return, we will receive royalty payments based on Amgen's net sales of NT-3 in the licensed territory. In the licensed territory, Amgen is solely responsible for funding clinical development and related costs of NT-3, as well as costs of their commercial exploitation, and has sole discretion with respect to all such development, manufacturing, and marketing of the product and sole responsibility for filing applications for regulatory approvals.

*Sumitomo.* In March 1989, Sumitomo Chemical Company, Ltd. entered into a Technology Development Agreement with us and paid us \$5.6 million. In addition, Sumitomo Chemical purchased \$4.4 million of our equity. In connection with this agreement, we granted Sumitomo Chemical a limited right of first negotiation, over a fifteen-year period, to license up to three of our product candidates to commercialize in Japan on financial and commercial terms as we may offer. If Sumitomo Chemical decides it does not wish to enter into a license agreement with us on the terms we propose, we are free to license the product candidate to any other third party in Japan on terms and conditions no more favorable to a third party licensee than those offered to Sumitomo Chemical. We are obligated periodically to inform and, if requested, to meet with Sumitomo Chemical management about our progress in research and development. This agreement expires on the earlier of March 20, 2004 or the date that Sumitomo Chemical licenses three-product candidates from us, provided that the parties may extend the agreement for an additional five-year term.

BDNF is licensed to Sumitomo Pharmaceuticals Company, Ltd. (a subsidiary of Sumitomo Chemical) for development in Japan. In light of the discontinuation of BDNF development for ALS, we do not expect to receive further payments from Sumitomo Pharmaceuticals for research progress payments, contract research and development, or contract manufacturing related to BDNF. We recognized revenue from Sumitomo Pharmaceuticals of \$0.2 million in 2001 and \$7.6 million in 2000.

*Serono.* In December 2002, we entered into an agreement with Serono S.A. to use Regeneron's proprietary Velocigene™ technology platform to provide Serono with knock-out and transgenic mammalian models of gene function. Under the terms of the agreement, Serono will pay Regeneron up to \$3.0 million annually for up to five years. In return, Regeneron will use Velocigene to provide knock-out and transgenic models for target genes to be specified by Serono.

## **Manufacturing**

We maintain an 8,000 square foot manufacturing facility in Tarrytown, New York. This facility, designed to comply with FDA current good manufacturing practices (GMP), produces preclinical and clinical supplies of our product candidates.

In 1993, we purchased our 104,000 square foot Rensselaer, New York manufacturing facility, which is being used to manufacture therapeutic candidates for our own preclinical and clinical studies. We also use the facility to manufacture a product for Merck under a contract that expires in 2005. We are currently building a 19,500 square foot expansion onto our Rensselaer facility. In July, 2002, we leased 75,000 square feet in a building near our Rensselaer facility. That space is being renovated for the manufacture of Traps and for warehouse space.

At December 31, 2002, we employed 266 people in our manufacturing operations at these facilities.

In 1995, we entered into a long-term manufacturing agreement with Merck & Co., Inc. (called, as amended, the Merck Agreement) to produce an intermediate for a Merck pediatric vaccine at our Rensselaer facility. We agreed to modify portions of our facility for manufacture of the Merck intermediate and to assist Merck in securing regulatory approval for manufacturing in the Rensselaer facility. In December 1999, we announced that the FDA had approved us as a contract manufacturer for the Merck intermediate. Under the Merck Agreement, we are manufacturing intermediate for Merck for six years, with certain minimum order quantities each year. The Merck Agreement is expected to extend through 2005, but may be terminated at any time by Merck upon one year's notice. Merck agreed to reimburse us for the capital costs to modify the facility and for the cost of our activities performed on behalf of Merck prior to the start of production. Merck also agreed to pay an annual facility fee of \$1.0 million, subject to annual adjustment for inflation, reimburse us for certain manufacturing costs, pay us a variable fee based on the quantity of intermediate supplied to Merck, and make certain additional payments. We recognized contract manufacturing revenue related to the Merck Agreement of \$11.1 million in 2002, \$9.8 million in 2001, and \$12.5 million in 2000.

Among the conditions for regulatory marketing approval of a medicine is the requirement that the prospective manufacturer's quality control and manufacturing procedures conform to the GMP regulations of the health authority. In complying with standards set forth in these regulations, manufacturers must continue to expend time, money, and effort in the area of production and quality control to ensure full technical compliance. Manufacturing establishments, both foreign and domestic, are also subject to inspections by or under the authority of the FDA and by other national, federal, state, and local agencies. If our manufacturing facilities fail to comply with FDA and other regulatory requirements, we will be required to suspend manufacturing. This will have a material adverse effect on our financial condition, results of operations, and cash flow.

## **Competition**

There is substantial competition in the biotechnology and pharmaceutical industries from pharmaceutical, biotechnology, and chemical companies. Our competitors may include Hoffmann-LaRoche, Abbott Laboratories, Sanofi-Synthelabo, Merck, Pfizer, Amgen, and others. 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 be significant if they acquire or discover patentable inventions, form collaborative arrangements, or merge with large pharmaceutical companies. Even if we achieve product commercialization, one or more of our competitors may achieve product commercialization earlier than we do or obtain patent protection that dominates or adversely affects our activities. Our ability to compete will depend on how fast we can develop safe and effective product candidates, complete clinical testing and approval processes and supply commercial quantities of the product to the market. Competition among product candidates approved for sale will also be based on efficacy, safety, reliability, availability, price, patent position, and other factors.

*AXOKINE*: There is substantial competition in the discovery and development of treatments for obesity, as well as established, cost-effective, and emerging prescription and over-the-counter treatments for



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this condition. For example, Hoffmann-LaRoche and Abbott Laboratories already market well-established medicines for the treatment of obesity and Amgen, Sanofi-Synthelabo and a number of other pharmaceutical companies are developing new potential therapeutics. Sanofi-Synthelabo has a cannabinoid receptor antagonist in Phase III clinical development. Some of these medicines or therapeutic candidates may offer competitive advantages over AXOKINE. For example, AXOKINE currently is available only in injectible form, while the currently available marketed medicines for the treatment of obesity and Sanofi-Synthelabo's product candidate are delivered in pill (or oral dosage) forms, which generally are favored by people over injectible medicines. Therefore, even if AXOKINE is approved for sale, the fact that it must be delivered by injection may severely limit its market acceptance among patients and physicians.

*Cytokine Traps:* Similarly, marketed products for the treatment of rheumatoid arthritis and asthma are available as either oral or inhaled medicines, whereas our Cytokine Traps currently are only planned for clinical trials as injectibles. The markets for both rheumatoid arthritis and asthma are very competitive. Several new, highly successful medicines recently became available for these disease states. Examples include the TNF-antagonists Enbrel® (a registered trademark of Amgen), Remicade® (a registered trademark of Centocor), and Humira® (a registered trademark of Abbott) for rheumatoid arthritis and the leukotriene-modifier Singulair® (a registered trademark of Merck), as well as various inexpensive corticosteroid medicines, for asthma.

*VEGF Trap:* Many companies are developing therapeutic molecules designed to block the actions of VEGF specifically and angiogenesis in general. A variety of approaches have been employed, including antibodies to VEGF, antibodies to the VEGF receptor, small molecule antagonists to the VEGF receptor tyrosine kinase, as well as multiple other anti-angiogenesis strategies. Many of these alternative approaches may offer competitive advantages to our VEGF Trap in efficacy, side-effect profile, or form of delivery. Additionally, many of these developmental molecules may be at a more advanced stage of development than our product candidate. In particular, Genentech's Avastin™, a monoclonal antibody to VEGF, is in Phase III clinical trials.

*Other Areas:* Many pharmaceutical and biotechnology companies are attempting to discover and develop small-molecule based therapeutics, similar in at least certain respects to our program with Procter & Gamble. In these and related areas, intellectual property rights have been sought and certain rights have been granted to competitors and potential competitors of ours, and we may be at a substantial competitive disadvantage in such areas as a result of, among other things, our lack of experience, trained personnel, and expertise. A number of corporate and academic competitors are involved in the discovery and development of novel therapeutics using tyrosine kinase receptors, orphan receptors, and compounds that are the focus of other research or development programs we are now conducting. These competitors include Amgen and Genentech, as well as many others. Many firms and entities are engaged in research and development in the areas of cytokines, interleukins, angiogenesis, and muscle conditions. Some of these competitors are currently conducting advanced preclinical and clinical research programs in these areas. These and other competitors may have established substantial intellectual property and other competitive advantages.

If a competitor announces a successful clinical study involving a product that may be competitive with one of our product candidates or an approval by a regulatory agency of the marketing of a competitive product, such announcement may have a material adverse effect on our operations, or future prospects, or the price of our common stock.

We also compete with academic institutions, governmental agencies, and other public or private research organizations, which conduct research, seek patent protection, and establish collaborative arrangements for the development and marketing of products that would provide royalties for use of their technology. These institutions are becoming more active in seeking patent protection and licensing arrangements to collect royalties for use of the technology that they have developed. Products developed in this manner may compete directly with products we develop. We also compete with others in acquiring technology from such institutions, agencies, and organizations.

## **Patents, Trademarks and Trade Secrets**

Our success depends, in part, on our ability to obtain patents, maintain trade secret protection, and operate without infringing on the proprietary rights of third parties. Our policy is to file patent applications to protect technology, inventions, and improvements that are considered important to the development of our business. We have been granted approximately 80 U.S. patents and we have approximately 100 pending U.S. applications. We are the exclusive or nonexclusive licensee of a number of additional U.S. patents and patent applications. We also rely upon trade secrets, know-how, and continuing technological innovation to develop and maintain our competitive position. We or our licensors or collaborators have filed patent applications on products and processes relating to AXOKINE, Cytokine Traps, VEGF Trap, and Angiopoietins, as well as other technologies and inventions in the United States and in certain foreign countries. We intend to file additional patent applications, when appropriate, relating to improvements in these technologies and other specific products and processes. We plan to aggressively prosecute, enforce, and defend our patents and other proprietary technology.

In July 2002, we announced that Amgen and Immunex Corporation (now part of Amgen) granted us a non-exclusive license to certain patents and patent applications which may be used in the development and commercialization of the IL-1 Trap. The license followed two other licensing arrangements under which we obtained a non-exclusive license to patents owned by ZymoGenetics, Inc. and Tularik Inc. for use in connection with the IL-1 Trap program. These license agreements would require us to pay royalties based on the net sales of the IL-1 Trap if and when it is approved for sale. In total, the royalty rate under these three agreements would be in the mid-single digits.

Patent law relating to the patentability and scope of claims in the biotechnology field is evolving and our patent rights are subject to this additional uncertainty. Others may independently develop similar products or processes to those developed by us, duplicate any of our products or processes or, if patents are issued to us, design around any products and processes covered by our patents. We expect to continue to file product and process patent applications with respect to our inventions. However, we cannot assure you that we will file any such applications or, if filed, that the patents will be issued. Patents issued to or licensed by us may be infringed by the products or processes of others.

Defense and enforcement of our intellectual property rights can be expensive and time consuming, even if the outcome is favorable to us. It is possible that patents issued to or licensed to us will be successfully challenged, that a court may find that we are infringing validly issued patents of third parties, or that we may have to alter or discontinue the development of our products or pay licensing fees to take into account patent right of third parties.

## **Government Regulation**

Regulation by government authorities in the United States and foreign countries is a significant factor in the research, development, manufacture, and marketing of our product candidates. All of our product candidates will require regulatory approval before they can be commercialized. In particular, human therapeutic products are subject to rigorous preclinical and clinical trials and other pre-market approval requirements by the FDA and foreign authorities. Many aspects of the structure and substance of the FDA and foreign pharmaceutical regulatory practices have been reformed during recent years, and continued reform is under consideration in a number of forums. The ultimate outcome and impact of such reforms and potential reforms cannot be reasonably predicted.

The activities required before a product candidate may be marketed in the United States begin with preclinical tests. Preclinical tests include laboratory evaluations and animal studies to assess the potential safety and efficacy of the product candidate and its formulations. The results of these studies must be submitted to the FDA as part of an Investigational New Drug Application, which must be reviewed by the FDA before proposed clinical testing can begin. Typically, clinical testing involves a three-phase process. In Phase I, trials are conducted with a small number of subjects to determine the early safety profile of the product candidate. In Phase II, clinical trials are conducted with subjects afflicted with a specific disease or disorder to provide enough data to evaluate the preliminary safety, tolerability, and efficacy of different

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potential doses of the product candidate. In Phase III, large-scale clinical trials are conducted with patients afflicted with the specific disease or disorder in order to provide enough data to understand the efficacy and safety profile of the product candidate, as required by the FDA. The results of the preclinical and clinical testing of a biologic product candidate are then submitted to the FDA in the form of a Biologics License Application, or BLA, for evaluation to determine whether the product candidate may be approved for commercial sale. In responding to a BLA, the FDA may grant marketing approval, request additional information, or deny the application.

We cannot assure you that any approval required by the FDA for any of our product candidates will be obtained on a timely basis, if at all. The designation of a clinical trial as being of a particular phase is not necessarily indicative that such a trial will be sufficient to satisfy the parameters of a particular phase, and a clinical trial may contain elements of more than one phase notwithstanding the designation of the trial as being of a particular phase. We cannot assure you that the results of preclinical studies or early stage clinical trials will predict long-term safety or efficacy of our compounds when they are tested or used more broadly in humans.

Various federal and state statutes and regulations also govern or influence the research, manufacture, safety, labeling, storage, record keeping, marketing, transport, or other aspects of such product candidates. The lengthy process of seeking these approvals and the compliance with applicable statutes and regulations require the expenditure of substantial resources. Any failure by us or our collaborators or licensees to obtain, or any delay in obtaining, regulatory approvals could adversely affect the manufacturing or marketing of our products and our ability to receive product or royalty revenue.

In addition to the foregoing, our present and future business will be subject to regulation under the United States Atomic Energy Act, the Clean Air Act, the Clean Water Act, the Comprehensive Environmental Response, Compensation and Liability Act, the National Environmental Policy Act, the Toxic Substances Control Act, and the Resource Conservation and Recovery Act, national restrictions, and other present and potential future local, state, federal, and foreign regulations.

### **Employees**

As of December 31, 2002, we had 669 full-time employees, 126 of whom held a Ph.D. or M.D. degree or both. We believe that we have been successful in attracting skilled and experienced personnel in a highly competitive environment; however, competition for these personnel is intense. None of our personnel are covered by collective bargaining agreements and our management considers its relations with our employees to be good.

### **Available Information**

We file annual, quarterly, and current reports, proxy statements, and other documents with the Securities and Exchange Commission, or SEC, under the Securities Exchange Act of 1934, or the Exchange Act. The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers, including Regeneron, that file electronically with the SEC. The public can obtain any documents that we file with the SEC at <http://www/sec/gov>.

We also intend to make available free of charge on or through our Internet website (<http://www.regn.com>) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and, if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

**Item 2. Properties**

We conduct our research, development, manufacturing, and administrative activities at our own facilities. We currently lease approximately 220,000 square feet, and sublease approximately 16,000 square feet, of laboratory, office, and manufacturing space in Tarrytown, New York. We own a facility in Rensselaer, New York, consisting of two buildings totaling approximately 104,000 square feet of research, manufacturing, office, and warehouse space. We also lease an additional 75,000 square feet of manufacturing, office, and warehouse space in Rensselaer.

The following table summarizes the information regarding our current property leases:

Location	Square Footage	Expiration	Current Monthly Base Rental Charges(1)	Renewal Option Available
Tarrytown	146,000	December 31, 2004	\$ 243,000	5-year term
Tarrytown	25,000	December 31, 2004	\$ 48,000	two 5-year terms
Tarrytown	49,000	December 31, 2006	\$ 100,000	3-year term and additional 5-year term
Tarrytown	16,000	December 31, 2005	\$ 25,000	none
Rensselaer	75,000	July 11, 2007	\$ 23,000	two 5-year terms

(1) Excludes additional rental charges for utilities, taxes, and operating expenses, as defined.

We are currently building an expansion onto one of the existing buildings in Rensselaer. This expansion will increase our manufacturing and office space by an additional 19,500 square feet. In the future, we may locate, lease, operate, or purchase additional facilities in which to conduct expanded research and development activities and manufacturing and commercial operations.

**Item 3. Legal Proceedings**

In September 2000, Immunex Corporation filed a request with the European Patent Office seeking the declaration of an Opposition regarding the scope of our European patent relating to Cytokine Traps. This legal challenge to the validity and scope of our patent was heard by the European Patent Office in March 2003. The European Patent Office upheld the patent with clarifying amendments to the main claim which more specifically defined the claimed subject matter. In addition to this patent challenge, we have from time to time been subject to legal claims arising in connection with our business. While the ultimate results of the legal claims cannot be predicted with certainty, at December 31, 2002, there were no asserted claims against us which, in the opinion of management, if adversely decided, would have a material adverse effect on our financial position or results of operations.

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

None.

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**Executive Officers of the Registrant**

Listed below are our executive officers as of February 28, 2003. There are no family relationships between any of the executive officers and there is no arrangement or understanding between any executive officer and any other person pursuant to which the executive officer was selected. At the annual meeting of the Board of Directors, which follows the Annual Meeting of Shareholders, executive officers are elected by the Board to hold office for one year and until their respective successors are elected and qualified, or until their earlier resignation or removal.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Leonard S. Schleifer, M.D., Ph.D.	50	President, Chief Executive Officer, and Founder
George D. Yancopoulos, M.D., Ph.D.	43	Executive Vice President and Chief Scientific Officer, and President, Regeneron Research Laboratories
Murray A. Goldberg	58	Senior Vice President, Finance & Administration, Chief Financial Officer, Treasurer, and Assistant Secretary
Randall G. Rupp, Ph.D.	55	Senior Vice President, Manufacturing and Process Sciences
Neil Stahl, Ph.D.	46	Senior Vice President, Preclinical Development and Biomolecular Science

Information with regard to our directors is incorporated by reference to the Regeneron Pharmaceuticals, Inc. Proxy Statement to be filed in connection with solicitation of proxies for our Annual Meeting of Shareholders to be held on June 13, 2003.

**PART II**

**Item 5. Market for Registrant's Common Equity and Related Stockholder Matters**

Our Common Stock is quoted on The Nasdaq Stock Market under the symbol "REGN." Our Class A Stock, par value \$.001 per share, is not publicly quoted or traded.

The following table sets forth, for the periods indicated, the range of high and low sales prices for the Common Stock as reported by The Nasdaq Stock Market.

	High	Low
<b>2001</b>		
First Quarter	\$40.25	\$21.13
Second Quarter	38.00	20.88
Third Quarter	35.30	20.24
Fourth Quarter	29.93	20.34
<b>2002</b>		
First Quarter	\$30.20	\$19.74
Second Quarter	25.40	12.21
Third Quarter	18.34	11.25
Fourth Quarter	22.85	12.25

As of March 24, 2003, there were 653 shareholders of record of our Common Stock and 62 shareholders of record of our Class A Stock. The closing price for the Common Stock on that date was \$19.29.

We have never paid cash dividends and do not anticipate paying any in the foreseeable future.

The information called for with respect to equity compensation plans is incorporated by reference to the material captioned "Equity Compensation Plan Information" in the Regeneron Pharmaceuticals, Inc. Proxy Statement to be filed in connection with solicitation of proxies for our Annual Meeting of Shareholders to be held on June 13, 2003.

**Item 6. Selected Financial Data**

The selected financial data set forth below for the years ended December 31, 2002, 2001, and 2000 and at December 31, 2002 and 2001 are derived from and should be read in conjunction with our audited financial statements, including the notes thereto, included elsewhere in this report. The selected financial data for the years ended December 31, 1999 and 1998 and at December 31, 2000, 1999, and 1998 are derived from our audited financial statements not included in this report.

	Year Ended December 31,				
	2002	2001	2000	1999	1998
(In thousands, except per share data)					
<b>Statement of Operations Data</b>					
<b>Revenues</b>					
Contract research and development	\$ 10,924	\$ 12,071	\$ 36,478	\$ 24,539	\$ 19,714
Research progress payments			6,200		9,500
Contract manufacturing	11,064	9,902	16,598	9,960	9,113
	<u>21,988</u>	<u>21,973</u>	<u>59,276</u>	<u>34,499</u>	<u>38,327</u>
<b>Expenses</b>					
Research and development	124,926	91,540	60,559	48,291	39,989
Contract manufacturing	6,483	6,509	15,566	3,612	5,002
General and administrative	12,532	9,607	8,427	6,430	5,915
	<u>143,941</u>	<u>107,656</u>	<u>84,552</u>	<u>58,333</u>	<u>50,906</u>
Loss from operations	<u>(121,953)</u>	<u>(85,683)</u>	<u>(25,276)</u>	<u>(23,834)</u>	<u>(12,579)</u>
<b>Other income (expense)</b>					
Investment income	9,462	13,162	8,480	5,207	6,866
Loss in Amgen-Regeneron Partners	(27)	(1,002)	(4,575)	(4,159)	(2,484)
Interest expense	(11,859)	(2,657)	(281)	(284)	(428)
	<u>(2,424)</u>	<u>9,503</u>	<u>3,624</u>	<u>764</u>	<u>3,954</u>
Net loss before cumulative effect of a change in accounting principle	<u>(124,377)</u>	<u>(76,180)</u>	<u>(21,652)</u>	<u>(23,070)</u>	<u>(8,625)</u>
Cumulative effect of adopting Staff Accounting Bulletin 101 ("SAB 101")(1)			(1,563)		
Net loss	<u>\$(124,377)</u>	<u>\$(76,180)</u>	<u>\$(23,215)</u>	<u>\$(23,070)</u>	<u>\$(8,625)</u>
<b>Net loss per share, basic and diluted:</b>					
Net loss before cumulative effect of a change in accounting principle	\$ (2.83)	\$ (1.81)	\$ (0.62)	\$ (0.74)	\$ (0.28)
Cumulative effect of adopting SAB 101			(0.04)		
Net loss per share	<u>\$ (2.83)</u>	<u>\$ (1.81)</u>	<u>\$ (0.66)</u>	<u>\$ (0.74)</u>	<u>\$ (0.28)</u>
<b>Pro forma amounts assuming SAB 101 is applied retroactively:</b>					
Net loss				\$(22,699)	\$ (8,254)
Net loss per share, basic and diluted				\$ (0.73)	\$ (0.27)

(1) See Note 2 to our audited financial statements.

	At December 31,				
	2002	2001	2000	1999	1998
	(In thousands)				
<b>Balance Sheet Data</b>					
Cash, cash equivalents, marketable securities, and restricted marketable securities (current and non-current)	\$295,246	\$438,383	\$154,370	\$ 93,599	\$113,530
Total assets	391,574	495,397	208,274	136,999	156,915
Capital lease obligations and notes payable, long-term portion	200,000	200,150	2,069	2,731	3,066
Stockholders' equity	145,981	266,355	182,130	109,532	131,227

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

### General

We are a biopharmaceutical company that discovers, develops, and intends to commercialize pharmaceutical products for the treatment of serious medical conditions. Our product pipeline includes product candidates for the treatment of obesity, rheumatoid arthritis and other inflammatory conditions, cancer and related disorders, allergies, asthma, and other diseases and disorders. Developing and commercializing new medicines entails risk and significant expense. Since inception we have not generated any sales or profits from the commercialization of any of our product candidates.

Below is a summary of our leading clinical and preclinical research programs. We retain sole ownership and marketing rights for each of these programs, and currently are developing them independent of any corporate partners except for the IL-1 Trap, as described in the Recent Developments section included in Part I, Item 1 of this Form 10-K.

- **AXOKINE®:** Acts on the brain region regulating food intake and energy expenditure and is being developed for the treatment of obesity. In July 2001, we initiated a Phase III clinical program of AXOKINE in overweight and obese subjects. We began enrolling subjects in the initial pivotal trial in September 2001 and in January 2002 completed enrollment of approximately 2,000 subjects in 65 sites across the United States. This pivotal trial included a 12-month treatment period, which the Company announced was completed in January 2003, in which subjects received daily subcutaneous self-injections of placebo or AXOKINE. As described in the Recent Developments section, included in Part I, Item 1 of this Form 10-K, we reported data from the 12-month treatment period of the AXOKINE pivotal trial on March 31, 2003. The treatment period is being followed by a twelve-month open-label extension phase, during which all study subjects receive AXOKINE. As of December 31, 2002, the average treatment period for people in this pivotal trial was 14 months.

In June 2002, we announced the initiation of a clinical trial to assess the safety and efficacy of AXOKINE in overweight and obese individuals with type 2 diabetes mellitus. In July 2002, we announced that we had completed enrollment for two additional trials, each of which includes approximately 300 subjects, that are designed to evaluate the safety of intermittent treatment with AXOKINE and to study maintenance of weight loss following short-term treatment regimens. The Company announced in January 2003 that AXOKINE has received fast track designation from the FDA for the treatment of severely obese people who are unresponsive to, intolerant of, or unsuitable candidates for certain FDA-approved medicines for the long-term treatment of obesity.

- **INTERLEUKIN-1 CYTOKINE TRAP (IL-1 Trap):** Protein-based product candidate designed to bind the Interleukin-1 (called IL-1) cytokine and prevent its interaction with cell surface receptors. IL-1 is thought to play a major role in rheumatoid arthritis and other inflammatory diseases. In July 2002, we announced the initiation of a dose-ranging Phase II trial that will involve approximately 200 participants to study the safety and efficacy of the IL-1 Trap in people with rheumatoid arthritis.



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Subjects in the study will receive, in a double-blind manner, either placebo or one of three different dose levels of the IL-1 Trap. The results from this trial are expected to be available mid-year 2003.

- **VEGF TRAP:** Protein-based therapeutic candidate designed to bind Vascular Endothelial Growth Factor (called VEGF, also known as Vascular Permeability Factor or VPF) and prevent its interaction with cell surface receptors. VEGF is required for the growth of blood vessels that are needed for tumors to grow and is a potent regulator of vascular permeability and leak. In 2001, we initiated a dose-escalation Phase I clinical trial designed to assess the safety and tolerability of VEGF Trap in subjects with solid tumor malignancies and/or non-Hodgkin's lymphoma. This trial currently is in progress and is expected to end in 2003.
- **INTERLEUKIN-4/ INTERLEUKIN-13 CYTOKINE TRAP (IL-4/13 Trap):** Protein-based product candidate designed to bind the interleukin-4 and interleukin-13 (called IL-4 and IL-13) cytokines and prevent their interaction with cell surface receptors. IL-4 and IL-13 are thought to play a major role in diseases such as asthma, allergic disorders, and other inflammatory diseases. In October 2002, we initiated a Phase I trial for the IL-4/13 Trap in adult subjects with mild to moderate asthma. This trial is a placebo-controlled, double-blind, dose escalation study to assess the safety and tolerability of the molecule.
- **PEGYLATED AXOKINE:** Chemically modified version of AXOKINE that is being evaluated for its potential to remain in the bloodstream longer than unmodified AXOKINE in obese subjects. Preliminary results of a Phase I trial demonstrated a long pharmacokinetic half-life, potentially compatible with once-per-week dosing regimens. In its current form, the molecule is not optimally absorbed into the blood stream and has caused unacceptable injection site reactions. We are currently working to develop an improved form of PegAXOKINE.
- **ANGIOPOIETINS:** A new family of growth factors that act specifically on the endothelium cells that line blood vessels. Angiopoietins may be useful for growing blood vessels in diseased hearts and other tissues with decreased blood flow and for repairing blood vessel leaks that cause swelling and edema in many different diseases such as stroke, diabetic retinopathy, and inflammatory diseases. We have an active preclinical research program covering this family of growth factors. We have not yet selected a specific molecule to advance into clinical development or a specific indication for such development.

In addition to the above programs which we are conducting independent of any corporate partners, we have formed collaborations to advance other research and development efforts. We are conducting research with The Procter & Gamble Company in muscle diseases and other fields. We are also collaborating with Medarex, Inc. to discover, develop, and commercialize certain human antibodies as therapeutics. In partnership with Amgen, we have development rights to Neurotrophin-3, or NT-3, a clinical compound for the treatment of constipating conditions, although there are no ongoing development activities for NT-3 at this time. In all of these research collaborations, we retain 50% of the commercialization rights.

We have not received revenue from the commercialization 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 our research and development efforts and obtaining regulatory approval from the FDA or 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 noncompetitive or obsolete.

From inception on January 8, 1988 through December 31, 2002, we had a cumulative loss of \$424.1 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. Our activities may expand over time and may require additional resources and we expect our operating losses to be substantial over at least the next several years. Our losses may fluctuate from quarter to quarter and will depend, among other factors, on the timing of certain expenses and on the progress of our research and development efforts.

## Results of Operations

*Years Ended December 31, 2002 and 2001.* Our total revenue was \$22.0 million in both 2002 and 2001. Contract research and development revenue decreased to \$10.9 million in 2002 from \$12.1 million in 2001 as revenue from Amgen-Regeneron Partners decreased from \$1.2 million in 2001 to approximately \$2,000 in 2002, due to the completion of studies conducted on behalf of the partnership. Under our long-term collaboration agreement with Procter & Gamble, research payments, which are included in contract research and development revenue, were \$2.5 million per quarter (before adjustments for inflation) in both 2002 and 2001. Contract manufacturing revenue relates primarily to our long-term agreement with Merck to manufacture a vaccine intermediate at our Rensselaer, New York facility. In 2002, contract manufacturing revenue increased to \$11.1 million from \$9.9 million in 2001, due primarily to the receipt of a non-recurring \$1.0 million payment related to services we provided to Merck in prior years. We shipped similar quantities of intermediate to Merck in 2002 and 2001. Revenue and the related manufacturing expense are recognized as the product is shipped, after acceptance by Merck.

Our total operating expenses increased to \$143.9 million in 2002 from \$107.7 million in 2001. Research and development expenses increased to \$124.9 million in 2002 from \$91.5 million in 2001, primarily due to expansion of our clinical development programs, especially our Phase III clinical program for AXOKINE which we initiated in July 2001 and our Phase II clinical program for IL-1 Trap which we initiated in July 2002. We also expanded our research programs in 2002, principally related to our proprietary Velocigene™ technology platform. Research and development expenses were 87% of total operating expenses in 2002, compared to 85% in 2001. Contract manufacturing expenses were \$6.5 million in both 2002 and 2001 primarily because we shipped similar quantities of product to Merck each year. General and administrative expenses increased to \$12.5 million in 2002 from \$9.6 million in 2001, due primarily to higher administrative staffing to support the growth of the company and higher fees paid to outside service providers, including higher patent prosecution and legal expenses related to the expansion of our intellectual property portfolio.

Investment income decreased to \$9.5 million in 2002 from \$13.2 million in 2001 due to lower effective interest rates on investment securities during the full year 2002 and lower levels of interest-bearing investments in the fourth quarter of 2002, compared to the fourth quarter of 2001, as we funded our operations. Our share of the loss in Amgen-Regeneron Partners decreased to approximately \$27,000 in 2002, compared to \$1.0 million in 2001, due to the completion of studies conducted on behalf of the partnership. Interest expense increased to \$11.9 million in 2002 from \$2.7 million in 2001, due to interest incurred on the \$200 million aggregate principal amount of convertible senior subordinated notes that we issued in October 2001. These notes bear interest at 5.5% per annum, payable semi-annually.

Our net loss in 2002 was \$124.4 million, or \$2.83 per share (basic and diluted), compared to a net loss of \$76.2 million, or \$1.81 per share (basic and diluted), in 2001.

*Years Ended December 31, 2001 and 2000.* Our total revenue decreased to \$22.0 million in 2001 from \$59.3 million in 2000. Contract research and development revenue decreased to \$12.1 million in 2001 from \$36.5 million in 2000. Under our long-term collaboration agreement with Procter & Gamble, research payments decreased effective in the first quarter of 2001 to \$2.5 million per quarter (before adjustments for inflation) from \$7.1 million per quarter for the first two quarters of 2000 and \$6.8 million per quarter for last two quarters of 2000. In addition, revenue from Amgen-Regeneron Partners decreased to \$1.2 million in 2001 from \$6.2 million in 2000 due to the cessation of clinical trial activity on brain derived neurotrophic factor, or BDNF, in January 2001 and the substantial completion of our Phase II studies of NT-3. In 2000, research progress payments consisted of two non-recurring payments totaling \$3.5 million from Procter & Gamble related to our long-term collaboration agreement and a non-recurring payment of \$3.0 million (reduced by \$0.3 million of Japanese withholding tax) from Sumitomo Pharmaceuticals related to the development of BDNF in Japan. Contract manufacturing revenue decreased to \$9.9 million in 2001, compared to \$16.6 million in 2000. Contract manufacturing revenue related to our long-term agreement with Merck to manufacture a vaccine intermediate decreased to \$9.8 million in 2001 from \$12.5 million in 2000, primarily because intermediate manufactured in the second half of 2001 was not shipped to Merck until 2002. Revenue and the related manufacturing expense are recognized as the product is shipped, after acceptance by Merck. Contract

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manufacturing revenue in 2000 also included \$4.1 million related to the manufacture of clinical supplies of BDNF for Sumitomo Pharmaceuticals in connection with a research and development agreement. Production of BDNF clinical supplies for Sumitomo Pharmaceuticals was discontinued in January 2001.

Our total operating expenses increased to \$107.7 million in 2001 from \$84.6 million in 2000. Research and development expenses increased to \$91.5 million in 2001 from \$60.6 million in 2000, primarily as a result of higher staffing and increased activity in our preclinical and clinical development programs. For example, in July 2001, we initiated a Phase III clinical program of AXOKINE for the treatment of obesity and in December 2000, we initiated a Phase I study of the IL-1 Trap. Research and development expenses were 85% of total operating expenses in 2001, compared to 72% in 2000. Contract manufacturing expenses decreased to \$6.5 million in 2001 from \$15.6 million in 2000. In addition to the above-described effect of not shipping vaccine intermediate manufactured for Merck in the second half of 2001 until 2002, the decrease was due, in part, to higher costs in 2000 associated with initiating commercial production at our Rensselaer facility of both intermediate for Merck and BDNF for clinical use by Sumitomo Pharmaceuticals. General and administrative expenses increased to \$9.6 million in 2001 from \$8.4 million in 2000, due primarily to higher administrative staffing to support a larger and more diversified company.

Investment income in 2001 increased to \$13.2 million from \$8.5 million in 2000 due primarily to interest earned on the net proceeds of \$192.7 million from our private placement of \$200 million aggregate principal amount of convertible senior subordinated notes in October 2001 and \$156.7 million from our public offering in March and April 2001. The loss in Amgen-Regeneron Partners decreased to \$1.0 million in 2001 from \$4.6 million in 2000 due to the partnership's cessation of clinical trial activity on BDNF in January 2001 and the substantial completion of Phase II studies of NT-3. Interest expense increased to \$2.7 million in 2001 from \$0.3 million in 2000 due to interest incurred on the convertible notes issued in October 2001. These notes bear interest at 5.5% per annum, payable semi-annually.

During the fourth quarter of 2000, we changed our method of accounting for revenue recognition to conform with the guidance provided by Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements*, (SAB 101), effective as of January 1, 2000. The cumulative effect of adopting SAB 101 as of January 1, 2000 was to increase our net loss by \$1.6 million, or \$0.04 per share, with a corresponding increase to deferred revenue that is being recognized in subsequent periods. The SAB 101 adjustment relates to a portion of a 1989 payment received from Sumitomo Chemical in consideration for a fifteen year limited right of first negotiation to license up to three of our product candidates in Japan. In 2001 and 2000, we recognized contract research and development revenue of \$0.4 million per year that was included in the cumulative effect adjustment as of January 1, 2000.

Our net loss in 2001 was \$76.2 million, or \$1.81 per share (basic and diluted), compared to a net loss of \$23.2 million, or \$0.66 per share (basic and diluted), in 2000.

### **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 agreements with Amgen, Sumitomo Chemical, Sumitomo Pharmaceuticals, Merck, and Procter & Gamble, and investment income.

In May 1997, we entered into a long-term collaboration agreement with Procter and Gamble. In connection with the collaboration, Procter & Gamble made equity purchases in Regeneron of \$42.9 million in June 1997 and \$17.1 million in August 2000, and agreed to provide funding in support of our research efforts related to the collaboration, of which we have received \$69.5 million through December 31, 2002. In August 2000, Procter & Gamble made two non-recurring research progress payments to us totaling \$3.5 million.

Effective December 31, 2000, we and Procter & Gamble entered into a new long-term collaboration agreement, replacing the companies' 1997 agreement. The new agreement extends Procter & Gamble's obligation to fund Regeneron's research through December 2005, with no further research obligations by either party thereafter, and focuses the companies' collaborative research on therapeutic areas that are of particular interest to Procter & Gamble. Under the new agreement, beginning in the first quarter of 2001,

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research support from Procter & Gamble is \$2.5 million per quarter, before adjustments for inflation, through December 2005.

Our activities relating to NT-3, as agreed upon by Amgen and us, are being compensated by Amgen-Regeneron Partners for services rendered, and we recognize these amounts as revenue. The partnership is not conducting ongoing development activities for NT-3 at this time. In January 2001, Amgen-Regeneron Partners discontinued all development of BDNF for the potential treatment of amyotrophic lateral sclerosis, or ALS. We and Amgen fund Amgen-Regeneron Partners through capital contributions, and must make equal payments in order to maintain equal ownership and equal sharing of any profits or losses from the partnership. Our aggregate capital contribution to Amgen-Regeneron Partners from the partnership's inception in June 1993 through December 31, 2001 was \$57.9 million. In 2002, we made no capital contributions to the partnership and received a capital withdrawal of \$0.5 million. At December 31, 2002, we continue to be an equal partner in the Amgen-Regeneron Partners. We do not expect to make capital contributions to the partnership in 2003. Additional contributions may be required, depending upon, among other things, whether and how Amgen-Regeneron Partners proceeds with the development of NT-3.

In connection with our agreement to collaborate with Sumitomo Pharmaceuticals in the research and development of BDNF in Japan, we received a research progress payment from Sumitomo Pharmaceuticals of \$3.0 million (reduced by \$0.3 million Japanese withholding tax) in April 2000. In addition, Sumitomo Pharmaceuticals paid us \$32.0 million through December 31, 2001 in connection with supplying BDNF for preclinical and clinical use. In light of the discontinuation of BDNF development for ALS, no payments from Sumitomo Pharmaceuticals were received in 2002 and we do not expect to receive further payments related to BDNF for research progress payments, contract research and development, or contract manufacturing.

In December 2002, we entered into an agreement with Serono S.A. to use our proprietary Velocigene<sup>TM</sup> technology to provide Serono with knock-out and transgenic mammalian models of gene function. Under the terms of this agreement, Serono will pay us up to \$3.0 million annually for up to five years. In return, we will use Velocigene to provide Serono with knock-out transgenic models for target genes to be identified by Serono.

In April 2000, we completed a public offering of 2.6 million shares of Common Stock at a price of \$29.75 per share and received proceeds, after commissions and expenses, of \$72.9 million. In August 2000, we sold 573,630 shares of Common Stock to Procter & Gamble at a price of \$29.75 per share and received total proceeds of \$17.1 million. The sale of stock to Procter & Gamble was made pursuant to a 1997 securities purchase agreement. In March 2001, we completed a public offering in which we issued 6.5 million shares of Common Stock at a price of \$25.00 per share and received proceeds, after commissions and expenses, of \$153.6 million. In April 2001, we sold an additional 130,000 shares of Common Stock pursuant to the underwriters' over-allotment option from the March 2001 public offering at a price of \$25.00 per share and received proceeds, after commissions and expenses, of \$3.1 million.

In October 2001, we issued \$200.0 million aggregate principal amount of convertible senior subordinated notes in a private placement and received proceeds, after deducting the initial purchasers' discount and out-of-pocket expenses, of \$192.7 million. The notes bear interest at 5.5% per annum, payable semi-annually, and mature in 2008. The notes are convertible into shares of our Common Stock at a conversion price of approximately \$30.25 per share, subject to adjustment in certain circumstances. We may redeem the notes, in whole or in part, at any time before October 17, 2004, if the closing price of our Common Stock has exceeded 150% of the conversion price then in effect for a specified period of time. Upon any such redemption, we are required to pay interest that would have been due up through October 17, 2004. We may also redeem some or all of the notes at any time on or after October 17, 2004, if the closing price of our Common Stock has exceeded 140% of the conversion price then in effect for a specified period of time. We pledged \$31.6 million of U.S. government securities which will be sufficient upon receipt of scheduled principal and interest payments to provide for the payment in full of the first six scheduled interest payments on the notes when due. The first two interest payments were made in 2002 and at December 31, 2002, \$21.5 million of U.S. government securities remain pledged to provide for the payment in full of the next four scheduled interest payments on the notes.

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Our total expenses for research and development from inception through December 31, 2002 have been approximately \$585 million. We have not historically segregated all the costs associated with each of our research programs and it is not possible to forecast their success or the amounts that we may spend in the future. We currently have research collaboration agreements with Procter & Gamble, Medarex, Emisphere Technologies, Inc., Amgen and Sumitomo Pharmaceuticals. In 2002, 2001, and 2000, total expenses for research programs conducted under our third-party collaboration agreements were approximately \$10 million, \$12 million, and \$31 million, respectively. The remainder of our research and development expenses in those years related to our own internal research programs. We are currently only committed to incur research expenditures under our research collaboration agreements through the end of 2005 and estimate that, based on current plans, future expenditures under these collaborations will total less than \$50 million.

At December 31, 2002, we had \$295.2 million in cash, cash equivalents, marketable securities, and restricted marketable securities. We have no off-balance sheet arrangements and do not guarantee the obligations of any other entity. As of December 31, 2002, we had no established banking arrangements through which we could obtain short-term financing or a line of credit. We may seek additional funding through, among other things, future collaboration agreements and public or private financing. We cannot assure you that additional financing will be available to us or, if available, that it will be available on acceptable terms.

Our additions to property, plant, and equipment totaled \$45.9 million in 2002, \$9.5 million in 2001, and \$6.5 million in 2000, including \$33.8 million in 2002 and \$2.1 million in 2001 related to the expansion of our manufacturing facilities in Rensselaer, New York. In connection with the original purchase and renovation of our Rensselaer facility, we obtained financing of \$2.0 million from the New York State Urban Development Corporation. The outstanding balance on this note of \$1.5 million was fully repaid in October 2001.

We expect to incur substantial funding requirements for, among other things, research and development activities (including preclinical and clinical testing), expansion and validation of manufacturing facilities, and the acquisition of equipment. We currently anticipate that in 2003, approximately 30-50% of our expenditures will be directed toward the preclinical and clinical development of product candidates, including AXOKINE, IL-1 Trap, IL-4/13 Trap, VEGF Trap, and the angiopoietins; approximately 10-20% of our expenditures will be invested in expansion of our manufacturing facilities; approximately 10-20% of our expenditures will cover our basic research activities; approximately 5-15% of our expenditures will be directed toward the continued development of our novel technology platforms, including potential efforts to commercialize these technologies; and the remainder of our expenditures will be for general corporate purposes, including working capital. In 2003, we expect to incur approximately \$50 million in capital expenditures for our expanded manufacturing, research and development activities.

In connection with our funding requirements, the following table summarizes our contractual obligations for leases and long-term debt.

	Payments Due by Period			
	Total	Less than one year	1 to 3 years	4 to 7 years
	(In millions)			
Convertible Senior Subordinated Notes Payable	\$200.0			\$200.0
Capital Lease Obligations(1)	0.2	\$ 0.2		
Operating Leases(2)	14.5	5.6	\$8.8	0.1

(1) Includes amounts representing interest.

(2) Excludes future contingent rental costs for utilities, real estate taxes, and operating expenses. In 2002, these costs were \$3.6 million.

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 on such sales in connection with our collaboration and licensing agreements.

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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.

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 any collaborative research arrangements (including those with Procter & Gamble, Medarex, Emisphere, and Amgen). 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 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. We believe that our existing capital resources will enable us to meet operating needs through mid-2004. However, this is a forward-looking statement based on our current operating plan, and we cannot assure you that there will be no 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. 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. 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.

### **Critical Accounting Policies**

We recognize revenue from contract research and development and research progress payments as we perform services or as contract research materials are accepted and meet specifications, provided a contractual arrangement exists, the contract price is fixed or determinable, and our collection of the resulting receivable is probable. In situations where we receive advance payments for contract research and development, these amounts are deferred and recognized as revenue as we perform the related services or as contract research materials are accepted and meet specifications. Non-refundable fees, including payments we receive for services, up-front licensing fees, technology fees, and research progress payments, are recognized as revenue based on the percentage of costs incurred to date, estimated costs to complete, and total expected contract revenue. However, the revenue we recognize is limited to the amount of non-refundable fees received. Non-refundable fees that we receive in consideration for granting collaborators the right to license product candidates developed by us are recognized as revenue on a straight-line basis over the term of the underlying agreements. This policy conforms with guidance provided by SAB 101. With regard to our revenues from non-refundable fees, we do not believe that changes in our assumptions of estimated costs to complete would have a material impact on the revenues we have recognized.

We have entered into a contract manufacturing agreement with Merck under which we manufacture a vaccine intermediate at our Rensselaer, New York facility and perform services. We recognize contract manufacturing revenue from this agreement after the product is tested and approved by, and shipped (FOB Shipping Point) to, Merck, and as services are performed. In connection with the agreement, we agreed to modify portions of our Rensselaer facility to manufacture Merck's vaccine intermediate and Merck agreed to reimburse us for the related capital costs. These capital cost payments were deferred and are recognized as revenue as product is shipped to Merck, based upon our estimate of Merck's order quantities each year through the expected end of the agreement. Since we commenced production of the vaccine intermediate in November 1999, our estimates of Merck's order quantities each year have not been materially different from Merck's actual orders.

Research and development expenses include costs directly attributable to the conduct of our research and development programs, including salaries, payroll taxes, employee benefits, materials, supplies, depreciation

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on and maintenance of research equipment, costs related to research collaboration and licensing agreements, the cost of services provided by outside contractors, including services related to our clinical trials, clinical trial expenses, the full cost of manufacturing drug for use in research, preclinical development, and clinical trials, expenses related to the development of manufacturing processes prior to commencing commercial production of a product under contract manufacturing arrangements, and the allocable portions of facility costs, such as rent, utilities, insurance, repairs and maintenance, depreciation, and general support services. All costs associated with research and development are expensed as incurred.

For each clinical trial that we conduct, certain clinical trial costs, which are included in research and development expenses, are expensed based on the expected total number of patients in the trial, the rate at which patients enter the trial, and the period over which clinical investigators or contract research organizations are expected to provide services. We believe that this method best aligns the expenses we record with the efforts we expend on a clinical trial. We adjust our rate of clinical expense recognition if actual results differ from our estimates.

### **Future Impact of Recently Issued Accounting Standards**

In June 2002, the Financial Accounting Standards Board issued Statement on Financial Accounting Standards No. 146 ("SFAS No. 146") *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 nullifies Emerging Issues Task Force Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred rather than on the date of an entity's commitment to an exit plan and establishes that fair value is the objective for initial measurement of the liability. The provisions of this Statement shall be effective for exit or disposal activities initiated after December 31, 2002. Our management believes that the future adoption of this accounting standard will not have a material impact on our financial statements.

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148 ("SFAS No. 148"), *Accounting for Stock-Based Compensation — Transition and Disclosure — an amendment of FASB Statement No. 123*. SFAS No. 148 provides several transition provisions that may be used upon adoption of the accounting provisions of Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), *Accounting for Stock-Based Compensation*. SFAS No. 148 also mandates certain new disclosures, whether or not SFAS No. 123 is adopted, that are incremental to those required by SFAS No. 123. Those disclosures must be made in both interim and annual financial statements. The transition and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002, and have been adopted in this annual report on Form 10-K. The new interim disclosure provisions will be adopted in our quarterly report on Form 10-Q for the period ending March 31, 2003 and, our management believes, will not have a material impact on our financial statements.

In November 2002, the FASB Emerging Issue Task Force finalized Issue No. 00-21 ("EITF 00-21") *Accounting for Revenue Arrangements with Multiple Deliverables*, which addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. EITF 00-21 also addresses how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. The guidance in EITF 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Our management believes that the adoption of this accounting standard will not have a material impact on our financial statements.

### **Factors That May Affect Future Operating Results**

We caution shareholders and potential investors that the following important factors, among others, in some cases have affected, and in the future could affect, our actual results and could cause our actual results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, us. The statements under this caption are intended to serve as cautionary statements within the meaning of the Private Securities Litigation Reform Act of 1995. The following information is not intended to limit in any way the

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characterization of other statements or information under other captions as cautionary statements for such purpose:

- Delay, difficulty, or failure of a clinical trial of any of our product candidates, including clinical trials of our product candidates AXOKINE and the IL-1 Trap. If either or both of these product candidates fail to advance in the clinic, our business will be severely harmed and our stock price will be adversely affected. A clinical trial can fail or be delayed as a result of many causes, including, among others, failure of the product candidate to demonstrate safety or efficacy, the development of serious or life-threatening adverse events (side effects) caused by or connected with exposure to the product candidate, difficulty in enrolling and maintaining subjects, 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.
- In addition to the safety, efficacy, manufacturing, and regulatory hurdles faced by our pharmaceutical 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 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 successfully completed. Subjects who have received AXOKINE and the IL-1 Trap in clinical trials have developed antibodies.
- Delay, difficulty, or failure in obtaining regulatory approval for our products, including delays or difficulties in development because of insufficient proof of safety or efficacy or the failure to manufacture product candidates in accordance with FDA requirements.
- Delay, difficulty, or failure of our research and development programs to produce product candidates that are scientifically or commercially appropriate for further development by us or others.
- Cancellation or termination of material collaborative or licensing agreements (including in particular, but not limited to, the agreement with Procter & Gamble) and the resulting loss of research or other funding could have a material adverse effect on us and our operations.
- Increased and irregular costs of development, manufacture, regulatory approval, sales, and marketing associated with the introduction of products in the late stage of development.
- Competitive or market factors that may cause use of our products to be limited or otherwise fail to achieve broad acceptance.
- The ability to obtain, maintain, and prosecute intellectual property rights and the cost of acquiring in-process technology and other necessary intellectual property rights, either by license, collaboration, or purchase of another entity.
- Difficulties or high costs of obtaining adequate financing to fund the cost of developing and manufacturing product candidates.
- Amount and rate of growth of our general and administrative expenses, and the impact of unusual charges resulting from our ongoing evaluation of our business strategies and organizational structure.
- Failure of corporate partners to develop or commercialize successfully our products or to retain and expand the markets served by the commercial collaborations; conflicts of interest, priorities, and commercial strategies which may arise between our corporate partners and us.
- Delays or difficulties in developing and acquiring production technology and technical and managerial personnel to manufacture novel biotechnology products in commercial quantities at reasonable costs and in compliance with applicable quality assurance and environmental regulations and governmental permitting requirements.



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- Difficulties in obtaining key raw materials and supplies for the manufacture of our product candidates.
- Failure of service providers upon whom we rely to carry out our clinical development programs, such as contract research organizations and third parties who fill and label our clinical supplies, to perform their contractual responsibilities. These failures could lead to delays in our clinical development programs.
- The costs and other effects of legal and administrative cases and proceedings (whether civil litigation, such as product liability, commercial, employment-related, or environmental claims, or criminal litigation), settlements, and investigations; developments or assertions by or against us relating to intellectual property rights and licenses; the issuance and use of patents and proprietary technology by us and our competitors, including the possible negative effect on our ability to develop, manufacture, and sell our products in circumstances where we are unable to obtain licenses to patents which may be required for our products.
- Underutilization of our existing or new manufacturing facilities or of any facility expansions, resulting in inefficiencies and higher costs; start-up costs, inefficiencies, delays, and increased depreciation costs in connection with the start of production in new plants and expansions.
- Failure to have sufficient manufacturing capacity to make clinical supplies or commercial product in a timely and cost-competitive manner. Insufficient manufacturing capacity could delay clinical trials or limit commercial sale of marketed products.
- Health care reform, including reductions or changes in reimbursement available for prescription medications or other reforms.
- Difficulties in attracting and retaining key personnel, especially in areas where we have little experience such as sales and marketing.

As our scientific efforts lead to potentially promising new directions, both outside of recombinant protein therapies and into conditions or diseases outside of our current areas of experience and expertise, we will require additional internal expertise or external collaborations in areas in which we currently do not have substantial resources and personnel.

Other parties could allege to have blocking patents covering any of our product candidates in clinical and/or pre-clinical development. For example, we are aware of certain United States and foreign patents held by third parties relating to particular IL-4 and IL-13 receptors. In addition, we are aware of a European patent that pertains to the use of CNTF for the treatment of obesity.

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 one or more of our product candidates, which could severely harm our business.

Defense and enforcement of our intellectual property rights can be expensive and time consuming, even if the outcome is favorable to us. It is possible that patents issued or licensed to us will be successfully challenged, that a court may find that we are infringing validly issued patents of third parties, or that we may have to alter or discontinue the development of our products or pay license fees or royalties to take into account patent rights of third parties.

To date, we have received revenues from (1) our licensees and collaborators for research and development efforts, (2) Merck and Sumitomo Pharmaceuticals for contract manufacturing, and (3) investment income. We may not continue to receive these revenues from our licensees, collaborators, or contract manufacturing customers. In the absence of revenues from the commercialization of our product candidates or other sources, our losses will continue as we conduct our research and development activities. Our activities may expand over time and may require additional resources, and our operating losses may be substantial over at least the next several years. Our losses may fluctuate from quarter to quarter and will depend, among other factors, on the timing of certain expenses and on the progress of our research and development efforts. We do

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not know if we will ever have an approved product or achieve significant revenues or profitable operations. We do not expect to receive any revenue from the commercialization of our product candidates for several years and we intend to continue to invest significantly in our research and development activities. Even if we do successfully develop products that can be marketed and sold commercially, we will need to generate significant revenue from products to achieve and maintain profitability.

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 these conditions are caused by the drug being studied. Various illnesses, injuries, and discomforts have been reported from time-to-time during the clinical trials of AXOKINE, our only product candidate that has completed Phase II trials. In the ongoing Phase III study of AXOKINE, one patient was reported to have been diagnosed with Guillain-Barre Syndrome following an upper respiratory tract infection. The most frequently reported conditions during the AXOKINE Phase II trial were injection site reactions, cough, and nausea or vomiting. During the Phase I study that was conducted in 1999, some subjects developed mouth sores, also known as cold sores, when AXOKINE was given in higher doses than what is being studied in the Phase III program. These cold sores were thought to be caused by the reactivation of herpes simplex virus, or HSV. Recurrence of HSV was also reported in previous clinical studies of CNTF, AXOKINE's parent molecule. In the Phase I AXOKINE study, one patient who had evidence of previous exposure to HSV prior to treatment and had been previously diagnosed with Bell's palsy, had a recurrence of Bell's palsy approximately two weeks after the patient's last administration of AXOKINE.

Although AXOKINE was generally well tolerated in the completed Phase II trial, it is possible that as we test AXOKINE in a large and extended Phase III program, illnesses, injuries, and discomforts that were observed in the earlier trials, as well as conditions that did not occur or went undetected in these smaller trials, will be reported by patients. If additional clinical experience indicates that AXOKINE has many side effects or causes serious or life-threatening side effects, the development of AXOKINE may fail or be delayed, which would severely harm our business.

Most drug research and development programs never lead to the development of commercially successful products. Only a small minority of all research and development programs ultimately result in commercially successful drugs. We are attempting to develop drugs for human therapeutic uses, and our research and development activities may not be successful and none of our potential product candidates may ever complete clinical trials. Even if clinical trials demonstrate safety and efficacy of our product candidates 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 payors and on our ability to successfully develop, manufacture, and market our product candidates. 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.

### **Item 7A. 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 estimate that a one percent change in interest rates would result in an approximately \$0.7 million change in the fair market value of our investment portfolio at December 31, 2002.

### **Item 8. Financial Statements and Supplementary Data**

Our financial statements required by this item are included herein as exhibits and listed under Item 14.(A)1.

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

Not applicable.

**PART III**

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

Information with respect to directors and executive officers is incorporated by reference to the material captioned "Election of Directors," "Executive Officers of the Registrant," and "Compliance with Section 16(b) of the Securities Exchange Act of 1934" in the Regeneron Pharmaceuticals, Inc. Proxy Statement to be filed in connection with solicitation of proxies for our Annual Meeting of Shareholders to be held on June 13, 2003.

**Item 11. *Executive Compensation***

The information called for by this item is incorporated by reference to the material captioned "Executive Compensation" and "Election of Directors" in the Regeneron Pharmaceuticals, Inc. Proxy Statement to be filed in connection with solicitation of proxies for our Annual Meeting of Shareholders to be held on June 13, 2003.

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

The information called for by this item is incorporated by reference to the material captioned "Security Ownership of Management" and "Security Ownership of Certain Beneficial Owners" in the Regeneron Pharmaceuticals, Inc. Proxy Statement to be filed in connection with solicitation of proxies for our Annual Meeting of Shareholders to be held on June 13, 2003.

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

The information called for by this item is incorporated by reference to the material captioned "Certain Relationships and Related Transactions" in the Regeneron Pharmaceuticals, Inc. Proxy Statement to be filed in connection with solicitation of proxies for our Annual Meeting of Shareholders to be held on June 13, 2003.

**Item 14. *Controls and Procedures***

(a) Within 90 days prior to the date of this report, we carried out an evaluation — under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer — of the effectiveness of the design and operation of Regeneron's disclosure controls and procedures pursuant to Exchange Act Rule 13a-5. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that Regeneron's disclosure controls and procedures are effective.

(b) There have been no significant changes in Regeneron's internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation described in the preceding paragraph.

**PART IV**

**Item 15. *Exhibits, Financial Statement Schedules and Reports on Form 8-K***

(A) 1. *Financial Statements*

The financials statements filed as part of this report are listed on the Index to Financial Statements on page F-1.

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### 2. Financial Statement Schedules

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

### 3. Exhibits

Exhibit Number		Description
3.1	(a)	— Restated Certificate of Incorporation of Regeneron Pharmaceuticals, Inc. as of June 21, 1991.
3.2	(b)	— By-Laws of the Company, currently in effect (amended as of January 22, 1995).
10.1	(c)	— Certificate of Amendment of the Restated Certificate of Incorporation of Regeneron Pharmaceuticals, Inc., as of October 18, 1996.
10.2	(d)	— Certificate of Amendment of the Certificate of Incorporation of Regeneron Pharmaceuticals, Inc., as of December 17, 2001.
10.3	(e)*	— Technology Development Agreement dated as of March 20, 1989, between the Company and Sumitomo Chemical Company, Limited.
10.4	(e)*	— Collaboration Agreement dated August 31, 1990, between the Company and Amgen Inc.
10.5	(e)	— 1990 Amended and Restated Long-Term Incentive Plan.
10.6	(d)	— 2000 Long-Term Incentive Plan.
10.6.1		— Amendment No. 1 to 2000 Long-Term Incentive Plan, effective as of June 14, 2002.
10.6.2		— Amendment No. 2 to 2000 Long-Term Incentive Plan, effective as of December 20, 2002.
10.7	(f)*	— Research and Development Agreement dated as of June 2, 1994, between the Company and Sumitomo Pharmaceuticals Company, Ltd.
10.8	(g)*	— Manufacturing Agreement dated as of September 18, 1995, between the Company and Merck & Co., Inc.
10.9	(h)	— Warrant Agreement dated as of April 15, 1996, between the Company and Amgen Inc.
10.10	(h)	— Registration Rights Agreement dated as of April 15, 1996, between the Company and Amgen Inc.
10.11	(i)	— Rights Agreement, dated as of September 20, 1996, between Regeneron Pharmaceuticals, Inc. and Chase Mellon Shareholder Services LLC, as Rights Agent, including the form of Rights Certificate as Exhibit B thereto.
10.12	(j)	— Stock Purchase Agreement dated as of December 11, 1996, between the Company and Procter & Gamble Pharmaceuticals, Inc.
10.13	(j)	— Registration Rights Agreement dated as of December 11, 1996, between the Company and Procter & Gamble Pharmaceuticals, Inc.
10.14	(k)	— Securities Purchase Agreement dated as of May 13, 1997, between the Company and The Procter & Gamble Company.
10.15	(k)	— Warrant Agreement dated as of May 13, 1997, between the Company and The Procter & Gamble Company.
10.16	(k)	— Registration Rights Agreement dated as of May 13, 1997, between the Company and The Procter & Gamble Company.
10.17		— Employment Agreement, dated as of December 20, 2002, between the Company and Leonard S. Schleifer, M.D., Ph.D.
10.18	(l)	— Indenture, dated as of October 17, 2001, between Regeneron Pharmaceuticals, Inc. and American Stock Transfer & Trust Company, as trustee.
10.19	(l)	— Pledge Agreement, dated as of October 17, 2001, between Regeneron Pharmaceuticals, Inc. and American Stock Transfer & Trust Company, as trustee.

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Exhibit Number	Description		
10.20	(l)	—	Registration Rights Agreement, dated as of October 17, 2001, among Regeneron Pharmaceuticals, Inc., Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Robertson Stephens, Inc.
10.21*	(m)	—	Focused Collaboration Agreement, dated as of December 31, 2000, by and between the Company and The Procter & Gamble Company.
10.22*	(m)	—	IL-1 License Agreement, dated June 26, 2002, by and among the Company, Immunex Corporation, and Amgen Inc.
23.1		—	Consent of PricewaterhouseCoopers LLP, Independent Accountants.
23.2		—	Consent of Ernst & Young LLP, Independent Auditors.
99.1		—	Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**Description:**

- (a) Incorporated by reference from the Form 10-Q for Regeneron Pharmaceuticals, Inc. for the quarter ended June 30, 1991, filed August 13, 1991.
- (b) Incorporated by reference from the Form 10-K for Regeneron Pharmaceuticals, Inc. for the fiscal year ended December 31, 1994, filed March 30, 1995.
- (c) Incorporated by reference from the Form 10-Q for Regeneron Pharmaceuticals, Inc. for the quarter ended September 30, 1996, filed November 5, 1996.
- (d) Incorporated by reference from the Form 10-K for Regeneron Pharmaceuticals, Inc. for the fiscal year ended December 31, 2001, filed March 22, 2002.
- (e) Incorporated by reference from the Company's registration statement on Form S-1 (file number 33-39043).
- (f) Incorporated by reference from the Form 10-Q for Regeneron Pharmaceuticals, Inc. for the quarter ended September 30, 1994, filed November 14, 1994.
- (g) Incorporated by reference from the Form 10-Q for Regeneron Pharmaceuticals, Inc. for the quarter ended September 30, 1995, filed November 14, 1995.
- (h) Incorporated by reference from the Form 10-Q for Regeneron Pharmaceuticals, Inc. for the quarter ended June 30, 1996, filed August 14, 1996.
- (i) Incorporated by reference from the Form 8-A for Regeneron Pharmaceuticals, Inc. filed October 15, 1996.
- (j) Incorporated by reference from the Form 10-K for Regeneron Pharmaceuticals, Inc. for the fiscal year ended December 31, 1996, filed March 26, 1997.
- (k) Incorporated by reference from the Form 10-Q for Regeneron Pharmaceuticals, Inc. for the quarter ended June 30, 1997, filed August 12, 1997.
- (l) Incorporated by reference from the Company's registration statement on Form S-3 (file number 333-74464).
- (m) Incorporated by reference from the Form 10-Q for Regeneron Pharmaceuticals, Inc. for the quarter ended June 30, 2002, filed August 13, 2002.

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\* Portions of this document have been omitted and filed separately with the Commission pursuant to requests for confidential treatment pursuant to Rule 24b-2.

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*(B) Reports on Form 8-K*

Form 8-K, filed January 21, 2003: On January 7, 2003, we issued a press release announcing that we had completed the 12-month efficacy phase of our AXOKINE® Phase III pivotal trial for the treatment of obesity. On January 7, 2003, we issued a press release announcing that we had received fast track designation from the U.S. Food and Drug Administration, or FDA, for a component of the development program of AXOKINE® for obesity. The designation covers treatment of severely obese people who are unresponsive to, intolerant of, or unsuitable candidates for certain FDA approved medicines for long-term treatment of obesity. On January 17, 2003, we issued a press release announcing that Arthur F. Ryan had been elected to Regeneron's Board of Directors.

Form 8-K, filed February 6, 2003: On January 30, 2003, we issued a press release announcing our fourth quarter and full year 2002 financial and operating results.

**SIGNATURE**

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

REGENERON PHARMACEUTICALS, INC.

By: /s/ LEONARD S. SCHLEIFER

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Leonard S. Schleifer, M.D., Ph.D.  
*President and Chief Executive Officer*

Dated: New York, New York

March 31, 2003

**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Leonard S. Schleifer, President and Chief Executive Officer, and Murray A. Goldberg, Senior Vice President, Finance & Administration, Chief Financial Officer, Treasurer, and Assistant Secretary, and each of them, his true and lawful attorneys-in-fact and agents, with the full power of substitution and resubstitution, for him and in his name, place, and stead, in any and all capacities therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power and authority to do and perform each and every act in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or either of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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

<b>Signature</b>	<b>Title</b>
<hr/> <p>/s/ LEONARD S. SCHLEIFER</p> <hr/> <p>Leonard S. Schleifer, M.D., Ph.D.</p>	<hr/> <p>President, Chief Executive Officer, and Director (Principal Executive Officer)</p>
<hr/> <p>/s/ MURRAY A. GOLDBERG</p> <hr/> <p>Murray A. Goldberg</p>	<hr/> <p>Senior Vice President, Finance &amp; Administration, Chief Financial Officer, Treasurer, and Assistant Secretary (Principal Financial Officer)</p>
<hr/> <p>/s/ DOUGLAS S. MCCORKLE</p> <hr/> <p>Douglas S. McCorkle</p>	<hr/> <p>Controller and Assistant Treasurer (Principal Accounting Officer)</p>
<hr/> <p>/s/ GEORGE D. YANCOPOULOS</p> <hr/> <p>George D. Yancopoulos, M.D., Ph.D.</p>	<hr/> <p>Executive Vice President, Chief Scientific Officer, President, Regeneron Research Laboratories, and Director</p>
<hr/> <p>/s/ P. ROY VAGELOS</p> <hr/> <p>P. Roy Vagelos, M.D.</p>	<hr/> <p>Chairman of the Board</p>
<hr/> <p>/s/ CHARLES A. BAKER</p> <hr/> <p>Charles A. Baker</p>	<hr/> <p>Director</p>
<hr/> <p>/s/ MICHAEL S. BROWN</p> <hr/> <p>Michael S. Brown, M.D.</p>	<hr/> <p>Director</p>
<hr/> <p>/s/ ALFRED G. GILMAN</p> <hr/> <p>Alfred G. Gilman, M.D., Ph.D.</p>	<hr/> <p>Director</p>

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Signature	Title
/s/ JOSEPH L. GOLDSTEIN	Director
Joseph L. Goldstein, M.D.	
/s/ ARTHUR F. RYAN	Director
Arthur F. Ryan	
/s/ ERIC M. SHOOTER	Director
Eric M. Shooter, Ph.D.	
/s/ GEORGE L. SING	Director
George L. Sing	



## CERTIFICATIONS

I, Leonard S. Schleifer, certify that:

1. I have reviewed this annual report on Form 10-K of Regeneron Pharmaceuticals, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant is made known to us by others within the registrant, particularly during the period in which this annual report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: /s/ LEONARD S. SCHLEIFER

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Leonard S. Schleifer, M.D., Ph.D.  
*President and Chief Executive Officer*

Date: March 31, 2003

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I, Murray A. Goldberg, certify that:

1. I have reviewed this annual report on Form 10-K of Regeneron Pharmaceuticals, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant is made known to us by others within the registrant, particularly during the period in which this annual report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: /s/ MURRAY A. GOLDBERG

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

Date: March 31, 2003

**REGENERON PHARMACEUTICALS, INC.**

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**REPORT OF INDEPENDENT ACCOUNTANTS**

To the Board of Directors and Stockholders of  
Regeneron Pharmaceuticals, Inc.:

In our opinion, based upon our audits and the report of other auditors, the accompanying balance sheets and the related statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Regeneron Pharmaceuticals, Inc. (the "Company") at December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Amgen-Regeneron Partners (the "Partnership"), an entity which is fifty percent owned by the Company, as of December 31, 2001 and for each of the two years in the period ended December 31, 2001. The Company's investment in the Partnership is accounted for in accordance with the equity method of accounting. At December 31, 2001, its investment constitutes less than one percent of the Company's assets. For the years ended December 31, 2001 and 2000, the Company recorded its pro rata share of the Partnership's net loss of approximately \$1.0 million and \$4.6 million, respectively. The Partnership's financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Partnership, is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for the opinion expressed above.

As discussed in Note 2 to the financial statements, during the year ended December 31, 2000, the Company changed its method of accounting for revenue recognition.

PricewaterhouseCoopers LLP

New York, New York

January 29, 2003, except for Note 19 for  
which the date is March 31, 2003.

REGENERON PHARMACEUTICALS, INC.

BALANCE SHEETS  
December 31, 2002 and 2001

	2002	2001
	(In thousands, except share data)	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 80,077	\$ 247,393
Marketable securities	173,282	126,796
Restricted marketable securities	10,912	10,890
Accounts receivable	4,017	2,975
Prepaid expenses and other current assets	1,829	2,159
Inventory	6,831	3,973
	<u>276,948</u>	<u>394,186</u>
Total current assets	276,948	394,186
Marketable securities	20,402	32,420
Restricted marketable securities	10,573	20,884
Property, plant, and equipment, at cost, net of accumulated depreciation and amortization	76,825	39,448
Other assets	6,826	8,459
	<u>391,574</u>	<u>495,397</u>
Total assets	\$ 391,574	\$ 495,397
<b>LIABILITIES and STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 30,309	\$ 14,830
Deferred revenue, current portion	9,659	6,766
Capital lease obligations, current portion	150	426
	<u>40,118</u>	<u>22,022</u>
Total current liabilities	40,118	22,022
Deferred revenue	5,475	6,870
Capital lease obligations		150
Notes payable	200,000	200,000
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;		
2,491,181 shares issued and outstanding in 2002		
2,562,689 shares issued and outstanding in 2001	2	3
Common Stock, \$.001 par value; 160,000,000 shares authorized;		
41,746,133 shares issued and outstanding in 2002		
41,264,280 shares issued and outstanding in 2001	42	41
Additional paid-in capital	573,184	567,624
Unearned compensation	(3,643)	(2,789)
Accumulated deficit	(424,075)	(299,698)
Accumulated other comprehensive income	471	1,174
	<u>145,981</u>	<u>266,355</u>
Total stockholders' equity	145,981	266,355
	<u>\$ 391,574</u>	<u>\$ 495,397</u>
Total liabilities and stockholders' equity	\$ 391,574	\$ 495,397

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

## REGENERON PHARMACEUTICALS, INC.

STATEMENTS OF OPERATIONS  
For the Years Ended December 31, 2002, 2001, and 2000

	2002	2001	2000
	(In thousands, except per share data)		
Revenues			
Contract research and development	\$ 10,924	\$ 12,071	\$ 36,478
Research progress payments			6,200
Contract manufacturing	11,064	9,902	16,598
	<u>21,988</u>	<u>21,973</u>	<u>59,276</u>
Expenses			
Research and development	124,926	91,540	60,559
Contract manufacturing	6,483	6,509	15,566
General and administrative	12,532	9,607	8,427
	<u>143,941</u>	<u>107,656</u>	<u>84,552</u>
Loss from operations	<u>(121,953)</u>	<u>(85,683)</u>	<u>(25,276)</u>
Other income (expense)			
Investment income	9,462	13,162	8,480
Loss in Amgen-Regeneron Partners	(27)	(1,002)	(4,575)
Interest expense	(11,859)	(2,657)	(281)
	<u>(2,424)</u>	<u>9,503</u>	<u>3,624</u>
Net loss before cumulative effect of a change in accounting principle	<u>(124,377)</u>	<u>(76,180)</u>	<u>(21,652)</u>
Cumulative effect of adopting Staff Accounting Bulletin 101 ("SAB 101")			(1,563)
Net loss	<u>\$(124,377)</u>	<u>\$(76,180)</u>	<u>\$(23,215)</u>
Net loss per share amounts, basic and diluted:			
Net loss before cumulative effect of a change in accounting principle	\$ (2.83)	\$ (1.81)	\$ (0.62)
Cumulative effect of adopting SAB 101			(0.04)
Net loss	<u>\$ (2.83)</u>	<u>\$ (1.81)</u>	<u>\$ (0.66)</u>

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

REGENERON PHARMACEUTICALS, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY  
For the Years Ended December 31, 2002, 2001, and 2000

	Class A Stock		Common Stock		Additional Paid-in Capital	Unearned Compensation	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Comprehensive Loss
	Shares	Amount	Shares	Amount						
(In thousands, except per share data)										
<b>Balance, December 31, 1999</b>	3,605	\$ 4	27,818	\$ 28	\$310,296		\$ (200,303)	\$ (493)	\$ 109,532	
Issuance of Common Stock in a public offering at \$29.75 per share			2,600	3	77,347				77,350	
Cost associated with issuance of equity securities					(4,496)				(4,496)	
Issuance of Common Stock in connection with exercise of stock options, net of shares tendered			707	1	4,445				4,446	
Net issuance of Common Stock to Amgen Inc. in connection with a cashless exercise of warrants			478							
Issuance of Common Stock to The Procter & Gamble Company			574		17,065				17,065	
Net issuance of Common Stock to The Procter & Gamble Company in connection with a cashless exercise of warrants			939	1	(1)					
Issuance of Common Stock in connection with Company 401(k) Savings Plan contribution			54		421				421	
Conversion of Class A Stock to Common Stock	(992)	(1)	992	1						
Issuance of restricted Common Stock under Long-Term Incentive Plan			35		1,314	\$ (1,314)				
Net loss, 2000							(23,215)		(23,215)	\$ (23,215)
Change in net unrealized gain/loss on marketable securities								1,027	1,027	1,027
<b>Balance, December 31, 2000</b>	2,613	3	34,197	34	406,391	(1,314)	(223,518)	534	182,130	\$ (22,188)
Issuance of Common Stock in a public offering at \$25.00 per share			6,630	7	165,743				165,750	
Cost associated with issuance of equity securities					(9,096)				(9,096)	
Issuance of Common Stock in connection with exercise of stock options, net of shares tendered			254		1,868				1,868	
Issuance of Common Stock to Medtronic, Inc. in connection with a cashless exercise of warrants			37							
Issuance of Common Stock in connection with Company 401(k) Savings Plan contribution			17		477				477	
Conversion of Class A Stock to Common Stock	(50)		50							
Issuance of restricted Common Stock under Long-Term Incentive Plan, net of forfeitures			79		2,207	(2,207)				

Amortization of unearned compensation						732			732	
Issuance of stock options in consideration for consulting services					34				34	
Net loss, 2001						(76,180)			(76,180)	\$ (76,180)
Change in net unrealized gain/loss on marketable securities								640	640	640
<b>Balance, December 31, 2001</b>	2,563	3	41,264	41	567,624	(2,789)	(299,698)	1,174	266,355	\$ (75,540)

(Continued)



**REGENERON PHARMACEUTICALS, INC.**  
**STATEMENTS OF STOCKHOLDERS' EQUITY — (Continued)**  
**For the Years Ended December 31, 2002, 2001, and 2000**

	Class A Stock		Common Stock		Additional Paid-in Capital	Unearned Compensation	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Comprehensive Loss
	Shares	Amount	Shares	Amount						
(In thousands, except per share data)										
Issuance of Common Stock in connection with exercise of stock options, net of shares tendered			251		2,149				2,149	
Issuance of Common Stock in connection with Company 401(k) Savings Plan contribution			22		764				764	
Conversion of Class A Stock to Common Stock	(72)	(1)	72	1						
Issuance of restricted Common Stock under Long-Term Incentive Plan, net of forfeitures			137		2,644	(2,644)				
Amortization of unearned compensation						1,790			1,790	
Issuance of stock options in consideration for consulting services					3				3	
Net loss, 2002							(124,377)		(124,377)	\$ (124,377)
Change in net unrealized gain/loss on marketable securities								(703)	(703)	(703)
<b>Balance, December 31, 2002</b>	<b>2,491</b>	<b>\$ 2</b>	<b>41,746</b>	<b>\$ 42</b>	<b>\$573,184</b>	<b>\$ (3,643)</b>	<b>\$ (424,075)</b>	<b>\$ 471</b>	<b>\$ 145,981</b>	<b>\$ (125,080)</b>

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

REGENERON PHARMACEUTICALS, INC.

STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2002, 2001, and 2000

	2002	2001	2000
	(In thousands)		
Cash flows from operating activities			
Net loss	\$(124,377)	\$ (76,180)	\$ (23,215)
Adjustments to reconcile net loss to net cash used in operating activities			
Loss in Amgen-Regeneron Partners	27	1,002	4,575
Depreciation and amortization	8,454	6,077	4,421
Non-cash compensation expense	1,793	766	
Cumulative effect of a change in accounting principle			1,563
Changes in assets and liabilities			
(Increase) decrease in accounts receivable	(1,042)	10,860	(13,545)
Decrease (increase) in prepaid expenses and other assets	157	(3,110)	(5,451)
(Increase) decrease in inventory	(1,732)	(941)	4,050
Increase (decrease) in deferred revenue	1,498	(87)	(3,656)
Increase in accounts payable, accrued expenses, and other liabilities	4,699	4,293	3,348
Total adjustments	13,854	18,860	(4,695)
Net cash used in operating activities	(110,523)	(57,320)	(27,910)
Cash flows from investing activities			
Purchases of marketable securities	(234,463)	(159,731)	(104,898)
Purchases of restricted marketable securities	(5,514)	(31,620)	
Sales or maturities of marketable securities	199,317	124,189	53,717
Maturities of restricted marketable securities	16,514		
Capital expenditures	(34,370)	(8,223)	(6,495)
Net cash used in investing activities	(58,516)	(75,385)	(57,676)
Cash flows from financing activities			
Net proceeds from the issuance of stock	2,149	158,522	94,365
Net proceeds from the issuance of convertible notes		192,703	
Principal payments on note payable		(1,533)	(62)
Capital lease payments	(426)	(572)	(1,436)
Net cash provided by financing activities	1,723	349,120	92,867
Net (decrease) increase in cash and cash equivalents	(167,316)	216,415	7,281
Cash and cash equivalents at beginning of period	247,393	30,978	23,697
Cash and cash equivalents at end of period	\$ 80,077	\$ 247,393	\$ 30,978
Supplemental disclosure of cash flow information			
Cash paid for interest	\$ 11,038	\$ 161	\$ 274

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

REGENERON PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2002, 2001, and 2000  
(Unless otherwise noted, dollars in thousands, except per share data)

**1. Organization and Business**

Regeneron Pharmaceuticals, Inc. (the "Company" or "Regeneron") was incorporated in January 1988 in the State of New York. The Company is engaged in research and development programs to discover and commercialize therapeutics to treat human disorders and conditions. The Company's facilities are located in New York. The Company's business is subject to certain risks including, but not limited to, uncertainties relating to conducting pharmaceutical research, obtaining regulatory approvals, commercializing products, and obtaining and enforcing patents.

**2. Summary of Significant Accounting Policies**

***Property, Plant, and Equipment***

Property, plant, and equipment are stated at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Expenditures for maintenance and repairs which do not materially extend the useful lives of the assets are charged to expense as incurred. The cost and accumulated depreciation or amortization of assets retired or sold are removed from the respective accounts, and any gain or loss is recognized in operations. The estimated useful lives of property, plant, and equipment are as follows:

Building and improvements	6-30 years
Leasehold improvements	Life of lease
Laboratory and computer equipment	3-5 years
Furniture and fixtures	5 years

Costs of construction of certain long-lived assets include capitalized interest which is amortized over the estimated useful life of the related asset. The Company capitalized interest costs of \$0.2 million in 2002.

***Cash and Cash Equivalents***

For purposes of the statement of cash flows and the balance sheet, the Company considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents. The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

***Inventories***

Inventories are stated at the lower of cost or market. Cost is determined based on standards that approximate the first-in, first-out method. Inventories are shown net of applicable reserves.

***Revenue Recognition and Change in Accounting Principle***

*a. Contract Research and Development and Research Progress Payments*

On January 1, 2000, the Company changed its method of accounting for revenue recognition to conform with the guidance provided by Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* ("SAB 101"). Effective January 1, 2000, the Company recognizes revenue from contract research and development and research progress payments as services are performed or as contract research materials are accepted and meet specifications, provided a contractual arrangement exists, the contract price is fixed or determinable, and the collection of the resulting receivable is probable. In situations where the Company receives advance payment for contract research and development, such amounts are deferred and recognized as revenue as services are performed or as contract research materials are accepted and meet specifications. Gross margin on contract research and development revenue is immaterial. Non-refundable fees, including payments for services, up-front licensing fees, technology fees, and research progress payments (collectively,

REGENERON PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

*(Unless otherwise noted, dollars in thousands, except per share data)*

"Non-refundable Fees"), are recognized as revenue based on the percentage of costs incurred to date, estimated costs to complete, and total expected contract revenue. However, revenue recognized is limited to the amount of Non-refundable Fees received. Non-refundable Fees received in consideration for granting collaborators the right to license product candidates developed by the Company are recognized as revenue on a straight-line basis over the term of the underlying agreements.

Prior to January 1, 2000, the Company recognized revenue as described above, except that certain Non-refundable Fees were recognized as revenue when there were no additional contractual services to be provided or costs to be incurred by the Company in connection with the Non-refundable Fee.

The cumulative effect of adopting SAB 101 at January 1, 2000 amounted to \$1.6 million of additional loss, with a corresponding increase to deferred revenue that is being recognized in subsequent periods, of which \$0.4 million was included in contract research and development revenue in each of 2002, 2001, and 2000. The \$1.6 million represents a portion of a 1989 payment received from Sumitomo Chemical Co., Ltd. in consideration for a fifteen year limited right of first negotiation to license up to three of the Company's product candidates in Japan (see Note 10b). The effect of income taxes on the cumulative effect adjustment was immaterial.

*b. Contract Manufacturing*

The Company has entered into contract manufacturing agreements under which it manufactures products and performs services for third parties. Contract manufacturing revenue is recognized as products are shipped and as services are performed (see Notes 10b and 11).

**Investment Income**

Interest income, which is included in investment income, is recognized as earned.

**Accounting for the Impairment of Long-Lived Assets**

Long-lived assets, such as fixed assets, are reviewed for impairment when events or circumstances indicate that their carrying value may not be recoverable. Estimated undiscounted expected future cash flows are used to determine if an asset is impaired in which case the asset's carrying value would be reduced to fair value. For all periods presented, no impairment losses were recorded.

**Patents**

As a result of the Company's research and development efforts, it has obtained, applied, or is applying for a number of patents to protect proprietary technology and inventions. All costs associated with patents are expensed as incurred.

**Research and Development Expenses**

Research and development expenses include costs directly attributable to the conduct of research and development programs, including the cost of salaries, payroll taxes, employee benefits, materials, supplies, depreciation on and maintenance of research equipment, costs related to research collaboration and licensing agreements (see Note 9e), the cost of services provided by outside contractors, including services related to the Company's clinical trials, clinical trial expenses, the full cost of manufacturing drug for use in research, preclinical development, and clinical trials, expenses related to the development of manufacturing processes prior to commencing commercial production of a product under contract manufacturing arrangements, and the allocable portions of facility costs, such as rent, utilities, insurance, repairs and maintenance, depreciation, and general support services. All costs associated with research and development are expensed as incurred.

REGENERON PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

*(Unless otherwise noted, dollars in thousands, except per share data)*

For each clinical trial that the Company conducts, certain clinical trial costs, which are included in research and development expenses, are expensed based on the expected total number of patients in the trial, the rate at which patients enter the trial, and the period over which clinical investigators or contract research organizations are expected to provide services. The Company adjusts its rate of clinical expense recognition if actual results differ from the Company's estimates.

**Net Loss Per Share**

Net loss per share, basic and diluted, is computed on the basis of the net loss for the period divided by the weighted average number of shares of Common Stock and Class A Stock outstanding during the period. The diluted net loss per share for all periods presented excludes the number of shares issuable upon conversion of outstanding convertible debt and exercise of outstanding stock options and warrants, since such inclusion would be antidilutive. Disclosures required by Statement of Financial Accounting Standards No. 128, *Earnings per Share*, have been included in Note 16.

**Income Taxes**

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined on the basis of the difference between the tax basis of assets and liabilities and their respective financial reporting amounts ("temporary differences") at enacted tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is established for deferred tax assets for which realization is uncertain. See Note 14.

**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 or loss on marketable securities. The net effect of income taxes on comprehensive loss is immaterial. Comprehensive losses for the years ended December 31, 2002, 2001, and 2000 have been included in the Statements of Stockholders' Equity.

**Concentrations of Credit Risk**

Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash, cash equivalents, marketable securities, restricted marketable securities, and receivables from The Procter & Gamble Company and Merck & Co., Inc. The Company generally invests its excess cash in obligations of the U.S. government and its agencies, bank deposits, investment grade debt securities issued by corporations, governments, and financial institutions, and money market funds that invest in these instruments. The Company has established guidelines that relate to credit quality, diversification, and maturity, and that limit exposure to any one issue of securities.

**Risks and Uncertainties**

Regeneron has had no sales of its products and there is no assurance that the Company's research and development efforts will be successful, that the Company will ever have commercially approved products, or that the Company will achieve significant sales of any such products. In January 2001, Amgen-Regeneron Partners, a partnership equally owned by the Company and Amgen Inc., discontinued all clinical development of one product following notification that the product did not provide a therapeutic advantage to patients in clinical trials (see Note 10a). The Company has incurred net losses and negative cash flows from operations since its inception, and revenues to date have been limited to payments for research from four collaborators

REGENERON PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

*(Unless otherwise noted, dollars in thousands, except per share data)*

and for contract manufacturing from two pharmaceutical companies and investment income (see Notes 10 and 11). The Company operates in an environment of rapid change in technology and is dependent upon the services of its employees, consultants, collaborators, and certain third-party suppliers of materials. Regeneron, as licensee, licenses certain technologies that are important to the Company's business which impose various obligations on the Company. If Regeneron fails to comply with these requirements, licensors may have the right to terminate the Company's licenses.

Contract research and development revenue in 2002 was primarily earned from The Procter & Gamble Company under a long-term collaboration agreement (see Note 10d). Procter & Gamble is obligated to provide payments to fund Regeneron research of \$2.5 million per quarter, before adjustments for inflation, through December 2005, with no further research obligations by either party thereafter. Contract manufacturing revenue in 2002 was earned from Merck & Co., Inc. under a long-term manufacturing agreement that is expected to extend until November 2005 (see Note 11). Merck may terminate the agreement with at least one year's notice without penalty.

The Company has entered into a license and supply agreement with Nektar Therapeutics under which Nektar is the only supplier of a pegylated reagent used to formulate pegylated AXOKINE, one of our product candidates.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

***Stock-based Employee Compensation***

The accompanying financial position and results of operations of the Company have been prepared in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB No. 25"). Under APB No. 25, generally, no compensation expense is recognized in the accompanying financial statements in connection with the awarding of stock option grants to employees provided that, as of the grant date, all terms associated with the award are fixed and the quoted market price of the Company's stock, as of the grant date, is equal to or less than the amount an employee must pay to acquire the stock as defined.

The Company has stock-based incentive plans, which are more fully described in Note 12a. The following table illustrates the effect on the Company's net loss and net loss per share had compensation costs for the incentive plans been determined in accordance with the fair value based method of accounting for stock-based compensation as prescribed by Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123"). Since option grants awarded during 2002, 2001, and 2000 vest over several years and additional awards are expected to be issued in the future, the pro forma results shown below are not likely to be representative of the effects on future years of the application of the fair value based method.

## REGENERON PHARMACEUTICALS, INC.

## NOTES TO FINANCIAL STATEMENTS — (Continued)

*(Unless otherwise noted, dollars in thousands, except per share data)*

	2002	2001	2000
Net loss, as reported	\$(124,377)	\$ (76,180)	\$(23,215)
Add: Stock-based employee compensation expense included in reported net loss	1,790	732	
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(45,676)	(32,890)	(10,508)
Pro forma net loss	\$(168,263)	\$(108,338)	\$(33,723)
Net loss per share amounts, basic and diluted:			
As reported	\$ (2.83)	\$ (1.81)	\$ (0.66)
Pro forma	\$ (3.83)	\$ (2.57)	\$ (0.96)

Other disclosures required by SFAS No. 123 have been included in Note 12a.

**Statement of Cash Flows**

Supplemental disclosure of noncash investing and financing activities:

In 2002, 2001, and 2000, the Company awarded 139,611, 80,535, and 34,785 shares, respectively, of Restricted Stock under the Regeneron Pharmaceuticals, Inc. Long-Term Incentive Plan (see Note 12a). The Company records unearned compensation in Stockholders' Equity related to these awards based on the fair market value of shares of the Company's Common Stock on the grant date of the Restricted Stock award, which is expensed, on a pro rata basis, over the approximately two year period that the restrictions on these shares lapse. In 2002 and 2001, the Company recognized \$1.8 million and \$0.7 million, respectively, of compensation expense related to Restricted Stock awards. No stock-based compensation expense was recognized in 2000.

Included in accounts payable and accrued expenses at December 31, 2002, 2001, and 2000 were \$13.5 million, \$1.9 million, and \$0.7 million of capital expenditures, respectively.

Included in accounts payable and accrued expenses at December 31, 2001, 2000, and 1999 were \$0.8 million, \$0.5 million, and \$0.4 million, respectively, of accrued 401(k) Savings Plan contribution expense. During the first quarter of 2002, 2001, and 2000, the Company contributed 21,953, 17,484, and 54,003 shares, respectively, of Common Stock to the 401(k) Savings Plan in satisfaction of these obligations.

Included in marketable securities at December 31, 2002, 2001, and 2000 were \$2.0 million, \$2.0 million, and \$2.3 million of accrued interest income, respectively.

**Reclassifications**

Certain reclassifications have been made to the financial statements for 2001 and 2000 to conform with the current year's presentation.

**Future Impact of Recently Issued Accounting Standards**

In June 2002, the Financial Accounting Standards Board issued Statement on Financial Accounting Standards No. 146 ("SFAS No. 146"), *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 nullifies Emerging Issues Task Force Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a*

REGENERON PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

*(Unless otherwise noted, dollars in thousands, except per share data)*

*Restructuring*). SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred rather than on the date of an entity's commitment to an exit plan and establishes that fair value is the objective for initial measurement of the liability. The provisions of this Statement shall be effective for exit or disposal activities initiated after December 31, 2002. Management believes that the future adoption of this accounting standard will not have a material impact on the Company's financial statements.

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148 ("SFAS No. 148"), *Accounting for Stock-Based Compensation — Transition and Disclosure — an amendment of FASB Statement No. 123*. SFAS No. 148 provides several transition provisions that may be used upon adoption of the accounting provisions of SFAS No. 123. SFAS No. 148 also mandates certain new disclosures, whether or not SFAS No. 123 is adopted, that are incremental to those required by SFAS No. 123. Those disclosures must be made in both interim and annual financial statements. The transition and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002, and have been adopted in the Company's annual report on Form 10-K for the year ended December 31, 2002. The new interim disclosure provisions will be adopted in the Company's quarterly report on Form 10-Q for the period ending March 31, 2003 and, management believes, will not have a material impact on the Company's financial statements.

In November 2002, the FASB Emerging Issue Task Force finalized Issue No. 00-21 ("EITF 00-21") *Accounting for Revenue Arrangements with Multiple Deliverables*, which addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. EITF 00-21 also addresses how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. The guidance in EITF 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Management believes that the adoption of this accounting standard will not have a material impact on the Company's financial statements.

**3. Marketable Securities**

The Company considers its unrestricted marketable securities to be "available-for-sale," as defined by Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Gross unrealized holding gains and losses are reported as a net amount in a separate component of stockholders' equity entitled Accumulated Other Comprehensive Income (Loss). The net change in unrealized holding gains and losses is excluded from operations and included in stockholders' equity as a separate component of comprehensive loss.



REGENERON PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

(Unless otherwise noted, dollars in thousands, except per share data)

The following tables summarize the amortized cost basis of marketable securities, the aggregate fair value of marketable securities, and gross unrealized holding gains and losses at December 31, 2002 and 2001:

	Amortized Cost Basis	Fair Value	Unrealized Holding		
			Gains	(Losses)	Net
<b>At December 31, 2002</b>					
Maturities within one year					
Corporate debt securities	\$ 69,531	\$ 69,580	\$ 99	\$ (50)	\$ 49
U.S. government securities	98,057	98,410	353		353
Asset-backed securities	3,059	3,067	8		8
Foreign government securities	2,225	2,225			
	<u>172,872</u>	<u>173,282</u>	<u>460</u>	<u>(50)</u>	<u>410</u>
Maturities between one and two years					
Corporate debt securities	6,015	6,007		(8)	(8)
U.S. government securities	2,047	2,131	84		84
Asset-backed securities	12,279	12,264	15	(30)	(15)
	<u>20,341</u>	<u>20,402</u>	<u>99</u>	<u>(38)</u>	<u>61</u>
	<u>\$193,213</u>	<u>\$193,684</u>	<u>\$ 559</u>	<u>\$ (88)</u>	<u>\$ 471</u>
<b>At December 31, 2001</b>					
Maturities within one year					
Corporate debt securities	\$ 66,397	\$ 66,742	\$ 351	\$ (6)	\$ 345
U.S. government securities	59,419	60,054	635		635
	<u>125,816</u>	<u>126,796</u>	<u>986</u>	<u>(6)</u>	<u>980</u>
Maturities between one and three years					
Corporate debt securities	18,149	18,186	83	(46)	37
U.S. government securities	14,077	14,234	157		157
	<u>32,226</u>	<u>32,420</u>	<u>240</u>	<u>(46)</u>	<u>194</u>
	<u>\$158,042</u>	<u>\$159,216</u>	<u>\$1,226</u>	<u>\$ (52)</u>	<u>\$1,174</u>

Realized gains and losses are included as a component of investment income. For the years ended December 31, 2002, 2001, and 2000, gross realized gains and losses were not significant. In computing realized gains and losses, the Company computes the cost of its investments on a specific identification basis. Such cost includes the direct costs to acquire the securities, adjusted for the amortization of any discount or premium. The fair value of marketable securities has been estimated based on quoted market prices.

## REGENERON PHARMACEUTICALS, INC.

## NOTES TO FINANCIAL STATEMENTS — (Continued)

*(Unless otherwise noted, dollars in thousands, except per share data)***4. Accounts Receivable**

Accounts receivable as of December 31, 2002 and 2001 consist of the following:

	2002	2001
Receivable due from The Procter & Gamble Company (see Note 10d)	\$2,610	\$2,665
Receivable due from Merck & Co. Inc. (see Note 11)	1,404	63
Receivable due from Amgen-Regeneron Partners (see Note 10a)	3	247
	<u>\$4,017</u>	<u>\$2,975</u>

**5. Inventories**

Inventory balances at December 31, 2002 and 2001 consist of raw materials, work-in process, and finished products associated with the production of an intermediate for a Merck &amp; Co., Inc. pediatric vaccine under a long-term manufacturing agreement (see Note 11).

Inventories as of December 31, 2002 and 2001 consist of the following:

	2002	2001
Raw materials	\$ 357	\$ 374
Work-in process	261(1)	227(3)
Finished products	6,213(2)	3,372
	<u>\$6,831</u>	<u>\$3,973</u>

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(1) Net of reserves of \$30 thousand.

(2) Net of reserves of \$1.2 million.

(3) Net of reserves of \$0.2 million.

**6. Property, Plant, and Equipment**

Property, plant, and equipment as of December 31, 2002 and 2001 consist of the following:

	2002	2001
Land	\$ 475	\$ 475
Building and improvements	32,547	32,415
Leasehold improvements	14,224	12,388
Construction-in-progress	38,645	2,130
Laboratory and other equipment	36,762	30,503
Furniture, fixtures, and computer equipment	4,540	4,498
	<u>127,193</u>	<u>82,409</u>
Less, accumulated depreciation and amortization	(50,368)	(42,961)
	<u>\$ 76,825</u>	<u>\$ 39,448</u>

Depreciation and amortization expense on property, plant, and equipment amounted to \$8.5 million, \$7.0 million, and \$5.8 million, for the years ended December 31, 2002, 2001, and 2000, respectively. Included in these amounts were \$1.1 million, \$1.1 million, and \$1.4 million of depreciation and amortization expense related to contract manufacturing that was capitalized into inventory for the years ended December 31, 2002, 2001, and 2000, respectively.

## REGENERON PHARMACEUTICALS, INC.

## NOTES TO FINANCIAL STATEMENTS — (Continued)

*(Unless otherwise noted, dollars in thousands, except per share data)***7. Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses as of December 31, 2002 and 2001 consist of the following:

	2002	2001
Accounts payable	\$13,297	\$ 3,007
Accrued payroll and related costs	4,162	3,662
Accrued clinical trial expense	4,515	2,583
Accrued capital expenditures	4,322	1,022
Accrued expenses, other	1,721	2,264
Interest payable on convertible notes	2,292	2,292
	<u>\$30,309</u>	<u>\$14,830</u>

**8. Stockholders' Equity**

The Company's Amended Certificate of Incorporation provides for the issuance of up to 40 million shares of Class A Stock, par value \$0.001 per share, and 160 million shares of Common Stock, par value \$0.001 per share. Shares of Class A Stock are convertible, at any time, at the option of the holder into shares of Common Stock on a share-for-share basis. Holders of Class A Stock have rights and privileges identical to Common Stockholders except that Class A Stockholders are entitled to ten votes per share, while Common Stockholders are entitled to one vote per share. Class A Stock may only be transferred to specified Permitted Transferees, as defined. The Company's Board of Directors (the "Board") is authorized to issue up to 30 million shares of preferred stock, in series, with rights, privileges, and qualifications of each series determined by the Board.

During 1996, the Company adopted a Shareholder Rights Plan in which Rights were distributed as a dividend at the rate of one Right for each share of Common Stock and Class A Stock (collectively, "Stock") held by shareholders of record as of the close of business on October 18, 1996. Each Right initially entitles the registered holder to buy a unit ("Unit") consisting of one-one thousandth of a share of Series A Junior Participating Preferred Stock ("A Preferred Stock") at a purchase price of \$120 per Unit (the "Purchase Price"). Initially the Rights were attached to all Stock certificates representing shares then outstanding, and no separate Rights certificates were distributed. The Rights will separate from the Stock and a "distribution date" will occur upon the earlier of (i) ten days after a public announcement that a person or group of affiliated or associated persons, excluding certain defined persons, (an "Acquiring Person") has acquired, or has obtained the right to acquire, beneficial ownership of 20% or more of the outstanding shares of Stock or (ii) ten business days following the commencement of a tender offer or exchange offer that would result in a person or group beneficially owning 20% or more of such outstanding shares of Stock. The Rights are not exercisable unless a distribution date occurs and will expire at the close of business on October 18, 2006 unless earlier redeemed by the Company, subject to certain defined restrictions, for \$.01 per Right. In the event that an Acquiring Person becomes the beneficial owner of 20% or more of the then outstanding shares of Stock (unless such acquisition is made pursuant to a tender or exchange offer for all outstanding shares of the Company, at a price determined by a majority of the independent directors of the Company who are not representatives, nominees, affiliates, or associates of an Acquiring Person to be fair and otherwise in the best interest of the Company and its shareholders after receiving advice from one or more investment banking firms), each Right will entitle the holder to purchase, at the Right's then current exercise price, common shares (or, in certain circumstances, cash, property or other securities of the Company) having a value twice the Right's Exercise Price. The Right's Exercise Price is the Purchase Price times the number of shares of Common Stock associated with each Right (initially, one). Upon the occurrence of any such events, the

## REGENERON PHARMACEUTICALS, INC.

## NOTES TO FINANCIAL STATEMENTS — (Continued)

*(Unless otherwise noted, dollars in thousands, except per share data)*

Rights held by an Acquiring Person become null and void. In certain circumstances, a Right entitles the holder to receive, upon exercise, shares of common stock of an acquiring company having a value equal to two times the Right's Exercise Price.

As a result of the Shareholder Rights Plan, the Company's Board designated 100,000 shares of preferred stock as A Preferred Stock. The A Preferred Stock has certain preferences, as defined.

In April 2000, the Company completed a public offering of 2.6 million shares of Common Stock at a price of \$29.75 per share for net proceeds, after commissions and expenses, of \$72.9 million. In March and April 2001, the Company completed a public offering in which it issued 6.63 million shares of Common Stock at a price of \$25.00 per share and received proceeds, after commissions and expenses, of \$156.7 million.

In March 2001, Medtronic, Inc. exercised 107,400 warrants with an exercise price of \$21.72 per share on a "cashless" basis and received 37,306 shares of the Company's Common Stock.

In October 2001, the Company completed a private placement of \$200 million aggregate principal amount of senior subordinated notes, which are convertible into shares of the Company's Common Stock. See Note 9d.

**9. Commitments and Contingencies****a. Operating Leases**

The Company leases and subleases laboratory, manufacturing, and office facilities in Tarrytown, New York under operating lease agreements which expire through December 2006 and contain renewal options to extend the leases on certain facilities through December 2014. The Company also leases manufacturing, office, and warehouse facilities in Rensselaer, New York under an operating lease agreement which expires in July 2007 and contains renewal options to extend the lease for two additional five-year terms and a purchase option. The leases provide for base rent plus additional rental charges for utilities, taxes, and operating expenses, as defined.

The Company leases certain laboratory and office equipment under operating leases which expire at various times through 2006.

At December 31, 2002, the future minimum noncancelable lease commitments under operating leases were as follows:

December 31,	Facilities	Equipment	Total
2003	\$ 5,344	\$ 214	\$ 5,558
2004	5,298	127	5,425
2005	1,810	56	1,866
2006	1,495	13	1,508
2007	159	—	159
	<u>\$14,106</u>	<u>\$ 410</u>	<u>\$14,516</u>

Rent expense under operating leases was:

Year Ending December 31,	Facilities	Equipment	Total
2002	\$4,556	\$ 257	\$4,813
2001	3,455	249	3,704
2000	2,898	186	3,084

## REGENERON PHARMACEUTICALS, INC.

## NOTES TO FINANCIAL STATEMENTS — (Continued)

*(Unless otherwise noted, dollars in thousands, except per share data)*

In addition to its rent expense for various facilities, the Company paid additional rental charges for utilities, real estate taxes, and operating expenses of \$3.6 million, \$3.0 million, and \$2.1 million for the years ended December 31, 2002, 2001, and 2000, respectively.

**b. Capital Leases**

The Company leases equipment under noncancelable capital leases. Lease terms are generally four years after which, for certain leases, the Company purchases the equipment at amounts defined by the agreements.

As of December 31, 2002, one capital lease remains outstanding, with minimum rental payments as follows:

	Minimum Rental Payments
Year ending December 31, 2003	\$ 153
Less, amounts representing interest	(3)
Present value of net minimum capital lease payments	\$ 150

Leased equipment and building improvements included in property, plant, and equipment was \$1.1 million and \$1.6 million at December 31, 2002 and 2001, respectively; related accumulated depreciation was \$0.9 million and \$1.1 million for the same respective periods.

**c. Note Payable**

In 1994, the Company borrowed \$2.0 million from the New York State Urban Development Corporation. The terms of the note provided for monthly payments of principal and interest through December 2014. Outstanding borrowings accrued interest at an effective interest rate of approximately 6.4%. The note was collateralized by a first mortgage on the Company's land, building, and improvements in Rensselaer, New York. In October 2001, the remaining principal balance on this note of \$1.5 million was paid in full.

**d. Convertible Debt**

In October 2001, the Company issued \$200 million aggregate principal amount of convertible senior subordinated notes ("Notes") in a private placement for proceeds to the Company, after deducting the initial purchasers' discount and out-of-pocket expenses, of \$192.7 million. The Notes bear interest at 5.5% per annum, payable semi-annually, and mature on October 17, 2008. The Notes are convertible, at the option of the holder at any time, into shares of the Company's Common Stock at a conversion price of approximately \$30.25 per share, subject to adjustment in certain circumstances. Regeneron may redeem the Notes, in whole or in part, at any time before October 17, 2004 if the closing price of the Company's Common Stock has exceeded 150% of the conversion price then in effect for a specified period of time ("Early Redemption"). Upon any such Early Redemption, the Company is required to pay interest that would have been due up through October 17, 2004. Regeneron may also redeem some or all of the Notes at any time on or after October 17, 2004 if the closing price of the Company's Common Stock has exceeded 140% of the conversion price then in effect for a specified period of time. The fair market value of the Notes fluctuates over time. The estimated fair value of the Notes at December 31, 2002 was approximately \$182.8 million.

With respect to the Notes, the Company pledged as collateral \$31.6 million of U.S. government securities ("Restricted Marketable Securities") with maturities at various dates through October 2004. At December 31, 2002, the balance of the Restricted Marketable Securities had an amortized cost basis of \$21.5 million, due to scheduled interest payments made on the Notes in 2002. Upon maturity, the proceeds of the Restricted

REGENERON PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

*(Unless otherwise noted, dollars in thousands, except per share data)*

Marketable Securities will be sufficient to pay the scheduled interest payments on the Notes when due in 2003 and 2004. The Company considers its Restricted Marketable Securities to be "held-to-maturity," as defined by Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. These securities are reported at their amortized cost, which includes the direct costs to acquire the securities, plus the amortization of any discount or premium, and accrued interest earned on the securities.

The following table summarizes the amortized cost basis and aggregate fair value of Restricted Marketable Securities, and gross unrealized holding gains and losses, at December 31, 2002 and 2001. Fair value has been estimated based on quoted market prices.

	Amortized Cost Basis	Fair Value	Unrealized Holding		
			Gains	(Losses)	Net
<b>At December 31, 2002</b>					
Maturities within one year					
U.S. government securities	\$ 10,912	\$10,963	\$ 51		\$ 51
Maturities between one and two years					
U.S. government securities	10,573	10,803	230		230
	<u>\$21,485</u>	<u>\$21,766</u>	<u>\$281</u>		<u>\$ 281</u>
<b>At December 31, 2001</b>					
Maturities within one year					
U.S. government securities	\$ 10,890	\$10,936	\$ 46		\$ 46
Maturities between one and three years					
U.S. government securities	20,884	20,750	9	\$ (143)	(134)
	<u>\$31,774</u>	<u>\$31,686</u>	<u>\$ 55</u>	<u>\$ (143)</u>	<u>\$ (88)</u>

**e. Research Collaboration and Licensing Agreements**

As part of the Company's research and development efforts, the Company enters into research collaboration and licensing agreements with related and unrelated companies, scientific collaborators, universities, and consultants. The Company also has research collaborations with Medarex, Inc. and Emisphere Technologies, Inc., and a license and supply agreement with Nektar Therapeutics. These agreements contain varying terms and provisions which include fees and milestones to be paid by the Company, services to be provided, and ownership rights to certain proprietary technology developed under the agreements. Some of the agreements contain provisions which require the Company to pay royalties, as defined, at rates that range from 0.25% to 12%, in the event the Company sells or licenses any proprietary products developed under the respective agreements.

Certain agreements, where the Company is required to pay fees, provide for the Company, upon 30 to 90-day written notice, to terminate such agreements. With respect to payments associated with these agreements, the Company incurred expenses of \$1.7 million, \$1.1 million, and \$0.6 million for the years ended December 31, 2002, 2001, and 2000, respectively.

## REGENERON PHARMACEUTICALS, INC.

## NOTES TO FINANCIAL STATEMENTS — (Continued)

*(Unless otherwise noted, dollars in thousands, except per share data)***10. Collaboration Agreements****a. Amgen Inc.**

In August 1990, the Company entered into a collaboration agreement (the "Amgen Agreement") with Amgen Inc. ("Amgen") to develop and attempt to commercialize two proprietary products (BDNF and NT-3, individually the "Product," collectively the "Products"). The Amgen Agreement, among other things, provided for Amgen and the Company to form a partnership ("Amgen-Regeneron Partners" or the "Partnership") to complete the development and to commercialize the Products. Amgen and the Company hold equal ownership interests (subject to adjustment for any future inequities in capital contributions, as defined). The Partnership is the exclusive distributor of Products in the United States, and Amgen has received a license from the Company to market the Products outside the United States and outside Japan and certain Pacific Rim countries. The Company accounts for its investment in the Partnership in accordance with the equity method of accounting. In 2002, 2001, and 2000, the Company recognized its share of the Partnership net loss in the amounts of \$27 thousand, \$1.0 million, and \$4.6 million, respectively, which represents 50% of the total Partnership net loss. In September 2002, the Company and Amgen each made capital withdrawals of \$0.5 million from the Partnership. At December 31, 2002, the Company continues to be an equal partner in the Partnership.

In January 2001, Amgen-Regeneron Partners discontinued all clinical development of BDNF for the potential treatment of amyotrophic lateral sclerosis ("ALS") following notification that BDNF did not provide a therapeutic advantage to ALS patients in clinical trials. The Partnership has no ongoing development activities for NT-3 at this time.

Payments the Company receives from the Partnership in connection with services provided to the Partnership, are recognized as contract research and development revenue as earned. Such revenue for the years ended December 31, 2002, 2001, and 2000 totaled \$2 thousand, \$1.2 million and \$6.2 million, respectively.

Selected financial data of the Partnership as of December 31, 2001 and for the years ended December 31, 2001 and 2000, are as follows. Selected balances as of and for the year ended December 31, 2002 were insignificant.

<b>Balance Sheet Data</b>	<b>2001</b>	
Cash and cash equivalents		\$2,610
Accounts payable and accrued expenses due to partners(1)		768
Partners' capital accounts		
Amgen		921
The Company		921
<b>Statement of Operations Data</b>	<b>2001</b>	<b>2000</b>
Interest income	\$ 169	\$ 347
Total expenses(2)	(2,172)	(9,497)
Net loss	<u>\$(2,003)</u>	<u>\$(9,150)</u>

(1) Includes \$0.2 million due the Company at December 31, 2001.

(2) Includes \$1.2 million and \$6.2 million related to services provided by the Company in 2001 and 2000, respectively.

REGENERON PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

*(Unless otherwise noted, dollars in thousands, except per share data)*

In October 2000, Amgen and Regeneron entered into an agreement whereby Regeneron acquired Amgen's patents and patent applications relating to ciliary neurotrophic factor ("CNTF") and related molecules for \$1.0 million. As part of this agreement, Regeneron granted back to Amgen exclusive, royalty free rights under these patents and patent applications solely for human ophthalmic uses. In addition, Regeneron entered into a covenant not to sue Amgen under Regeneron's patents and patent applications relating to CNTF and related molecules solely for human ophthalmic uses.

In July 2002, Amgen and Immunex Corporation (now part of Amgen) granted the Company a non-exclusive license to certain patents and patent applications which may be used in the development and commercialization of the IL-1 Trap. The license followed two other licensing arrangements under which Regeneron obtained a non-exclusive license to patents owned by ZymoGenetics, Inc. and Tularik Inc. for use in connection with the IL-1 Trap program. These license agreements would require the Company to pay royalties based on the net sales of the IL-1 Trap if and when it is approved for sale. In total, the royalty rate under these three agreements would be in the mid-single digits.

**b. Sumitomo Pharmaceuticals Company, Ltd.**

In June 1994, the Company entered into a research and development agreement (the "R&D Agreement") with Sumitomo Pharmaceuticals Company, Ltd. ("Sumitomo Pharmaceuticals") to collaborate in the research and development of BDNF in Japan. In connection with the R&D Agreement, Sumitomo Pharmaceuticals made payments to the Company for its activities in developing and validating manufacturing processes for BDNF, and manufacturing and supplying BDNF and other research materials to Sumitomo Pharmaceuticals. In 2001 and 2000, Regeneron recognized contract research and development revenue from Sumitomo Pharmaceuticals of \$0.1 million and \$0.8 million, respectively. In addition, the Company recognized contract manufacturing revenue of \$0.1 million and \$4.1 million in 2001 and 2000, respectively, as supplies of BDNF were received (FOB Destination Point) by Sumitomo Pharmaceuticals.

In connection with the R&D Agreement, in August 1998, Sumitomo Pharmaceuticals signed a license agreement with the Company for the development of BDNF in Japan. Pursuant to the license agreement, Sumitomo Pharmaceuticals made a research progress payment of \$3.0 million (reduced by \$0.3 million of Japanese withholding tax) in April 2000. The amount received in 2000 is included in research progress payments. In light of the discontinuation of BDNF development for ALS, the Company did not receive any payments from Sumitomo Pharmaceuticals for research progress payments, contract research and development, or contract manufacturing in 2002 and does not expect to receive payments related to the development of BDNF in the future.

During 1989, Sumitomo Chemical Co., Ltd. ("Sumitomo Chemical"), an affiliate of Sumitomo Pharmaceuticals, entered into a Technology Development Agreement ("TDA") with Regeneron and paid the Company \$5.6 million. In consideration for this payment, Sumitomo Chemical received a fifteen year limited right of first negotiation to license up to three of the Company's product candidates in Japan. In connection with the Company's implementation of SAB 101 (see Note 2), the Company is recognizing this payment as revenue on a straight-line basis over the term of the TDA.

**c. Glaxo Wellcome plc**

During 1993, the Company entered into a collaborative research agreement with Glaxo Wellcome plc ("Glaxo"). Products that are developed by the joint efforts of Glaxo and the Company will be commercialized by one or more equally owned joint ventures. Glaxo also purchased 500,000 shares of the Company's Common Stock at a price of \$20 per share.

**d. The Procter & Gamble Company**

In May 1997, the Company entered into a long-term collaboration agreement with The Procter & Gamble Company ("P&G") to discover, develop, and commercialize pharmaceutical products (the "P&G



REGENERON PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

*(Unless otherwise noted, dollars in thousands, except per share data)*

Agreement”) and P&G agreed to provide funding for Regeneron’s research efforts related to the collaboration. In connection with the collaboration, in June 1997 and August 2000, P&G purchased 4.35 million and 573,630 shares of the Company’s Common Stock at \$9.87 and \$29.75 per share for a total of \$42.9 million and \$17.1 million, respectively. In June 1997, P&G also received five year warrants to purchase an additional 1.45 million shares of the Company’s stock at \$9.87 per share, which were exercised in August 2000. As consideration for the exercise price, P&G tendered 511,125 shares of the Company’s Common Stock which had an aggregate value at the time of exercise, based upon the average market price of the Company’s Common Stock over approximately the prior 30 trading days, equal to the aggregate exercise price of the warrants. The net result of this warrant exercise was that P&G acquired an additional 938,875 shares of the Company’s Common Stock. The 511,125 shares of Common Stock delivered to the Company by P&G were retired upon receipt. These equity purchases were in addition to a purchase by Procter & Gamble Pharmaceuticals, Inc. of 800,000 shares of the Company’s Common Stock for \$10.0 million that was completed in March 1997.

Effective December 31, 2000, the Company and P&G entered into a new collaboration agreement, replacing the P&G Agreement. The new agreement extends P&G’s obligation to fund Regeneron research through December 2005, with no further research obligations by either party thereafter, and focuses the companies’ collaborative research on therapeutic areas that are of particular interest to P&G. Under the new agreement, beginning in the first quarter of 2001, research support from P&G is \$2.5 million per quarter, before adjustments for inflation, through December 2005. Any drugs that result from the collaboration will continue to be jointly developed and marketed worldwide, with the companies equally sharing development costs and profits. P&G and the Company have divided rights to programs from the P&G Agreement that are no longer part of the companies’ collaboration. Research funding from P&G related to the collaboration totaled \$69.5 million through December 31, 2002. In August 2000, P&G made two research progress payments to Regeneron totaling \$3.5 million. In addition, in 1997 through 1999, P&G also provided research support for the Company’s AXOKINE program and, as a result, will be entitled to receive a small royalty on any sales of AXOKINE.

Contract research and development revenue related to the companies’ collaboration agreements was \$10.5 million, \$10.4 million, and \$28.3 million in 2002, 2001, and 2000, respectively. At December 31, 2002, 2001, and 2000, the P&G contract research revenue receivable was \$2.6 million, \$2.7 million, and \$6.9 million, respectively.

**11. Manufacturing Agreement**

During 1995, the Company entered into a long-term manufacturing agreement with Merck & Co., Inc., as amended, (the “Merck Agreement”) to produce an intermediate (the “Intermediate”) for a Merck pediatric vaccine at the Company’s Rensselaer, New York facility. The Company agreed to modify portions of its facility for manufacture of the Intermediate and to assist Merck in securing regulatory approval for such manufacture in the Company’s facility. The Merck Agreement calls for the Company to manufacture Intermediate for Merck for six years (the “Production Period”), with certain minimum order quantities each year. The Production Period commenced in November of 1999 and is expected to extend until November 2005. Merck may terminate the agreement with at least one year’s notice without payment of a termination fee.

Merck agreed to reimburse the Company for the capital costs to modify the facility (“Capital Costs”). Merck also agreed to pay an annual facility fee (the “Facility Fee”) of \$1.0 million beginning March 1995, subject to annual adjustment for inflation. During the Production Period, Merck agreed to reimburse the Company for certain manufacturing costs, pay the Company a variable fee based on the quantity of Intermediate supplied to Merck, and make additional bi-annual payments (“Additional Payments”), as defined. In addition, Merck agreed to reimburse the Company for the cost of Company activities performed on

REGENERON PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

*(Unless otherwise noted, dollars in thousands, except per share data)*

behalf of Merck prior to the Production Period and for miscellaneous costs during the Production Period ("Internal Costs"). These payments are recognized as contract manufacturing revenue as follows: (i) payments for Internal Costs are recognized as the activities are performed, (ii) the Facility Fee and Additional Payments are recognized over the period to which they relate, (iii) payments for Capital Costs were deferred and are recognized as Intermediate is shipped to Merck, and (iv) payments related to the manufacture of Intermediate during the Production Period ("Manufacturing Payments") are recognized after the Intermediate is tested and approved by, and shipped (FOB Shipping Point) to, Merck.

In 2002, 2001, and 2000, Merck contract manufacturing revenue totaled \$11.1 million, \$9.8 million, and \$12.5 million, respectively. Such amounts include \$1.8 million, \$1.8 million, and \$2.9 million of previously deferred Capital Costs, respectively. In addition, Merck contract manufacturing revenue for 2002 includes a non-recurring \$1.0 million payment received in August 2002 related to services the Company provided in prior years.

**12. Incentive and Stock Purchase Plans**

**a. Long-Term Incentive Plans**

During 2000, the Company established the Regeneron Pharmaceuticals, Inc. 2000 Long-Term Incentive Plan ("2000 Incentive Plan") which, as amended, provides for the issuance of up to 11,000,000 shares of Common Stock in respect of awards. In addition, 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. Employees of the Company, including officers, and nonemployees, including consultants and nonemployee members of the Board of Directors, (collectively, "Participants") may receive awards as determined by a committee of independent directors ("Committee"). The awards that may be made under the 2000 Incentive Plan include: (a) Incentive Stock Options ("ISOs") and Nonqualified Stock Options, (b) shares of Restricted Stock, (c) shares of Phantom Stock, (d) Stock Bonuses, and (e) Other Awards.

Stock Option awards grant Participants the right to purchase shares of Common Stock at prices determined by the Committee; 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 Option is granted. Options vest over a period of time determined by the Committee, generally on a pro rata basis over a three to five year period. The Committee also determines the expiration date of each Option; however, no ISO is exercisable more than ten years after the date of grant.

Restricted Stock awards grant Participants shares of restricted Common Stock or allow Participants to purchase such shares at a price determined by the Committee. Such shares are nontransferable for a period determined by the Committee ("vesting period"). Should employment terminate, as defined by the 2000 Incentive Plan, the ownership of the Restricted Stock, which has not vested, will be transferred to the Company, except under defined circumstances with Committee approval, in consideration of amounts, if any, paid by the Participant to acquire such shares. In addition, if the Company requires a return of the Restricted Shares, it also has the right to require a return of all dividends paid on such shares.

Phantom Stock awards provide the Participant the right to receive, within 30 days of the date on which the share vests, an amount, in cash and/or shares of the Company's Common Stock as determined by the Committee, equal to the sum of the fair market value of a share of Common Stock on the date such share of Phantom Stock vests and the aggregate amount of cash dividends paid with respect to a share of Common Stock during the period from the grant date of the share of Phantom Stock to the date on which the share vests. Stock Bonus awards are bonuses payable in shares of Common Stock which are granted at the discretion of the Committee.

## REGENERON PHARMACEUTICALS, INC.

## NOTES TO FINANCIAL STATEMENTS — (Continued)

*(Unless otherwise noted, dollars in thousands, except per share data)*

Other Awards are other forms of awards which are valued based on the Company's Common Stock. Subject to the provisions of the 2000 Incentive Plan, the terms and provisions of such Other Awards are determined solely on the authority of the Committee.

During 1990, the Company established the 1990 Incentive Plan which, as amended, provided for a maximum of 6,900,000 shares of Common Stock in respect of awards. Employees of the Company, including officers, and nonemployees, including consultants and nonemployee members of the Board of Directors, received awards as determined by a committee of independent directors. Under the provisions of the 1990 Incentive Plan, there will be no future awards from the plan. Awards under the 1990 Incentive Plan consisted of Incentive Stock Options and Nonqualified Stock Options which generally vest on a pro rata basis over a three or five year period and have a term of ten years.

The 1990 and 2000 Incentive Plans contain provisions that allow for the Committee to provide for the immediate vesting of awards upon a change in control of the Company, as defined.

The Company may incur charges to operations in connection with awards from these Incentive Plans. In accordance with APB No. 25 and related interpretations, the Company will record compensation expense from employee stock-based awards under certain conditions. Generally, when the terms of the award and the amount the employee must pay to acquire the stock are fixed, compensation expense for options, restricted stock, and stock bonus awards will total the grant date intrinsic value, if any, amortized over the vesting period. For other awards, including phantom stock, compensation expense will be recognized over the life of the award based on the cash remitted to settle the award or the intrinsic value of the award on the date of exercise.

Transactions involving stock option awards during 2002, 2001, and 2000, under the 1990 and 2000 Incentive Plans, are summarized in the table below. Option exercise prices were equal to the fair market value of the Company's Common Stock on the date of grant. The total number of options exercisable at December 31, 2002, 2001, and 2000 was 4,670,695, 3,374,169, and 2,533,662, respectively, with weighted average exercise prices of \$15.80, \$11.99, and \$8.31, respectively.

	Number of Shares	Weighted-Average Exercise Price
Stock options outstanding at December 31, 1999	5,821,796	\$ 8.29
<b>2000:</b>		
Stock options granted	2,633,850	\$ 36.55
Stock options canceled	(267,531)	\$ 9.23
Stock options exercised	(757,056)	\$ 7.28
Stock options outstanding at December 31, 2000	7,431,059	\$ 18.37
<b>2001:</b>		
Stock options granted	2,325,947	\$ 28.51
Stock options canceled	(170,712)	\$ 23.74
Stock options exercised	(258,255)	\$ 7.67
Stock options outstanding at December 31, 2001	9,328,039	\$ 21.10
<b>2002:</b>		
Stock options granted	2,693,010	\$ 19.97
Stock options canceled	(183,031)	\$ 22.63
Stock options exercised	(274,068)	\$ 9.96
Stock options outstanding at December 31, 2002	11,563,950	\$ 21.08

REGENERON PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

(Unless otherwise noted, dollars in thousands, except per share data)

The following table summarizes stock option information as of December 31, 2002:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 3.00 to \$ 8.77	3,020,064	4.96	\$ 7.18	2,198,238	\$ 6.81
\$ 8.78 to \$19.43	3,421,003	7.85	\$ 16.58	1,100,723	\$ 11.50
\$19.70 to \$31.45	2,988,349	8.68	\$ 27.10	602,678	\$ 27.64
\$31.73 to \$51.56	2,134,534	7.85	\$ 39.51	769,056	\$ 38.36
\$ 3.00 to \$51.56	11,563,950	7.31	\$ 21.08	4,670,695	\$ 15.80

The effect on the Company's net loss and net loss per share had compensation costs for the Incentive Plans been determined in accordance with the fair value based method of accounting for stock-based compensation as prescribed by SFAS No. 123 is shown in Note 2. For the purpose of the pro forma calculation, the fair value of each option granted from the Incentive Plans during 2002, 2001, and 2000 was estimated on the date of grant using the Black-Scholes option-pricing model. The weighted-average fair value of the options granted during 2002, 2001, and 2000 was \$14.10, \$21.22, and \$26.44, respectively. The following table summarizes the assumptions used in computing the fair value of option grants.

	2002	2001	2000
Expected volatility	70%	75%	75%
Expected lives	5 years	5 years	3.5 years
Dividend yield	0%	0%	0%
Risk-free interest rate	3.98%-4.72%	4.74%-5.23%	5.89%-5.96%

During 2002, 2001, and 2000, 139,611, 80,535, and 34,785 shares, respectively, of Restricted Stock were awarded under the 2000 Incentive Plan. These shares are nontransferable with such restriction lapsing with respect to 25% of the shares every six months over a two-year period beginning in January 2003, 2002, and 2001, respectively. In accordance with generally accepted accounting principles, the Company recorded unearned compensation within Stockholders' Equity of \$2.7 million, \$2.3 million, and \$1.3 million in 2002, 2001, and 2000, respectively, related to these awards. This amount was based on the fair market value of shares of the Company's Common Stock on the date of grant and will be expensed, on a pro rata basis, over the two year period that the restriction on these shares lapses. During 2002 and 2001, 2,183 and 1,413 shares, respectively, of Restricted Stock were forfeited due to employee terminations. The Company reduced unearned compensation within Stockholders' Equity by \$0.1 million in both 2002 and 2001 related to these forfeited awards.

The Company recognized compensation expense from stock-based awards of \$1.8 and \$0.7 million in 2002 and 2001, respectively. No stock-based compensation expense was recognized during 2000.

## REGENERON PHARMACEUTICALS, INC.

## NOTES TO FINANCIAL STATEMENTS — (Continued)

*(Unless otherwise noted, dollars in thousands, except per share data)*

As of December 31, 2002, there were 4,018,590 shares available for future grants under the 2000 Incentive Plan.

**b. Executive Stock Purchase Plan**

In 1989, the Company adopted an Executive Stock Purchase Plan (the "Plan") under which 1,027,500 shares of Class A Stock were reserved for restricted stock awards. The Plan provides for the compensation committee of the Board of Directors to award employees, directors, consultants, and other individuals ("Plan participants") who render service to the Company the right to purchase Class A Stock at a price set by the compensation committee. The Plan provides for the vesting of shares as determined by the compensation committee and, should the Company's relationship with a Plan participant terminate before all shares are vested, unvested shares will be repurchased by the Company at a price per share equal to the original amount paid by the Plan participant. During 1989 and 1990, a total of 983,254 shares were issued, all of which vested as of December 31, 1999. As of December 31, 2002, there were 44,246 shares available for future grants under the Plan.

**13. Employee Savings Plan**

In 1993, the Company adopted the provisions of the Regeneron Pharmaceuticals, Inc. 401(k) Savings Plan (the "Savings Plan"). The terms of the Savings Plan provide for employees who have met defined service requirements to participate in the Savings Plan by electing to contribute to the Savings Plan a percentage of their compensation to be set aside to pay their future retirement benefits, as defined. The Savings Plan, as amended and restated during 1998, provides for the Company to make discretionary contributions ("Contribution"), as defined. The Company recorded Contribution expense of \$0.8 million in 2002, \$0.8 million in 2001, and \$0.5 million in 2000; such amounts were accrued as liabilities at December 31, 2002, 2001, and 2000, respectively. During the first quarter of 2003, 2002, and 2001, the Company contributed 42,543, 21,953, and 17,484 shares, respectively, of Common Stock to the Savings Plan in satisfaction of these obligations.

**14. Income Taxes**

There is no benefit for federal or state income taxes for the years ended December 31, 2002 and 2000, since the Company has incurred operating losses since inception and established a valuation allowance equal to the total deferred tax asset. During the year ended December 31, 2001, the Company capitalized research and development costs for tax purposes resulting in taxable income of \$7.0 million, which was offset by net operating loss carryforwards. The effects of the alternative minimum tax on the 2001 provision were immaterial.

The tax effect of temporary differences, net operating loss carry-forwards, and research and experimental tax credit carry-forwards as of December 31, 2002 and 2001 was as follows:

	2002	2001
Deferred tax assets		
Net operating loss carry-forward	\$ 125,544	\$ 73,975
Fixed assets	4,199	2,560
Deferred revenue	6,022	5,584
Research and experimental tax credit carry-forward	16,092	10,660
Capitalized research and development costs	37,646	43,244
Other	3,395	3,507
Valuation allowance	(192,898)	(139,530)
	—	—

REGENERON PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

*(Unless otherwise noted, dollars in thousands, except per share data)*

For all years presented, the Company's effective income tax rate is zero. The difference between the Company's effective income tax rate and the Federal statutory rate of 34% is attributable to state tax benefits and tax credit carry-forwards offset by an increase in the deferred tax valuation allowance.

As of December 31, 2002, the Company had available for tax purposes unused net operating loss carry-forwards of \$315.5 million which will expire in various years from 2006 to 2022. The Company's research and experimental tax credit carry-forwards expire in various years from 2004 to 2022. Future changes in the ownership of the Company could limit the future utilization of these net operating loss and tax credit carry-forwards, as defined by the Federal and state tax codes.

**15. Legal Matters**

The Company, from time to time, has been subject to legal claims arising in connection with its business. While the ultimate results of the legal claims cannot be predicted with certainty, at December 31, 2002 there were no asserted claims against the Company which, in the opinion of management, if adversely decided would have a material adverse effect on the Company's financial position, results of operations, and cash flows.

**16. Net Loss Per Share**

The Company's basic net loss per share amounts have been computed by dividing net loss by the weighted average number of Common and Class A shares outstanding. In 2002, 2001, and 2000, the Company reported net losses and, therefore, no common stock equivalents were included in the computation of diluted net loss per share since such inclusion would have been antidilutive. The calculations of basic and diluted net loss per share are as follows:

	Net Loss (Numerator, in thousands)	Shares (Denominator, in thousands)	Per Share Amount
<b>2002:</b>			
Basic and diluted	\$ (124,377)	43,918	\$ (2.83)
<b>2001:</b>			
Basic and diluted	\$ (76,180)	42,075	\$ (1.81)
<b>2000:</b>			
Basic and diluted	\$ (23,215)	34,949	\$ (0.66)

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

	December 31,		
	2002	2001	2000
Options and Warrants:			
Weighted average number, in thousands	9,533	7,598	6,819
Weighted average exercise price	\$19.43	\$22.40	\$11.95
Restricted Stock:			
Weighted average number, in thousands	88	39	1
Convertible Debt:			
Weighted average number, in thousands	6,611	1,377	
Conversion price	\$30.25	\$30.25	

REGENERON PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

(Unless otherwise noted, dollars in thousands, except per share data)

17. 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 potential therapeutics for human medical conditions, and the development and commercialization of these discoveries. Also includes revenues and expenses related to the development of manufacturing processes prior to commencing commercial production of a product under contract manufacturing arrangements.

*Contract manufacturing:* Includes all revenues and expenses related to the commercial production of products under contract manufacturing arrangements. During 2002, 2001, and 2000, the Company produced Intermediate under the Merck Agreement (see Note 11). In addition, during 2000, the Company produced BDNF for Sumitomo Pharmaceuticals under the R&D Agreement (see Note 10b).

The table below presents information about reported segments for the years ended December 31, 2002, 2001, and 2000:

	Research & Development	Contract Manufacturing	Reconciling Items	Total
<b>2002:</b>				
Revenues	\$ 10,924	\$ 11,064	—	\$ 21,988
Loss in Amgen-Regeneron Partners	27	—	—	27
Depreciation and amortization	7,411	—(2)	\$ 1,043	8,454
Interest expense	36	2	11,821	11,859
Net (loss) income	(126,597)	4,579	(2,359)(1)	(124,377)
Capital expenditures	45,878	36	—	45,914
Total assets	75,589	12,479	303,506(3)	391,574
<b>2001:</b>				
Revenues	\$ 12,071	\$ 9,902	—	\$ 21,973
Loss in Amgen-Regeneron Partners	1,002	—	—	1,002
Depreciation and amortization	5,866	—(2)	\$ 211	6,077
Interest expense	114	40	2,503	2,657
Net (loss) income	(90,192)	3,353	10,659(1)	(76,180)
Capital expenditures	9,469	29	—	9,498
Total assets	37,948	9,369	448,080(3)	495,397
<b>2000:</b>				
Revenues	\$ 42,678	\$ 16,598	—	\$ 59,276
Loss in Amgen-Regeneron Partners	4,575	—	—	4,575
Depreciation and amortization	4,421	—(2)	—	4,421
Interest expense	195	86	—	281
Net (loss) income	(32,641)	946	\$ 8,480(4)	(23,215)
Capital expenditures	6,404	65	—	6,469
Total assets	18,336	34,615	155,323(3)	208,274

(1) Represents investment income net of interest expense related to convertible notes issued in October 2001 (see Note 9d).

## REGENERON PHARMACEUTICALS, INC.

## NOTES TO FINANCIAL STATEMENTS — (Continued)

*(Unless otherwise noted, dollars in thousands, except per share data)*

- (2) Depreciation and amortization related to contract manufacturing is capitalized into inventory and included in contract manufacturing expense when the product is shipped.
- (3) Includes cash and cash equivalents, marketable securities, restricted marketable securities, prepaid expenses and other current assets, and other assets.
- (4) Represents investment income.

**18. Unaudited Quarterly Results**

Summarized quarterly financial data for the years ended December 31, 2002 and 2001 are displayed in the following tables.

	First Quarter Ended March 31, 2002 (Unaudited)	Second Quarter Ended June 30, 2002 (Unaudited)	Third Quarter Ended September 30, 2002 (Unaudited)	Fourth Quarter Ended December 31, 2002 (Unaudited)
Revenues	\$ 4,941	\$ 5,569	\$ 6,566	\$ 4,912
Net loss	(25,445)	(30,423)	(32,816)	(35,693)
Net loss per share, basic and diluted	\$ (0.58)	\$ (0.69)	\$ (0.75)	\$ (0.81)

  

	First Quarter Ended March 31, 2001 (Unaudited)	Second Quarter Ended June 30, 2001 (Unaudited)	Third Quarter Ended September 30, 2001 (Unaudited)	Fourth Quarter Ended December 31, 2001 (Unaudited)
Revenues	\$ 6,313	\$ 5,779	\$ 5,480	\$ 4,401
Net loss	(13,037)	(14,834)	(19,931)	(28,378)
Net loss per share, basic and diluted	\$ (0.35)	\$ (0.34)	\$ (0.46)	\$ (0.65)

**19. Subsequent Event**

In March 2003, the Company entered into a collaboration agreement (the "Novartis Agreement") with Novartis Pharma AG ("Novartis") to develop and commercialize the Interleukin-1 Cytokine Trap ("IL-1 Trap"). In connection with this agreement, the Company received an up-front payment of \$27.0 million for future development activities in the United States in support of the IL-1 Trap. Novartis also purchased \$48.0 million of newly issued shares of the Company's Common Stock. The exact number of shares will be determined based upon the average closing price of the Common Stock for the 20 consecutive trading days ending May 9, 2003.

Development expenses incurred during 2003 (the "2003 Expenses") will be shared equally by the Company and Novartis. Regeneron's share of the 2003 Expenses will be funded through a loan from Novartis. The loan and accrued interest thereon will be forgiven should certain defined pre-clinical and clinical milestones be reached, otherwise, such amounts are payable on July 1, 2004. Development expenses incurred subsequent to 2003 will be shared by the Company and Novartis, as set forth in the Novartis Agreement, with funding for Regeneron's share of these expenses provided through an additional loan from Novartis which, including accrued interest thereon, is repayable in full as set forth in the agreement. The Novartis Agreement contains a provision that allows Novartis the right to terminate the agreement with specified advance notice.

Under the Novartis Agreement, the Company and Novartis will share co-promotion rights and profits on sales, if any, of the IL-1 Trap. In addition, the Company may receive up to \$275.0 million in milestone payments upon the receipt of specified regulatory approvals and achieving certain product revenues targets. Also, under the Novartis Agreement, the Company and Novartis each have the option to collaborate on the development and commercialization of additional defined IL-1 product candidates that Regeneron and Novartis are currently developing independently.



**REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS**

The Partners

Amgen-Regeneron Partners

We have audited the accompanying balance sheets of Amgen-Regeneron Partners, a Delaware general partnership, as of December 31, 2001 and the related statements of operations, changes in partners' capital (deficit), and cash flows for years ended December 31, 2001 and 2000. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Amgen-Regeneron Partners at December 31, 2001, and the results of its operations and its cash flows for the years ended December 31, 2001 and 2000, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Los Angeles, California

February 4, 2002

**AMGEN-REGENERON PARTNERS****BALANCE SHEETS  
December 31, 2002 and 2001**

	2002 (Unaudited)	2001
	(In thousands)	
<b>ASSETS</b>		
Total current assets — cash and cash equivalents	\$ 1,100	\$2,610
<b>LIABILITIES AND PARTNERS' CAPITAL</b>		
Total current liabilities — accounts payable and accrued expenses due to partners	\$ 312	\$ 768
Partners' capital:		
Amgen	394	921
Regeneron	394	921
Total partners' capital	788	1,842
Total liabilities and partners' capital	\$ 1,100	\$2,610

See accompanying notes.

**AMGEN-REGENERON PARTNERS****STATEMENTS OF OPERATIONS  
Years Ended December 31, 2002, 2001 and 2000**

	2002 (Unaudited)	2001	2000
		(In thousands)	
Interest income	\$ 35	\$ 169	\$ 347
Total income	35	169	347
Expenses:			
Research and development performed by partners	34	2,094	9,436
General and administrative	55	78	61
Total expenses	89	2,172	9,497
Net loss	\$ (54)	\$(2,003)	\$(9,150)

See accompanying notes.

**AMGEN-REGENERON PARTNERS****STATEMENTS OF CHANGES IN PARTNERS' CAPITAL (DEFICIT)  
Years Ended December 31, 2002, 2001 and 2000**

	Amgen	Regeneron
	(In thousands)	
<b>Balance at December 31, 1999</b>	\$ (300)	\$ (300)
Capital contributions	5,142	5,142
Net loss	(4,575)	(4,575)
<b>Balance at December 31, 2000</b>	267	267
Capital contributions	1,655	1,656
Net loss	(1,001)	(1,002)
<b>Balance at December 31, 2001</b>	921	921
Capital withdrawals (unaudited)	(500)	(500)
Net loss (unaudited)	(27)	(27)
<b>Balance at December 31, 2002 (unaudited)</b>	\$ 394	\$ 394

See accompanying notes.

**AMGEN-REGENERON PARTNERS****STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2002, 2001 and 2000**

	2002 (Unaudited)	2001	2000
	(In thousands)		
Cash flows from operating activities:			
Net loss	\$ (54)	\$(2,003)	\$ (9,150)
(Decrease) increase in accounts payable and accrued expenses	(456)	(3,867)	335
Net cash used in operating activities	(510)	(5,870)	(8,815)
Cash flows from financing activities — capital (withdrawals) contributions	(1,000)	3,311	10,284
(Decrease) increase in cash and cash equivalents	(1,510)	(2,559)	1,469
Cash and cash equivalents at beginning of year	2,610	5,169	3,700
Cash and cash equivalents at end of year	\$ 1,100	\$ 2,610	\$ 5,169

See accompanying notes.

**AMGEN-REGENERON PARTNERS**

NOTES TO FINANCIAL STATEMENTS

**December 31, 2002**

*(Information as of and for the year ended December 31, 2002 is unaudited)*

**1. Summary of significant accounting policies**

***Business and organization***

Amgen-Regeneron Partners (the Partnership), a general partnership, was formed on June 21, 1991, under the laws of the state of Delaware between Amgen Inc. (Amgen) and Regeneron Pharmaceuticals, Inc. (Regeneron). The Partnership was formed to develop and commercialize in the United States brain-derived neurotrophic factor (BDNF) and Neurotrophin-3 (NT-3, together with BDNF, the Products) for human pharmaceutical use, in conformity with a collaboration agreement (the Collaboration Agreement) (Note 3).

The Partnership has conducted clinical trials of the Products in the past. Following a review of available clinical trial data, the Partnership discontinued the development of BDNF for the treatment of amyotrophic lateral sclerosis (ALS) in January 2001. Currently, there are no ongoing development activities for NT-3.

***Cash equivalents***

The Partnership considers only those investments which are highly liquid, readily convertible to cash and which mature within three months of the date of purchase as cash equivalents. At December 31, 2002 and 2001, cash and cash equivalents consisted of a single interest bearing money market account.

***Research and development***

Research and development costs are expensed as incurred. Clinical trial costs, which are a component of research and development costs, are recognized based upon the estimated levels of effort expended on those trials.

***Income taxes***

The Partnership's financial statements do not include a provision (credit) for income taxes. Income taxes, if any, are the liability of the individual partners.

***Use of estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**2. Capital contributions, allocation of profits and losses and cash distributions**

Capital contributions are recorded in the capital account of each partner. Capital account contributions are generally made quarterly in advance based upon capital calls made by the Partnership's Joint Management Committee pursuant to projected cash requirements of the Partnership. There were no capital contributions made to the Partnership in 2002. Cash distributions, if any, and profits or losses are allocated to each partner's capital account in proportion to their respective capital account contributions.

**3. Collaboration Agreement**

In August 1990, Amgen and Regeneron entered into the Collaboration Agreement to develop and commercialize BDNF and NT-3, compounds for which Regeneron possesses substantial scientific, technical and proprietary information. Each party agreed to perform research and development on the Products under product development programs approved by the Committee. Upon Amgen's notification in writing to Regeneron that the preparation of an Investigational New Drug Application for each Product was to

**AMGEN-REGENERON PARTNERS**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

*(Information as of and for the year ended December 31, 2002 is unaudited)*

commence, the licenses granted by the partners to the Partnership for the underlying technologies, discussed below, became effective on a Product-by-Product basis. Also, upon such notification, further research and development of the Products under the licenses became the obligation of the Partnership. These licenses grant the Partnership an exclusive royalty-free right to develop, make, have made, use, sell and distribute each Product for human pharmaceutical use in the United States. The Partnership has, in turn, granted to Amgen and Regeneron exclusive royalty-free sublicenses for the underlying technologies to the extent necessary to fulfill their obligations under the Collaboration Agreement. These sublicenses became effective at the same time the related licenses granted the Partnership became effective.

Under the Collaboration Agreement, Amgen would be primarily responsible for the manufacture and commercialization of the Products in the United States if successfully developed by the Partnership. Amgen's costs in connection with such activities would be reimbursed at agreed-to rates. Unless terminated earlier, the Partnership will continue in effect, with respect to each Product, until the later of the expiration of the last United States patent of each Product, or 15 years from the date on which each Product was approved for sale in the United States.

A Joint Management Committee (the Committee) is responsible for the overall management of the business and affairs of the Partnership as well as activities performed under the Collaboration Agreement. Each partner has appointed three representatives to the Committee. One additional representative may be appointed by a partner if the balance of their capital account becomes more than twice the amount of the balance of the other partner's capital account (Note 2).

Pursuant to the terms of the Collaboration Agreement, and subject to the approval by both parties, Amgen and Regeneron can conduct certain research and development activities on behalf of the Partnership, including contracting with third parties to conduct clinical trials. Amgen also provides on behalf of the Partnership certain quantities of materials, primarily for clinical testing. Amgen and Regeneron are paid for such services and materials at amounts approved by the Committee. During the years ended December 31, 2002, 2001 and 2000, the Partnership incurred expenses (including accrued expenses) of \$32,000, \$866,000 and \$3,204,000, respectively, from Amgen and \$2,000, \$1,228,000 and \$6,232,000, respectively, from Regeneron for such services and materials. These amounts are included in research and development expense in the accompanying statements of operations. In addition, certain other costs associated with the development of the Products have been incurred by the partners but not charged to the Partnership or reflected in the accompanying financial statements as the related development activities are not billable to the Partnership under the terms of the Collaboration Agreement. At December 31, 2002, accounts payable and accrued expenses due to partners was composed of \$9,000 of accounts payable and \$300,000 of accrued clinical costs due to Amgen and \$3,000 of accounts payable due to Regeneron. At December 31, 2001, accounts payable and accrued expenses due to partners was composed of \$143,000 of accounts payable and \$378,000 of accrued clinical costs due to Amgen and \$170,000 of accounts payable and \$77,000 of accrued clinical costs due to Regeneron.

AMENDMENT  
TO THE  
REGENERON PHARMACEUTICALS, INC.  
2000 LONG-TERM INCENTIVE PLAN

WHEREAS, the Regeneron Pharmaceuticals, Inc. 2000 Long-Term Incentive Plan (the "Plan") was adopted by Regeneron Pharmaceuticals, Inc. (the "Company") on April 24, 2000 and became effective as of such date pursuant to the approval of the Company's shareholders; and

WHEREAS, pursuant to Section 19 of the Plan, the Board of Directors of the Company is authorized to amend the Plan at any time, subject to the receipt of shareholder approval if the Board of Directors determines that such approval is necessary in order to satisfy the requirements of applicable law; and

WHEREAS, the Company has sought shareholder approval of the amendment set forth in paragraph 1, below, which has the effect of increasing the number of shares of Company Stock reserved for issuance under the Plan by 5,000,000 shares and by an additional number of shares that are unissued under the Company's prior long-term incentive plan; and

WHEREAS, the Company desires to amend the Plan, in the manner set forth in paragraphs 1 and 2 and 3 below.

NOW THEREFORE, the Plan is hereby amended, effective as of June 14, 2002 as set forth below.

1. Section 3(a) of the Plan, *Shares Available for Awards*, is hereby amended by deleting the first full paragraph thereof and replacing it in its entirety with the following paragraph:

The shares of Company Stock that may be issued with respect to Awards made under the Plan may be authorized but unissued Company Stock or authorized and issued Company Stock held in the Company's treasury (including authorized and issued shares of Company Stock acquired or purchased by the Company and held by the Company as treasury shares). Subject to the subsequent provisions of this Section 3 including the adjustment provisions contained therein, the maximum number of shares of Company Stock that may be delivered pursuant to Awards made under the Plan shall equal the sum of: (i) 11,000,000 shares of Company Stock; (ii) any shares of Company Stock previously reserved for issuance under the Company's 1990 Long-Term Incentive Plan (the "Prior Plan") but which remain unissued as of June 14, 2002 and any shares of Company Stock that are represented by awards granted under the Prior Plan which are forfeited, expire or are cancelled without delivery of shares of Company Stock; and (iii) any shares of Company Stock that again become

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available for Awards pursuant to Section 3(e) below. Notwithstanding the foregoing, the maximum number of shares of Company Stock that may be issued pursuant to Incentive Stock Options shall be 11,000,000 shares.

2. Section 3(e) of the Plan, *Reuse of Shares*, is hereby amended by the addition of the the parenthetical "(whether by actual delivery or attestation)" immediately following the words "received by the Company" in clause 2 thereof.

3. Section 5 of the Plan, *Eligibility*, is hereby amended by deleting the text of that Section and replacing it in its entirety with the following text:

The persons who shall be eligible to receive Awards pursuant to the Plan shall be such employees of the Company (including officers of the Company, whether or not they are directors of the Company), Nonemployee Directors and nonemployee service providers and consultants, in each case as the Committee shall select from time to time. Nonqualified Stock Options shall be granted to Nonemployee Directors in accordance with the provisions of Section 12 hereof and as otherwise determined by the Committee. The grant of any Award hereunder at any time to any employee, service provider or consultant shall not entitle such person to a grant of an Award at any future time.

4. The Plan is hereby ratified and confirmed in all other respects.

IN WITNESS WHEREOF, this Amendment has been duly executed by an authorized officer of the Company.

REGENERON PHARMACEUTICALS, INC.

By: /s/ Stuart Kolinski  
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AMENDMENT NO. 2

TO THE  
REGENERON PHARMACEUTICALS, INC.  
2000 LONG-TERM INCENTIVE PLAN

WHEREAS, the Regeneron Pharmaceuticals, Inc. 2000 Long-Term Incentive Plan (the "Plan") was adopted by Regeneron Pharmaceuticals, Inc. (the "Company") on April 24, 2000 and became effective as of such date pursuant to the approval of the company's shareholders; and

WHEREAS, pursuant to Section 19 of the Plan, the Board of Directors of the Company is authorized to amend the Plan; and

WHEREAS, the Board of Directors of the Company desires to amend the Plan, in the manner set forth in paragraph 1 below.

NOW THEREFORE, the Plan is hereby amended, effective as of December 20, 2002 as set forth below.

1. Section 12(b) of the Plan, *Timing of Grant*, is hereby amended by deleting the section in its entirety and replacing it with the following:

"On the first business day (i.e. a day other than Saturday, Sunday or any other day in which the securities exchange on which the Company Stock trades is closed) following January 1 of each calendar year, each then serving Nonemployee Director shall be automatically granted a Nonqualified Stock Option to purchase 15,000 shares of Company Stock. In addition, on the date the shareholders approve this Plan, each then Nonemployee Director shall be automatically granted a Nonqualified Stock Option to purchase 5,000 shares of Company Stock."

2. The Plan is hereby ratified and confirmed in all other respects

IN WITNESS WHEREOF, this Amendment No. 2 has been duly executed by an authorized officer of the Company.

REGENERON PHARMACEUTICALS, INC.

By: /s/ Stuart Kolinski

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Name: Stuart Kolinski

Title: Vice President & General Counsel

As of December 20, 2002

Leonard S. Schleifer, M.D., Ph.D.  
President and Chief Executive Officer,  
Regeneron Pharmaceuticals, Inc.  
777 Old Saw Mill River Road  
Tarrytown, New York 10591-6707

Dear Len:

This employment agreement will replace and update the agreement dated February 12, 1998 between Regeneron Pharmaceuticals, Inc. ("Regeneron" or the "Company") and you. The compensation obligations of the Company under this agreement (the "Agreement") will be reduced by any amounts actually paid by any affiliate, subsidiary, and related entity controlled by or under common control with the Company ("Related Entity").

1. Employment.

(a) You will continue to serve, during the Employment Term, as President and Chief Executive Officer of the Company with the customary responsibilities and authority of such positions and in accordance with the Company's By-Laws. You will report directly and only to the Board of Directors. If elected, you will also continue to serve as a Director of the Company. The Company shall during the Employment Term recommend and propose you as a Director of the Company and any Related Entity and, if the Chairman of the Board of Directors as of the date hereof at any time ceases to serve as such, as Chairman of the Board of Directors. To the extent you are not elected Chief Executive Officer of any Related Entity, such Chief Executive Officer shall report to you.

(b) During the Employment Term, you shall devote substantially all of your business time and attention to the performance of your duties for the Company and serve the Company diligently and to the best of your ability. You may, however, perform teaching, consulting, patient care, and other activities as you have done from time to time in the past, provided that they do not materially conflict with the performance of your duties to the Company. In addition, you may manage your personal investments and be involved in civic and charitable activities so long as such activities do not materially interfere with your providing

services hereunder. During the Employment Term, you shall not serve as a member of a board of directors of any other for-profit corporation (other than a Related Entity) without the prior written consent of the Board of Directors (which consent shall not be unreasonably withheld). In no event will the provisions of this Agreement in any way modify, alter, reduce, or limit the fiduciary obligations you owe to the Company as an officer and Director of the Company.

2. Term. Except for earlier termination as provided in paragraph 4 hereof, your employment under this Agreement (the "Employment Term") shall be for an initial term commencing on the date hereof and ending on December 31, 2003 (the "Initial Term"). Unless notice is given of an intent not to extend the Initial Term or any extension thereof, by you or by the Company on at least ninety (90) days prior written notice, the Employment Term shall be deemed as of such 90th day to have been extended and continue until the end of the following calendar year unless otherwise terminated as provided in paragraph 4 hereof.

3. Compensation/Benefits.

(a) During the Employment Term, you will receive base salary at an annual rate of not less than \$575,000, paid currently at periodic intervals in accordance with the Company's payroll practices for salaried employees. Adjustments in your base salary during the term of this Agreement (which shall thereafter be your "Base Salary") may be effected from time to time upon the recommendation of the Compensation Committee and the approval of the Board of Directors based upon an annual review by the Compensation Committee, but your Base Salary, once increased, shall in no event be decreased; *provided, however*, that in the event there is a general reduction of compensation applicable to senior executives generally, nothing herein shall preclude the Board of Director's ability to reduce your Base Salary consistent with this reduction. You shall also participate in and be the beneficiary of any cash bonus payments, stock option and other equity programs, incentive programs, pension plans, profit sharing plans and other benefit programs and fringe benefit programs implemented by the Company and otherwise available to executive officers, nonindependent directors, and employees of the Company, at a level commensurate with your position, in accordance with the terms and conditions of such programs.

(b) You have separately entered into one or more stock purchase agreements and stock option award agreements with the Company. With the sole exception of the provisions in this Agreement regarding vesting and exercisability of stock options, nothing in this Agreement will affect any term or provision of any stock purchase or stock option award agreement you have entered into or will enter into with the Company under any stock purchase or incentive plan of the Company and the stock options to purchase common shares previously granted to you shall remain outstanding, and in effect, in accordance with their respective terms.

(c) The Company will during the Employment Term maintain insurance on your life in the amount of \$1,000,000 payable to such beneficiary as you designate. You may change the designated beneficiary of this policy at any time. The Company will not borrow against or otherwise encumber the policy or proceeds thereof. The Company will also during the Employment Term maintain for your benefit a long term disability policy that will pay you at least 65 percent of your Base Salary during such period as you are unable, for physical or mental

reasons, to perform the responsibilities of your current position, with such benefits commencing no later than six (6) months after incurrence of the disability.

(d) During the Employment Term, the Company will pay for or will reimburse the reasonable costs of your medical malpractice insurance and all customary, ordinary, and necessary business expenses incurred by you in the performance of your duties (including expenses related to equipment you customarily and normally use in connection with the performance of your duties to the Company), provided that you present such vouchers, receipts, or other documentation as are required by the regular procedures of the Company for the reimbursement of such expenses. In addition, during the Employment Term, the Company will pay you a monthly automobile cash allowance of \$1,500 plus all expenses of maintaining and operating your automobile in accordance with current policy.

(e) You shall be entitled to at least four (4) weeks of vacation per year, which vacation may be taken at such times as you elect with due regard to the needs of the Company.

(f) The Company will pay, or will reimburse the reasonable costs of, any legal, accounting or other professional services you incur in connection with your tax preparation and financial planning to a maximum of \$12,500 per year, including, without limitation, a tax gross-up reimbursement so long as the total direct reimbursement and tax gross-up reimbursement is no more than \$12,500 per year; *provided, however*, that any unused portion of such amounts shall remain available for your use in future years (in addition to the \$12,500 to which you are entitled per year).

(g) During the Employment Term (and, subject to the terms of this paragraph, thereafter), the Company will continue to designate you as its nominee at the club at which you are currently designated as the nominee of the Company (the "Club") and pay any dues or other expenses incurred with regard to your use of the Club. After your termination of employment with the Company, you shall, at your election made to the Company within 45 days thereafter: (i) elect not to be designated by the Company as the nominee for the Company's Club membership; (ii) if permitted by the Club, have the Company transfer the Company's Club membership to you, with the Company having its bond either returned or assumed by you (in which case you would pay the Club any dues or other Club expenses incurred thereafter and, if you assumed the bond, would pay the Company the amount of the bond); or (iii) have the Company continue your designation as nominee for the Company's Club membership (in which case you would pay the dues and other Club expenses incurred thereafter and deposit the amount of the Club bond with the Company, with such amount (as adjusted in the same manner as the bond) returned to you by the Company at the earlier of such time as it receives a refund of the bond or you elect to cease being designated as the Company's nominee at the Club). Notwithstanding anything else herein, this obligation shall survive any termination of your employment with the Company.

(h) Following any termination of your employment with the Company, if and to the extent the Company maintains any health benefit plans (and without any obligation to do so), you and your (and, after your death, your wife's) dependents shall be entitled to continue to participate therein by paying an amount equal to the COBRA cost thereof for the remainder of

your life and that of your spouse at the time of such termination of employment. Notwithstanding anything else herein, this provision shall survive any termination of your employment with the Company.

4. Termination. Except as otherwise provided in paragraph 2, the Employment Term shall end upon the earliest of the following to occur:

(a) Your death.

(b) Upon a vote of the Board of Directors and notice to you of termination as a result of your Permanent Disability. Permanent Disability means your inability, by reason of any physical or mental impairment, to substantially perform the significant aspects of your regular duties as contemplated by this Agreement and which inability is reasonably contemplated to continue for at least one (1) year from its incurrence and at least ninety (90) days from the date of such vote. Any question as to the existence, extent, or potentiality of your Permanent Disability shall be determined by a qualified independent physician selected by you (or, if you are unable to make such selection, by an adult member of your immediate family), and reasonably acceptable to the Company. Such physician's written determination of your Permanent Disability shall, upon delivery to the Company, be final and conclusive for purposes of this Agreement; *provided, however*, that no such determination shall be final and conclusive with respect to any disability coverage under paragraph 3(c).

(c) Your Involuntary Termination, as set forth in paragraph 6 below.

(d) Your Removal for Cause, as set forth in paragraph 7(a) below.

(e) Your voluntary termination (other than termination on account of death, Permanent Disability or termination by you for Good Reason) upon ninety (90) days prior written notice; *provided, however*, that the Company may waive such notice requirement in a written waiver delivered to you.

5. Death and Disability.

(a) If the Employment Term terminates by reason of your death or your Permanent Disability as provided in paragraph 4, then, except as provided in this paragraph 5(a), no further compensation will become payable to you under this Agreement, other than any unpaid Base Salary, earned but unpaid bonuses, the pro rata portion of incentive compensation earned for services rendered through the date of your death or Permanent Disability, any deferred compensation and all other payments, benefits or fringe benefits to which you may be entitled under the terms of any applicable compensation arrangement or benefit, equity or fringe benefit plan or program or grant (other than any severance plan) or this Agreement (collectively, "Entitlements"). Entitlements shall be calculated and paid as set forth in subparagraph (b) below. You shall also be entitled to the Stock Option Treatment (as set forth in paragraph 8(g) below). In the event of your termination on account of your Permanent Disability, the Company shall pay you 100% of your Base Salary reduced by any insurance or other payments made under policies or plans paid for or maintained by the Company and shall continue to provide you and

your eligible dependents with the medical and dental care benefit coverage and life insurance at a level of coverage comparable to the coverage in effect for you at the time of your termination on account of Permanent Disability upon the same terms and conditions (except for the requirement of your continued employment) for a period of eighteen (18) months following your date of termination.

(b) Earned but unpaid bonus shall mean any declared but unpaid bonus for any prior bonus period and, if the bonus for the current bonus period is other than totally discretionary, a pro rata portion of the calculated bonus for the bonus period based on days in the bonus period prior to termination of your services compared to total days in the bonus period. Any incentive compensation shall be deemed earned and shall be paid based on actual results during the measuring period and a pro rata measurement of the days in the incentive period prior to termination of your services compared to total days in the incentive period. Each Entitlement shall be promptly paid after the amount thereof is determined. Any deferred compensation shall be paid in accordance with the terms of the applicable plan.

6. Involuntary Termination.

(a) Involuntary Termination shall mean either your termination by the Company in accordance with paragraph 6(b) hereof, or your resignation in accordance with paragraph 6(c) hereof.

(b) Termination By The Company Without Cause:

Your termination by the Company shall be considered to be "without cause" if (i) you are terminated or dismissed, for reasons other than your death, Permanent Disability or "Removal for Cause," as President or Chief Executive Officer, unless you have previously consented in writing to such removal or dismissal (which consent may be given or withheld in your sole discretion); *provided, however*, that your termination or dismissal as President shall not be a Termination by the Company without Cause if the person appointed President reports to you, or (ii) prior to your sixty-fifth (65th) birthday, the Company gives notice of nonextension of the Employment Term pursuant to paragraph 2 hereof.

(c) Termination By You For Good Reason:

Your resignation shall be considered to be for Good Reason if you resign as President and Chief Executive Officer (whether or not you resign as a Director and, if Chairman of the Board, as Chairman of the Board) upon ninety (90) days' prior written notice within ninety (90) days after the occurrence of one of the following events: (i) your removal, dismissal or failure to be re-elected as President or Chief Executive Officer (other than on account of your termination for some other reason) or a *de jure* or *de facto* material reduction in your duties, title, responsibilities, authority, status, or reporting responsibilities (other than in connection with the appointment of a Chief Operating Officer or President who reports to you), unless you have previously consented in writing to such removal, dismissal or reduction (which consent may be given or withheld in your sole discretion); (ii) the failure to elect you, or your removal, dismissal or failure to be re-elected, as Chairman of the Board if the current Chairman of the Board ceases



to serve as such; (iii) the failure of the Company to pay to you any amount due under this Agreement within ten (10) days after the later of its due date or your written demand for payment of such amount; (iv) any material breach by the Company of any provision of this Agreement which is not cured within thirty (30) days after your giving of written notice of such breach to the Company; (v) one year after a Change of Control, as defined in Exhibit A hereto, to the extent you are employed hereunder at that time; (vi) the relocation of the Company's principal executive office more than fifty (50) miles from the current location; or (vii) the failure of the Company to obtain and deliver to you a reasonably satisfactory written agreement from any successor to the Company as provided in paragraph 14(I).

(d) Upon an Involuntary Termination, you will become entitled to the benefits specified in paragraph 8 of this Agreement. In addition, you will be entitled to your Entitlements as calculated and paid in accordance with paragraph 5(b) above.

#### 7. Removal For Cause.

(a) Removal for Cause shall mean the termination of your duties as President, Chief Executive Officer and, if you are then serving in such capacity, Chairman of the Board, effected by the Board of Directors of the Company (after a Board of Directors meeting for which you had at least ten (10) days prior written notice and at which you had the opportunity to have counsel present to represent you in connection with issues concerning your removal for cause) by reason of any one or more of the following, which individually or in the aggregate has a material adverse effect on the aggregate business or affairs of the Company and any Related Entity:

(i) your gross neglect of your duties, your willful and continuing refusal to perform your duties (other than, in any such case, because of a reasonably documented mental or physical illness), your refusal to obey any lawful order of the Board of Directors, or any material breach by you of any provision of paragraphs 11 or 12 of this Agreement, which, in any of the foregoing events, continues for more than thirty (30) days following your receipt of written notice from the Board of Directors that describes such breach or other event;

(ii) your willful misconduct with respect to the business or affairs of the Company or of any Related Entity;

(iii) your conviction of, or your plea of nolo contendere to, a misdemeanor involving embezzlement or fraud or other offense involving money or other property of the Company (other than a good faith dispute over expense account items), any criminal violation of the Securities Act of 1933 or the Securities Exchange Act of 1934, or any felony, provided your rights of appeal with respect to such matter have either lapsed or been exercised;

(b) Upon your Removal for Cause, the Company will only be required to pay you any unpaid Base Salary earned by you pursuant to paragraph 3 for services rendered through the date of such removal, any bonus which has been declared but is unpaid as of the date of such removal and, in accordance with the terms of any plan, any deferred compensation. In addition,

you will be entitled to your Entitlements as calculated and paid in accordance with paragraph 5(b) above. In such case, no amounts will be payable to you under paragraph 8 of this Agreement for any reason whatsoever.

(c) In the event of your voluntary termination in accordance with paragraph 4(e), you shall receive the same amounts as if you were Removed for Cause plus the Stock Option Treatment (as set forth in paragraph 8(g)).

#### 8. Severance Benefits.

(a) Subject to paragraphs 8(b) and 8(e), upon an Involuntary Termination, you will become entitled to the following severance benefits:

(i) The Company will pay you an amount equal to one and one-quarter (1 1/4) times the sum of (x) your Base Salary in effect (or, if improperly reduced, required to be in effect) at the time of your Involuntary Termination and (y) the average of the annual bonuses paid or payable to you during the three (3) completed fiscal years prior to your Involuntary Termination; provided that such payment shall be payable in twelve (12) equal monthly installments commencing no later than ten (10) calendar days (including weekends and holidays) following such Involuntary Termination.

(ii) Unless you become eligible for comparable coverage under another company's plans or programs, the Company shall continue to provide you and your eligible dependents, upon the same terms and conditions (except for the requirement of your continued employment), with the medical and dental care benefit coverage and life insurance at a level of coverage comparable to the coverage in effect for you at the time of your Involuntary Termination for the eighteen (18) month period following your Involuntary Termination.

(b) Notwithstanding paragraph 8(a), upon your Involuntary Termination within three (3) years after a Change of Control, as defined in Exhibit A hereto, or within three (3) months prior thereto in anticipation of a Change of Control, you will become entitled to the following severance benefits in lieu of the amounts under paragraph 8(a) above:

(i) The Company will make a lump sum payment to you within ten (10) days after such termination of an amount equal to three (3) times the sum of (x) your Base Salary in effect (or, if improperly reduced, required to be in effect) at the time of your Involuntary Termination and (y) the average of the annual bonuses paid or payable to you during the three (3) completed fiscal years prior to your Involuntary Termination or, if higher, the three (3) completed fiscal years prior to the Change of Control.

(ii) Any bonus, vacation pay or other compensation accrued or earned under law or in accordance with the Company's policies applicable to you but not yet paid and any incurred but unreimbursed business expenses for the period prior to termination shall be payable in accordance with the Company's policies and the terms of the applicable plan.

(iii) Until you and your dependents become eligible for comparable coverage under another company's plans or programs, the Company shall continue to provide you and your eligible dependents, upon the same terms and conditions (except for the requirement of your continued employment), with the medical and dental care benefit coverage and life insurance at a level of coverage comparable to the coverage in effect for you at the time of your Involuntary Termination for the thirty-six (36) month period following your Involuntary Termination.

(iv) All stock options, whether heretofore or hereafter, granted to you shall become fully vested and immediately exercisable and, if the basis were an action in anticipation of the Change of Control, the option shall remain exercisable (unless the original terms would otherwise end) at least through the Change of Control.

(c) Each of your outstanding loans from the Company will become due and payable in accordance with their existing terms and provisions, and none of these loans will be forgiven or otherwise canceled in whole or in part.

(d) The Company agrees that if your employment with the Company is terminated during the Employment Term for any reason whatsoever, you are not required to seek other employment or to attempt in any way to reduce any amounts payable to you by the Company pursuant to this Agreement. Further, the amount of any payment or benefit provided for in this Agreement shall not be reduced by any compensation earned by you or benefit provided to you as the result of employment by another employer or otherwise. In addition, the amounts payable hereunder shall not be subject to setoff, counterclaim, recoupment, defense or other right which the Company may have against you or others, except upon obtaining by the Company of a final nonappealable judgment against you.

(e) In the event that you have received or commenced receipt of any payments or other rights under paragraphs 5(a) or 8(a), you shall not be entitled to any additional payments or rights under paragraphs 5(a), 8(a), or 8(b) with respect to any subsequent occurrence which might otherwise give rise to such payments or rights under such paragraphs, except as specifically provided with regard to paragraph 8(b).

(f) Payments under paragraph 8(b)(iii) may, at the discretion of the Company, be made by continuing your participation in the applicable plan, in the case of medical benefits, by paying the applicable COBRA premium for you and your dependents, or by covering you and your dependents under substitute arrangements, *provided that*, to the extent you incur tax that you would not have incurred as an active employee as a result of the aforementioned coverage or the benefits provided thereunder, you shall receive from the Company an additional payment in the amount necessary so that you will have no additional cost for receiving such items or any additional payment.

(g) Notwithstanding anything to the contrary in this Agreement or any other agreement between you and the Company, the Company agrees that if your employment with the Company terminates during the Employment Term for any reason (other than a Removal for

Cause), including a termination of employment pursuant to paragraphs 4(a), 4(b), 4(c) and 4(e), (i) all of your stock options and other equity awards shall continue to vest in accordance with the terms of the applicable grant agreement notwithstanding the employment termination, (ii) you (or your executors or administrators of your estate, in the case of your death) shall be entitled to exercise any of your stock options at any time during the original term of such options, and (iii) all agreements relating to your stock options or other equity shall be deemed amended to the extent inconsistent with the foregoing (such continued vesting and exercisability, the "Stock Option Treatment").

(h) Any amounts payable and benefits or additional rights provided pursuant to paragraphs 8(a) or 8(b) beyond Entitlements shall be payable only if you deliver to the Company a release of all claims that you have or may have against the Company and its affiliates occurring up to the release date in a form substantially in the form of Exhibit B hereto.

9. Excise Tax. In the event that you become entitled to payments and/or benefits which would constitute "parachute payments" within the meaning of Section 280G(b)(2) of the Code, the provisions of Exhibit C shall apply.

10. Proprietary Information and Inventions. You understand and acknowledge that:

(a) The Company is and will be engaged in a continuous program of research, design, development, production, and marketing with respect to its business.

(b) Your employment by the Company creates a relationship of confidence and trust between the Company and you with respect to certain information relating to the business and affairs of the Company or applicable to the business of any client, customer, consultant, partner, external collaborator, or service provider of the Company, which may be made known to you by the Company or by any client, customer, consultant, partner, external collaborator, or service provider of the Company, or learned by you during the period of your affiliation with the Company.

(c) The Company will possess information created, discovered, or developed by, or otherwise become known to, the Company (including, without limitation, information created, discovered, developed, or made known to you during the Employment Term) or in which property rights have been or may be assigned or otherwise conveyed to the Company (whether or not the information has commercial value in the business in which the Company is or proposes to be engaged) and is treated by the Company as confidential. All this information is "Proprietary Information," which includes, but is not limited to, systems, processes, formulae, data, functional specifications, computer software, programs and displays, know-how, improvements, discoveries, inventions, developments, designs, techniques, marketing plans, strategies, forecasts, new and proposed products, unpublished financial statements, budgets, projections, licenses, prices, costs, and customer, external collaborator, partner, client, and supplier lists, and any and all intellectual properties. The foregoing, however, shall not cover information generally known in the industry or which hereafter become generally known in the industry.

11. Ownership of Proprietary Information and Inventions.

(a) All Proprietary Information shall be the sole property of the Company and its assigns, and the Company and its assigns will be the sole owners of all inventions, patents, copyrights, trademarks, and other rights in connection therewith. You hereby assign to the Company any right you may have or acquire in such Proprietary Information. At all times, you will keep in strictest confidence and trust all Proprietary Information and you will not use or disclose any Proprietary Information without the written consent of the Company.

(b) If your employment with the Company is terminated for any reason, you will deliver to the Company all documents, notes, drawings, specifications, computer software, data, inventions, organisms, and other materials of any nature pertaining to any Proprietary Information, and will not take any of the foregoing, or any reproduction of any of the foregoing, that is embodied in any tangible medium of expression. This shall not limit you from retaining your personal phone directories and rolodexes.

(c) You will promptly disclose to the Company (or any persons designated by it) all discoveries, developments, designs, improvements, inventions, formulae, processes, techniques, computer software, strategies, know-how, and data, whether or not patentable or registrable under copyright or similar statutes, made or conceived or reduced to practice or learned by you, either alone or jointly with others, during your employment by the Company, which result from carrying out your responsibilities to the Company, or result from the use of premises or property owned, leased, or contracted for by the Company (all such discoveries, developments, designs, improvements, inventions, formulae, processes, techniques, computer software, know-how, and data are referred to in this Agreement as Inventions). You will also promptly disclose to the Company, and the Company agrees to receive all such disclosures in confidence, all other discoveries, developments, designs, improvements, inventions, formulae, processes, techniques, computer software, strategies, know-how, and data, whether or not patentable or registrable under copyright or similar statutes, made or conceived or reduced to practice or learned by you, either alone or jointly with others, during your employment by the Company for the purpose of determining whether they are Inventions, as that term is used in this Agreement. At all times during your employment by the Company you will use your reasonable business efforts to avoid conflicts of interest involving potential rights and claims of the Company and of third parties to Inventions, including those that might arise by virtue of your affiliation with a university or other medical institution concurrently with your employment by the Company and will take all action reasonably necessary and or desirable to minimize the probability of any such conflicts of interest and to maximize the likelihood that any Inventions made, conceived or developed or reduced to practice by you (alone or jointly with others) during your employment by the Company and which reasonably relate to the business of the Company will be and become the sole, unencumbered property of the Company, and no other third party (including, without limitation, any such university or other institution with whom you may also be affiliated) will have any rights thereto and that any such conflicts of interest be resolved in favor of the Company.

(d) All Inventions shall be the sole property of the Company and its assigns, and the Company and its assigns shall be the sole owner of all patents, copyrights, trademarks,

and other rights in connection therewith. You hereby assign to the Company any rights you may have or acquire in such Inventions. You will assist the Company in every proper way as to all such Inventions (but at the Company's expense) to obtain and from time to time enforce patents, copyrights, trademarks, and other rights and protections on and enforcing such Inventions, as the Company may desire, together with any assignments thereof to the Company or persons designated by it. Your obligation to assist the Company in obtaining and enforcing patents, copyrights, trademarks, and other rights and protections relating to such Inventions in any and all countries shall continue beyond the Employment Term. If the Company is unable, after reasonable effort, to secure your signature on any document or documents needed to apply for or prosecute any patent, copyright, or other right or protection relating to an Invention, for any other reason whatsoever, you hereby irrevocably designate and appoint the Company and its duly authorized officers and agents as your agent and attorney-in-fact, to act for and on your behalf to execute and file any such application or applications and to do all other lawfully permitted acts to further the prosecution and issuance of patents, copyrights, or similar protections thereon with the same legal force and effect as if executed by you and you hereby ratify, affirm, and approve all such lawfully permitted acts accordingly.

12. Restricted Covenant. (a) You are aware that the services you perform for the Company are of a special, unique character. You also acknowledge your possession and future possession of Proprietary Information and the highly competitive nature of the business of the Company. Accordingly, you agree that, for the consideration set forth in this Agreement, you will not, without the written permission of the Company pursuant to Board of Directors authorization, during your employment under this Agreement and, if your employment ends as a result of your voluntary termination of employment pursuant to paragraph 4(e), for a period of one (1) year thereafter (six (6) months, in the event of any such termination after the occurrence of a Change of Control): (i) directly or indirectly engage or become interested or involved in any Competitive Business (as defined in paragraph (b)), whether such engagement, interest, or involvement shall be as an employer, officer, director, owner shareholder, employee, partner, consultant, or in any other capacity or relationship; *provided, however*, that this shall not preclude a passive investment of less than one (1%) of the stock of any publicly traded company; or (ii) materially assist others in engaging in any Competitive Business in the manner described in the foregoing clause (i); *provided, further*, that this shall not preclude you from providing investment banking services to or on behalf of an entity after your termination of employment that might otherwise be a Competitive Business so long as such services are to arrange a purchase, sale or other business combination for or with such entity or to arrange financing for such entity (including, without limitation, obtaining a bank loan for such entity or participating in the sale of the debt or equity securities of such entity).

You understand that this provision is not meant to prevent you from earning a living or fostering your career. It does intend, however, to prevent Competitive Businesses from gaining any unfair advantage from your knowledge of Proprietary Information. You understand that by making any other employer aware of this provision, that employer can take such action as to avoid your breach of this provision and to indemnify you in the event of a breach.

(b) The term "Competitive Business" means:

(i) For the period commencing on the date of this Agreement and ending on the date of your termination of employment any business or activity that is substantially the same as any business or activity of the Company as conducted by the Company or any Related Entity during such period; and

(ii) For the period thereafter, any business or activity described in paragraph (i) above to the extent that on the date of your termination of employment such business or activity represents at least 10% of the research and development budget of the Company for the fiscal year in which your termination occurs; *provided, however*, that any business or activity of the Company shall be deemed to have been conducted by the Company at the time of your termination of employment if the Company has undertaken steps to commence such business or activity prior to your termination of employment. Notwithstanding the foregoing, the provisions of this paragraph shall not operate to preclude your employment with (or providing consulting services to) any company that has a market capitalization at the time of your termination of employment of at least \$500 million.

13. Litigation Support. Subject to your other commitments, following the Employment Term, you shall make yourself reasonably available to cooperate (but only truthfully) with the Company and provide information as to matters with which you were personally involved, or have information on, while you were an officer of the Company and which are or become the subject of litigation or other dispute.

14. General Provisions.

(a) Death. Should you die before receipt of any or all severance payments to which you became entitled under paragraph 8, then the balance of the payments to which you are entitled shall continue to be paid in accordance with the terms hereof to the executors or administrators of your estate.

(b) General Creditor Status. The amounts to which you may become entitled hereunder shall be paid, when due, from the general assets of the Company, and no trust fund, escrow arrangements, or other segregated account shall be established as a funding vehicle for such payment. Accordingly, your right (or the right of the executors or administrators of your estate) to receive such benefits shall at all times be that of a general creditor of the Company and shall have no priority over the claims of other general creditors.

(c) Indemnification. During the Employment Term and thereafter, the Company shall indemnify you and hold you harmless to the fullest extent permitted by law against any judgments, fines, amounts paid in settlement and reasonable expenses (including reasonable attorneys' fees), and advance amounts necessary to pay the foregoing at the earliest time and to the fullest extent permitted by law, in connection with any claim, action or proceeding (whether civil or criminal) against you as a result of your serving as an officer or Director of the Company or in any capacity at the request of the Company in or with regard to

any other entity, employee benefit plan or enterprise. This indemnification is in addition to and not in lieu of any other indemnification rights you may otherwise have.

(d) Remedies. Your obligations under paragraphs 11 or 12 of this Agreement will survive termination of your employment by the Company. You acknowledge that a remedy at law for any breach or threatened breach of such provisions would be inadequate and therefore agree that the Company may be entitled to injunctive relief and any other available rights and remedies in case of any such breach or threatened breach; *provided, however*, that nothing contained in this subparagraph (d) will be construed as prohibiting the Company from pursuing any other remedies available for any such breach or threatened breach.

(e) Interpretation. This Agreement shall be interpreted under the laws of the State of New York without regard to conflict of law provisions thereof.

(f) Notices. Any notice which a party is required or may desire to give under this Agreement will be given by personal delivery, air courier, or registered or certified mail, return receipt requested, addressed to you at the address of record with the Company and addressed to the Secretary of the Company at its principal office, or at such other place as either party may from time to time designate in writing given as aforesaid. The date of delivery of any notice or communication will be deemed to be (i) the date of delivery thereof, in the case of personal delivery; (ii) the day after the date when dispatched, in the case of air courier; and (iii) the date of receipt, in the case of mailing.

(g) Waivers. If either party shall waive any breach of any provision of this Agreement, he or it will not thereby be deemed to have waived any preceding or succeeding breach of the same or any other provision of this Agreement.

(h) Headings. The paragraph headings of this Agreement are for convenience only and will not be deemed to effect the meaning of the Agreement.

(i) Superseding. This Agreement supersedes all prior agreements between you and the Company relating to the subject of your personal services and severance benefits, including the letter agreement dated September 14, 1993, which is hereby terminated. The provisions of this Agreement may only be amended by written instrument signed by you and a member of the Board of Directors.

(j) No Guarantee of Employment or Service. Nothing in this Agreement is intended to provide you with any right to continue in the service of the Company for any period of specific duration, nor, except as specifically provided herein, to provide the Company with any right to require you to continue in the service of the Company.

(k) Amendment or Termination. This Agreement may not be amended or terminated orally, but only by a writing executed by the party to be charged.

(l) Assignment. None of the benefits to which you may become entitled hereunder may be assigned, transferred, pledged, or otherwise encumbered by you, and to the



maximum extent permissible under law, such benefits will not be subject to the claims of your creditors or to levy, attachment, execution, or other legal process. This Agreement shall be binding upon and inure to the benefit of the Company, its successors and permitted assigns and your executors and heirs, provided that the Company may not assign the Agreement except in connection with a sale of all or substantially all of its assets and then only if said acquiror assumes in a writing delivered to you the obligations of the Company hereunder.

(m) Costs of Collection. In the event either party collects any part or all of the payments provided for hereunder or otherwise successfully enforces the terms of this Agreement by or through a lawyer or lawyers, the losing party shall pay all costs of such collection or enforcement, including reasonable legal fees and other fees and expenses which the successful party may incur plus interest ("Costs"); *provided, however,* that the Company shall not be entitled to recover any Costs from you unless an arbitrator determines that your action to recover any payment or to enforce the terms of this Agreement was not grounded on a reasonable good faith interpretation of the Agreement or that the action was undertaken for the primary purpose of harassing the Company. Interest shall be calculated at the prime rate as announced from time to time by Citibank, N.A. on all or any part of any amount to be paid to you hereunder that is not paid when due. The prime rate for each calendar quarter shall be the prime rate in effect on the first day of the calendar quarter.

(n) Arbitration. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three (3) arbitrators in New York, New York, in accordance with the rules of the American Arbitration Association then in effect, and judgement may be entered on the arbitrators' award in any court having jurisdiction. The Company shall pay all costs of the American Arbitration Association and the arbitrator. The decision upon arbitration shall be final and binding upon both you and the Company. Notwithstanding the foregoing, you shall be entitled to seek specific performance from a court of your right to be paid until the date of termination during the pendency of any dispute or controversy arising under or in connection with this Agreement and the Company shall have the right to obtain injunctive relief from a court pursuant to subparagraph (d) above.

Please indicate your acceptance by signing the enclosed copy of this letter and returning it to the Company.

Very truly yours,

**REGENERON PHARMACEUTICALS, INC.**

\*\*/s/Charles Baker \_\_\_\_\_

Chairman of the Compensation  
Committee of the Board of Directors

**AGREED TO AND ACCEPTED BY:**

LEONARD S. SCHLEIFER, M.D., Ph.D.

Signature: \*\*/s/Leonard S. Schleifer \_\_\_\_\_

## EXHIBIT A

### CHANGE OF CONTROL

For purposes of this Agreement, "Change of Control" shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:

(i) any "Person" (as defined in Section 3(a)(9) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (1) the Company, (2) a trustee or other fiduciary holding securities under an employee benefit plan of the Company, (3) an underwriter temporarily holding securities pursuant to an offering of such securities, or (4) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company) is or becomes the "Beneficial Owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company (not including in the securities Beneficially Owned by such Person any securities acquired directly from the Company) representing 20% or more of the Company's then outstanding securities, excluding any Person who is an officer or director of the Company or who becomes such a Beneficial Owner in connection with a transaction described in clause (A) of paragraph (iii) below; or

(ii) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the date hereof, constitute the Board of Directors and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board of Directors or nomination for election by the Company's shareholders was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the date hereof or whose appointment, election or nomination for election was previously so approved or recommended; or

(iii) there is consummated a merger or consolidation of the Company with any other corporation other than (A) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof) at least 60% of the combined voting power of the voting securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities Beneficially Owned by such Person any securities acquired directly from the Company) representing 20% or more of the combined voting power of the Company's then outstanding securities; or

(iv) the shareholders of the Company approve a plan of complete liquidation or dissolution of the Company or there is consummated an agreement for the sale or disposition by

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the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity at least 75% of the combined voting power of the voting securities of which are owned by Persons in substantially the same proportions as their ownership of the Company immediately prior to such sale.

**EXHIBIT B**  
**FORM OF RELEASE**

To: Regeneron Pharmaceuticals, Inc.  
777 Old Saw Mill River Road  
Tarrytown, New York 10591-6707  
Attention: [General Counsel]

1. **Termination.** (a) I hereby acknowledge that my employment with Regeneron Pharmaceuticals, Inc. (the "Company") [will terminate] [has terminated] on \_\_\_\_\_, (the "Termination Date") pursuant to provisions of paragraphs 8 of my employment agreement dated as of December 20, 2002 with the Company (the "Employment Agreement"), that the Company will not have an obligation to rehire me or to consider me for reemployment after the Termination Date and that my employment with the Company is permanently and irrevocably severed.

(b) I hereby confirm my resignation from my position as President and Chief Executive Officer of the Company and that I will not be eligible for any benefits or compensation after the Termination Date, other than as specifically provided hereunder and in paragraphs 3 and 8 of the Employment Agreement [or in any capacity as a director of the Company]. In addition, effective as of the Termination Date, I hereby resign from all offices, directorships, trusteeships, committee memberships and fiduciary capacities held with, or on behalf of, the Company or any of its affiliates or any benefit plans of the Company or any of its affiliates [other than as a director]. These resignations will become irrevocable on the Effective Date of this Agreement, as defined in Section 6 below.

2. **Consideration.** I acknowledge that this General Release is being executed in accordance with paragraph 8(h) of the Employment Agreement.

3. **General Release.** (a) For and in consideration of the payments to be made and the promises set forth under the Employment Agreement, I, for myself and for my heirs, dependents, executors, administrators, trustees, legal representatives and assigns (collectively referred to as "Releasors"), hereby forever release, waive and discharge the Company, its affiliates, employee benefit and/or pension plans or funds, insurers, successors and assigns, and all of its or their past, present and/or future directors, officers, trustees, agents, members, partners, counsel, employees, fiduciaries, administrators, representatives, successors and assigns, whether acting on behalf of the Company or its affiliates or in their individual capacities (collectively referred to as "Releasees"), from any and all claims, demands, causes of action, fees and liabilities of any kind whatsoever, whether known or unknown, which Releasors ever had, now have, or hereafter may claim to have against Releasees by reason of any actual or alleged act, omission, transaction, practice, policy, procedure, conduct, occurrence, or other matter up to and including the date of my execution of this General Release, in connection with, or in any way related to or arising out of, my employment, service as a director, service as a trustee, service as a fiduciary or termination of any of the foregoing with the Company.

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(b) Without limiting the generality of the foregoing, this General Release is intended and shall release the Releasees from any and all claims, whether known or unknown, which Releasers ever had, now have, or may hereafter claim to have against the Releasees including, but not limited to, (i) any claim of discrimination or retaliation under the Age Discrimination in Employment Act ("ADEA"), Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act ("ADA"), the Employee Retirement Income Security Act of 1974 or the Family and Medical Leave Act; (ii) any claim under the New York State Human Rights Law and the New York City Administrative Code; (iii) any other claim (whether based on federal, state or local law, statutory or decisional) relating to or arising out of my employment, the terms and conditions of such employment, the termination of such employment and/or any of the events relating directly or indirectly to or surrounding the termination of such employment, including, but not limited, breach of contract (express or implied), wrongful discharge, tortious interference, detrimental reliance, defamation, emotional distress or compensatory or punitive damages; and (iv) any claim for attorney's fees, costs, disbursements and the like.

(c) I further acknowledge and agree that by virtue of the foregoing, I have waived all relief available to me (including without limitation, monetary damages, equitable relief and reinstatement) under any of the claims and/or causes of action waived in Sections 3(a) and (b) above. Therefore I agree that I will not seek or accept any award or settlement from any source or proceeding (including, but not limited to, any proceeding brought by any other person or by any government agency) with respect to any claim or right waived in this General Release. I further agree, to the maximum extent permitted by law, that I will not sue or commence any proceeding (judicial or administrative), or participate in any action, suit or proceeding (unless compelled by legal process or court order), against the Company (or any of its affiliates), with respect to any claim released by Sections 3(a) and (b) above, other than a claim contesting the validity of the release under applicable provisions of the ADEA. I also warrant and represent that as of the date I sign this Agreement, I have not taken or engaged in any of the acts described in the foregoing sentences. I understand that this release has neither the purpose nor intent of interfering with my protected right to file a charge with or participate in an investigation or proceeding pursuant to the statutes administered and enforced by the EEOC, specifically: the ADEA, the Equal Pay Act, Title VII of the Civil Rights Act of 1964 and the ADA. I understand that I will not breach this release if I file a charge with or participate in an investigation or proceeding pursuant to the statutes administered and enforced by the EEOC. However, by signing this release, I understand that I waive any right I may have to recover money or other relief in any lawsuit or proceeding brought by me or by an agency or third party, including the EEOC, on my behalf. If, notwithstanding the foregoing promises and understandings, I violate this Section 3(c), I shall be required, to the maximum extent permitted by law, to indemnify and hold harmless the Company (and its affiliates) from and against any and all demands, assessments, judgments, costs, damages, losses and liabilities, and attorneys' fees and other expenses which result from, or are incident to, such violation.

(d) Notwithstanding anything herein to the contrary, the sole matters to which the release and covenants in this Section 3 do not apply are: (i) my rights of indemnification and directors and officers liability insurance coverage which I was entitled immediately prior to the Termination Date under the Company's By-laws or otherwise with regard to my service as an officer and director of the Company (including, without limitation, under paragraph 14(c) of the

Employment Agreement); (ii) my rights under any tax-qualified pension or tax deferred annuity plan or claims for accrued vested benefits under any other employee benefit plan, program, policy or arrangement maintained by the Company or under COBRA; (iii) my rights under the provisions of the Employment Agreement which are intended to survive termination of employment (including claims to payments, benefits or entitlements specifically payable or provided under the Employment Agreement); or (iv) my rights as a stockholder or as a director of the Company.

4. **Governing Law; Enforceability.** The interpretation of this General Release will be construed and enforced in accordance with the laws of the State of New York without regard to that state's principles of conflicts of law. If, at any time after the execution of this General Release, any provision of this General Release will be held to be illegal or unenforceable by a court of competent jurisdiction, solely such provision will be of no force or effect.

5. **Acknowledgement.** I acknowledge that I have been advised by the Company in writing to consult, and I have consulted, independent legal counsel of my choice before signing this General Release. I further acknowledge that I have had the opportunity to consult independent legal counsel and to consider the terms of this General Release for a period of at least 21 days. I further acknowledge that I have carefully read this General Release in its entirety; that I have had an adequate opportunity to consider it and to consult with any advisors of my choice about it; that I have consulted with independent legal counsel of my choice who has answered to my satisfaction all questions I had regarding this General Release; that I understand all the terms of this General Release and their significance; that I am legally competent to execute this Agreement; that I have not relied on any statements or explanations made by the Company, any agent of the Company or its counsel; that I knowingly and voluntarily assent to all the terms and conditions contained herein; and that I am signing this General Release voluntarily and of my own free will.

6. **Effective Date.** I further acknowledge that this General Release will not become effective until the eighth day following my execution of this General Release (the "Effective Date"), and that I may at any time prior to the Effective Date revoke this General Release by delivering written notice of revocation to the Company, at 777 Old Saw Mill River Road, Tarrytown, New York 10591-6707, to the attention of the [General Counsel]. In the event that I revoke this General Release prior to the eighth day after its execution, this General Release will automatically be null and void.

7. **Survival.** The provisions in the Employment Agreement which are intended to survive termination of employment shall survive and continue in full force and effect.

By: \_\_\_\_\_  
Executive

Dated: \_\_\_\_\_,

**Acknowledged and Agreed:**

**REGENERON PHARMACEUTICALS, INC.**

By: \_\_\_\_\_

Name:

Title:



## EXHIBIT C

### GOLDEN PARACHUTE PROVISION

(a) (i) In the event that you shall become entitled to payments and/or benefits provided by this Agreement or any other amounts in the "nature of compensation" (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any person whose actions result in a change of ownership or effective control covered by Section 280G(b)(2) of the Code or any person affiliated with the Company or such person) as a result of such change in ownership or effective control (collectively the "Company Payments"), and such Company Payments will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Code (and any similar tax that may hereafter be imposed by any taxing authority) the Company shall pay to you at the time specified in subsection (d) below (x) an additional amount (the "Gross-up Payment") such that the net amount retained by you, after deduction of any Excise Tax on the Company Payments and any U.S. federal, state, and for local income or payroll tax upon the Gross-up Payment provided for by this paragraph (a), but before deduction for any U.S. federal, state, and local income or payroll tax on the Company Payments, shall be equal to the Company Payments and (y) an amount equal to the product of any deductions disallowed for federal, state or local income tax purposes because of the inclusion of the Gross-Up Payment in your adjusted gross income multiplied by the highest applicable marginal rate of federal, state or local income taxation, respectively, for the calendar year in which the Gross-Up Payment is to be made.

(ii) Notwithstanding the foregoing, if it shall be determined that you are entitled to a Gross-Up Payment, but that if the Company Payments (other than that portion valued under Q&A 24(c) of the proposed regulations under Section 280G of the Code (the "Stock Vesting Value")) (the "Cash Payments") are reduced by the amount necessary such that the receipt of the Company Payments would not give rise to any Excise Tax (the "Reduced Payment") and the Reduced Payment (other than the Stock Vesting Value) would not be less than 90% of the Cash Payment, then no Gross-Up Payment shall be made to you and the Cash Payments, in the aggregate, shall be reduced to the Reduced Payments (other than the Stock Vesting Value). If the Reduced Payments is to be effective, payments shall be reduced as mutually agreed between the Company and you or, in the event the parties cannot agree, in the following order (1) any lump sum severance based on a multiple of Base Salary or annual bonus, (2) any other cash amounts payable to you and (3) any benefits valued as parachute payments.

(iii) In the event that the Internal Revenue Service or court ultimately makes a determination that the excess parachute payments plus the base amount is an amount other than as determined initially, an appropriate adjustment shall be made with regard to the Gross-Up Payment or Reduced Payment, as applicable to reflect the final determination and the resulting impact on whether (ii) applies.

(b) For purposes of determining whether any of the Company Payments and Gross-up Payments (collectively the "Total Payments") will be subject to the Excise Tax and the amount of such Excise Tax, (x) the Total Payments shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "parachute payments" in excess of the "base

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amount" (as defined under Section 280G(b)(3) of the Code) shall be treated as subject to the Excise Tax, unless and except to the extent that, in the opinion, delivered to the Company and you at a level of more likely than not, of the Company's independent certified public accountants appointed prior to any change in ownership (as defined under Section 280G(b)(2) of the Code) or tax counsel selected by such accountants (the "Accountants") such Total Payments (in whole or in part) either do not constitute "parachute payments," represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the "base amount" or are otherwise not subject to the Excise Tax, and (y) the value of any non-cash benefits or any deferred payment or benefit shall be determined by the Accountants in accordance with the principles of Section 280G of the Code. In the event that the Accountants are serving (or decline to serve) as accountant or auditor for the individual, entity or group effecting the Change of Control, you may appoint another nationally recognized accounting firm or law firm to make the determinations hereunder (which accounting firm or law firm shall then be referred to as the "Accountants" hereunder). All determinations hereunder shall be made by the Accountants which shall provide detailed supporting calculations both to the Company and you at such time as it is requested by the Company or you. If the Accountants determine that payments under this Agreement must be reduced pursuant to this paragraph, they shall furnish you with a written opinion to such effect. The determination of the Accountants shall be final and binding upon the Company and you, subject to the other provisions herein.

(c) For purposes of determining the amount of the Gross-up Payment, you shall be deemed to pay U.S. federal income taxes at the highest marginal rate of U.S. federal income taxation in the calendar year in which the Gross-up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of your residence for the calendar year in which the Company Payment is to be made, net of the maximum reduction in U.S. federal income taxes which could be obtained from deduction of such state and local taxes if paid in such year. In the event that the Excise Tax is subsequently determined by the Accountants to be less than the amount taken into account hereunder at the time the Gross-up Payment is made, you shall repay to the Company, at the time that the amount of such reduction in Excise Tax is finally determined, the portion of the prior Gross-up Payment attributable to such reduction (plus the portion of the Gross-up Payment attributable to the Excise Tax and U.S. federal, state and local income tax imposed on the portion of the Gross-up Payment being repaid by you if such repayment results in a reduction in Excise Tax or a U.S. federal, state and local income tax deduction), plus interest on the amount of such repayment at the rate provided in Section 1274(b)(2)(B) of the Code. Notwithstanding the foregoing, in the event any portion of the Gross-up Payment to be refunded to the Company has been paid to any U.S. federal, state and local tax authority, repayment thereof (and related amounts) shall not be required until actual refund or credit of such portion has been made to you, and interest payable to the Company shall not exceed the interest received or credited to you by such tax authority for the period it held such portion. Furthermore, to the extent the foregoing provision shall be deemed to create a loan of a personal nature in violation of Section 402 of the Sarbanes-Oxley Act of 2002, the provision for repayment shall be null and void. You and the Company shall mutually agree upon the course of action to be pursued (and the method of allocating the expense thereof) if your claim for refund or credit is denied.

In the event that the Excise Tax is later determined by the Accountant or the Internal Revenue Service to exceed the amount taken into account hereunder at the time the Gross-up Payment is made (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-up Payment), the Company shall make an additional Gross-up Payment in respect of such excess (plus any interest or penalties payable with respect to such excess) at the time that the amount of such excess is finally determined.

(d) The Gross-up Payment or portion thereof provided for in subsection (c) above shall be paid not later than the thirtieth (30th) day following an event occurring which subjects you to the Excise Tax; *provided, however*, that if the amount of such Gross-up Payment or portion thereof cannot be finally determined on or before such day, the Company shall pay to you on such day an estimate, as determined in good faith by the Accountant, of the minimum amount of such payments and shall pay the remainder of such payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code), subject to further payments pursuant to subsection (c) hereof, as soon as the amount thereof can reasonably be determined, but in no event later than the ninetieth day after the occurrence of the event subjecting you to the Excise Tax. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to you, payable on the fifth day after demand by the Company (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code), *provided that*, to the extent the foregoing provision shall be deemed to create a loan of a personal nature in violation of Section 402 of the Sarbanes-Oxley Act of 2002, the provision for repayment shall be null and void.

(e) In the event of any controversy with the Internal Revenue Service (or other taxing authority) with regard to the Excise Tax, you shall permit the Company to control issues related to the Excise Tax (at its expense), provided that such issues do not potentially materially adversely affect you, but you shall control any other issues. In the event the issues are interrelated, you and the Company shall in good faith cooperate so as not to jeopardize resolution of either issue, but if the parties cannot agree you shall make the final determination with regard to the issues. In the event of any conference with any taxing authority as to the Excise Tax or associated income taxes, you shall permit the representative of the Company to accompany you, and you and your representative shall cooperate with the Company and its representative.

(f) The Company shall be responsible for all charges of the Accountant.

(g) The Company and you shall promptly deliver to each other copies of any written communications, and summaries of any verbal communications, with any taxing authority regarding the Excise Tax covered by this Exhibit C.

**CONSENT OF INDEPENDENT ACCOUNTANTS**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 33-50480, 33-85330, 33-97176, 333-33891, 333-80663, 333-61132, and 333-97375) and on Form S-3 (File No. 333-74464) of Regeneron Pharmaceuticals, Inc., of our report, which is based in part on the report of other auditors, dated January 29, 2003, except for Note 19 for which the date is March 31, 2003, relating to the financial statements which appears in this Annual Report on Form 10-K.

PRICEWATERHOUSECOOPERS LLP

New York, New York

March 31, 2003

**CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS**

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-50480) pertaining to the Regeneron Pharmaceuticals, Inc. 1990 Long Term Incentive Plan, the Registration Statements (Form S-8 No. 33-85330, Form S-8 No. 33-97176, Form S-8 No. 333-33891, and Form S-8 No. 333-80663) pertaining to the Regeneron Pharmaceuticals, Inc. Amended and Restated 1990 Long Term Incentive Plan, the Registration Statements (Form S-8 No. 333-61132 and Form S-8 No. 333-97375) pertaining to the Regeneron Pharmaceuticals, Inc. 2000 Long Term Incentive Plan, and the Registration Statement (Form S-3 No. 333-74464) pertaining to the registration of common stock issuable upon the conversion of Regeneron Pharmaceuticals, Inc.'s Senior Subordinated Notes due 2008, of our report dated February 4, 2002, with respect to the 2001 financial statements of Amgen-Regeneron Partners included in Regeneron Pharmaceuticals, Inc.'s Annual Report (Form 10-K) for the year ended December 31, 2002, filed with the Securities and Exchange Commission.

ERNST & YOUNG LLP

Los Angeles, California

March 28, 2003

**Certification of CEO and CFO Pursuant to  
18 U.S.C. Section 1350,  
As Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Regeneron Pharmaceuticals, Inc. (the "Company") on Form 10-K for the annual period ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Leonard S. Schleifer, M.D., Ph.D., as Chief Executive Officer of the Company, and Murray A. Goldberg, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ LEONARD S. SCHLEIFER

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Leonard S. Schleifer, M.D., Ph.D.  
*Chief Executive Officer*  
March 31, 2003

/s/ MURRAY A. GOLDBERG

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Murray A. Goldberg  
*Chief Financial Officer*  
March 31, 2003

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended.