We prepare estimates of research and development costs for projects in clinical development, which include direct costs and allocations of certain costs such as indirect labor, Non-cash Compensation Expense, and manufacturing and other costs related to activities that benefit multiple projects, and, under our collaboration with Bayer HealthCare, the portion of Bayer HealthCare's VEGF Trap-Eye development expenses that we are obligated to reimburse. Our estimates of research and development costs for clinical development programs are shown below:

Project Costs *(In millions)*	Year ended December 31, 2009	2008	Increase (Decrease)
ARCALYST®	$ 67.7	$ 39.2	$ 28.5
VEGF Trap-Eye	109.8	82.7	27.1
Aflibercept	23.3	32.1	(8.8)
REGN88	36.9	21.4	15.5
Other antibody candidates in clinical development	74.4	27.4	47.0
Other research programs & unallocated costs	86.7	72.1	14.6
Total research and development expenses	$398.8	$274.9	$123.9

For the reasons described above in Results of Operations for the years ended December 31, 2010 and 2009, under the caption "Research and Development Expenses", and due to the variability in the costs necessary to develop a pharmaceutical product and the uncertainties related to future indications to be studied, the estimated cost and scope of the projects, and our ultimate ability to obtain governmental approval for commercialization, accurate and meaningful estimates of the total cost to bring our product candidates to market are not available. Similarly, we are currently unable to reasonably estimate if our product candidates will generate material product revenues and net cash inflows. In 2008, we received FDA approval for ARCALYST® for the treatment of CAPS, a group of rare, inherited auto-inflammatory diseases that affect a very small group of people. We currently do not expect to generate material product revenues and net cash inflows from the sale of ARCALYST® for the treatment of CAPS.

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses increased to $52.9 million in 2009 from $48.9 million in 2008. In 2009, we incurred (i) higher compensation expense, (ii) higher patent-related costs, (iii) higher facility-related costs due primarily to increases in administrative headcount, and (iv) higher patient assistance costs related to ARCALYST®. These increases were partly offset by (i) lower marketing costs related to ARCALYST®, (ii) a decrease in administrative recruitment costs, and (iii) lower professional fees related to various corporate matters.

Cost of Goods Sold

During 2008, we began recognizing revenue and cost of goods sold from net product sales of ARCALYST®. Cost of goods sold in 2009 and 2008 was $1.7 million and $0.9 million, respectively, and consisted primarily of royalties and other period costs related to ARCALYST® commercial supplies. In 2009 and 2008, ARCALYST® shipments to our customers consisted of supplies of inventory manufactured and expensed as research and development costs prior to FDA approval in 2008; therefore, the costs of these supplies were not included in costs of goods sold.

Other Income and Expense

Investment income decreased to $4.5 million in 2009 from $18.2 million in 2008, due primarily to lower yields on, and lower balances of, cash and marketable securities. In addition, in 2009 and 2008, deterioration in the credit quality of specific marketable securities in our investment portfolio subjected us to the risk of not being able to recover these securities' carrying values. As a result, in 2009 and 2008, we recognized charges of $0.1 million and $2.5 million, respectively, related to these securities, which we considered to be other than temporarily impaired. In 2009 and 2008, these charges were either wholly or partly offset by realized gains of $0.2 million and $1.2 million, respectively, on sales of marketable securities during the year.

Interest expense decreased to $2.3 million in 2009 from $7.8 million in 2008. Interest expense in 2009 was attributable to the imputed interest portion of payments to our landlord, commencing in the third quarter of 2009, to lease newly constructed laboratory and office facilities in Tarrytown, New York. Interest expense in 2008 related to $200.0 million of 5.5% Convertible Senior Subordinated Notes until they were retired. During the second and third quarters of 2008, we repurchased a total of $82.5 million in principal amount of these convertible notes for $83.3 million. In connection with these repurchases, we recognized a $0.9 million loss on early extinguishment of debt, representing the premium paid on the notes plus related unamortized debt issuance costs. The remaining $117.5 million of convertible notes were repaid in full upon their maturity in October 2008.

Income Tax Expense (Benefit)

In 2009, we recognized a $4.1 million income tax benefit, consisting primarily of (i) $2.7 million resulting from a provision in the Worker, Homeownership, and Business Assistance Act of 2009 that allowed us to claim a refund of U.S. federal alternative minimum tax that we paid in 2008, as described below, and (ii) $0.7 million resulting from a provision in the American Recovery and Reinvestment Act of 2009 that allowed us to claim a refund for a portion of our unused pre-2006 research tax credits.

In 2008, we implemented a tax planning strategy which resulted in the utilization of certain net operating loss carry-forwards that would otherwise have expired over the next several years, to offset income for tax purposes. As a result, we incurred and paid income tax expense of $3.1 million, which relates to U.S. federal and New York State alternative minimum taxes and included $0.2 million of interest and penalties. This expense was partly offset by a $0.7 million income tax benefit, resulting from a provision in the Housing Assistance Tax Act of 2008 that allowed us to claim a refund for a portion of our unused pre-2006 research tax credits.

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 (which was repaid in 2008), purchases of our equity securities by our collaborators, including sanofi-aventis, revenue earned under our past and present research and development agreements, including our agreements with sanofi-aventis and Bayer HealthCare, our past contract manufacturing agreements, and our technology licensing agreements, ARCALYST® product revenue, and investment income.

Sources and Uses of Cash for the Years Ended December 31, 2010, 2009, and 2008

At December 31, 2010, we had $626.9 million in cash, cash equivalents, and marketable securities (including $7.5 million of restricted cash and marketable securities) compared with $390.0 million at December 31, 2009 (including $1.6 million of restricted cash) and $527.5 million (including $1.7 million of restricted cash) at December 31, 2008. In October 2010, the Company completed an underwritten public offering of 6,325,000 shares of Common Stock and received net proceeds of $174.8 million. Under the terms of our non-exclusive license agreements with AstraZeneca and Astellas, each company made $20.0 million annual, non-refundable payments to us in each of 2010, 2009, and 2008. In addition, in connection with the July 2010 amendment and extension of our license agreement with Astellas, we received a $165.0 million up-front payment from Astellas in August 2010. We also received, from Bayer HealthCare, a $10.0 million milestone payment in December 2010 in connection with the VIEW 1 study, and a $20.0 million milestone payment in July 2009 in connection with the COPERNICUS study.

Cash Provided by (Used in) Operations

Net cash provided by operations was $96.3 million in 2010, compared with net cash used in operations of $72.2 million in 2009 and $89.1 million in 2008. Our net losses of $104.5 million in 2010, $67.8 million in 2009, and $79.1 million in 2008 included $39.9 million, $31.3 million, and $32.5 million, respectively, of Non-cash Compensation Expense. Our net losses also included depreciation and amortization of $19.7 million, $14.2 million, and $11.3 million in 2010, 2009, and 2008, respectively.

At December 31, 2010, accounts receivable increased by $27.5 million, compared to end-of-year 2009, primarily due to a higher receivable balance related to our antibody collaboration with sanofi-aventis and a $10.0 million milestone payment receivable from Bayer HealthCare, which was earned in December 2010 in connection with the COPERNICUS study. Our deferred revenue at December 31, 2010 increased by $158.2 million, compared to

end-of-year 2009, primarily due to (i) the receipt of the $165.0 million up-front payment from Astellas, as described above, which was deferred and will be recognized ratably over the seven-year period commencing in mid-2011 and (ii) sanofi-aventis' funding of $22.9 million of agreed-upon costs incurred by us during 2010 to expand our manufacturing capacity at our Rensselaer facilities, which was deferred and is being recognized as collaboration revenue prospectively over the related performance period in conjunction with the original $85.0 million up-front payment received from sanofi-aventis. These increases were partly offset by amortization of previously received deferred payments under our sanofi-aventis and Bayer HealthCare collaborations. Accounts payable, accrued expenses, and other liabilities increased $7.6 million at December 31, 2010, compared to end-of-year 2009, primarily in connection with our expanded levels of activities and expenditures, including higher liabilities for payroll-related expenses.

At December 31, 2009, accounts receivable increased by $30.4 million, compared to end-of-year 2008, primarily due to a higher receivable balance related to our antibody collaboration with sanofi-aventis. Our deferred revenue at December 31, 2009 decreased by $27.5 million, compared to end-of-year 2008, primarily due to the amortization of previously received deferred payments under our collaborations with sanofi-aventis and Bayer HealthCare. Accounts payable, accrued expenses, and other liabilities increased $12.6 million at December 31, 2009, compared to end-of-year 2008, primarily in connection with our expanded levels of activities and expenditures, including higher liabilities for clinical-related expenses, which were partly offset by an $8.6 million decrease in the cost-sharing payment due to Bayer HealthCare in connection with our VEGF Trap-Eye collaboration.

At December 31, 2008, accounts receivable increased by $16.9 million, compared to end-of-year 2007, primarily due to a higher receivable balance related to our antibody collaboration with sanofi-aventis. Our deferred revenue at December 31, 2008 decreased by $26.8 million, compared to end-of-year 2007, primarily due to the amortization of previously received deferred payments under our collaborations with sanofi-aventis and Bayer HealthCare. This decrease was partly offset by the deferral of $4.0 million of ARCALYST® net product sales at December 31, 2008.

The majority of our cash expenditures in 2010, 2009, and 2008 were to fund research and development, primarily related to our clinical programs and our preclinical human monoclonal antibody programs. In 2008, we made interest payments totaling $9.3 million on our convertible senior subordinated notes. The convertible notes were repaid in full in October 2008.

Cash (Used in) Provided by Investing Activities

Net cash used in investing activities was $434.2 million in 2010, compared with net cash provided by investing activities of $146,000 in 2009 and $30.8 million in 2008. In 2010, purchases of marketable securities exceeded sales or maturities by $335.6 million. In 2009 and 2008, sales or maturities of marketable securities exceeded purchases by $97.4 million and $65.7 million, respectively. Capital expenditures in 2010, 2009, and 2008 included costs in connection with expanding our manufacturing capacity at our Rensselaer, New York facilities and tenant improvements and related costs in connection with our December 2006 Tarrytown, New York lease, as described below.

Cash Provided by (Used in) Financing Activities

Net cash provided by financing activities was $243.3 million in 2010 and $31.4 million in 2009, respectively, and net cash used in financing activities was $192.9 million in 2008. In October 2010, we completed an underwritten public offering of 6,325,000 shares of our Common Stock and received net proceeds of $174.8 million. In addition, proceeds from issuances of our Common Stock in connection with exercises of stock options were $22.0 million in 2010, $8.6 million in 2009, and $7.9 million in 2008. In 2010 and 2009, we received $47.5 million and $23.6 million, respectively, of tenant improvement reimbursements from our landlord in connection with our new Tarrytown facilities, which we are deemed to own in accordance with FASB authoritative guidance. In the second and third quarters of 2008, we repurchased $82.5 million in principal amount of our convertible senior subordinated notes for $83.3 million. The remaining $117.5 million of convertible notes were repaid in full upon their maturity in October 2008.

Fair Value of Marketable Securities

At December 31, 2010 and 2009, we held marketable securities whose aggregate fair value totaled $513.9 million and $181.3 million, respectively. The composition of our portfolio of marketable securities on these dates was as follows:

	2010		2009	
Investment type	**Fair Value**	**Percent**	**Fair Value**	**Percent**
Unrestricted				
U.S. government agency securities	$434.4	85%	$ 29.6	16%
U.S. Treasury securities			80.4	44%
U.S. government-guaranteed corporate bonds	64.0	13%	48.7	27%
Equity securities	3.6	1%	5.4	3%
U.S. government guaranteed collateralized mortgage obligations	2.1		3.7	2%
Corporate bonds			10.3	6%
Other	1.6			
Mortgage-backed securities	1.1		3.2	2%
Total unrestricted marketable securities	506.8	99%	181.3	100%
Restricted				
U.S. government agency securities	7.1	1%		
Total marketable securities	$513.9	100%	$181.3	100%

In addition, at December 31, 2010 and 2009, we had $113.0 million and $208.7 million, respectively, of cash, cash equivalents, and restricted cash, primarily held in money market funds that invest in U.S. government securities.

We classify our investments using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The three tiers are Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The Company held one Level 3 marketable security, which had no fair value at December 31, 2010 and 2009, and whose fair value was $0.1 million at December 31, 2008. This Level 3 security was valued using information provided by the Company's investment advisors and other sources, including quoted bid prices which took into consideration the securities' lack of liquidity. During the year ended December 31, 2009, the Company recorded charges for other-than-temporary impairment of this Level 3 marketable security totaling $0.1 million; therefore, as of December 31, 2009, the fair value of this security had been written down to zero. There were no purchases, sales, or maturities of Level 3 marketable securities and no unrealized gains or losses related to Level 3 marketable securities for the years ended December 31, 2010 and 2009. There were no transfers of marketable securities between Levels 1, 2, or 3 classifications during the years ended December 31, 2010 and 2009.

Our methods for valuing our marketable securities are described in Note 2 to our financial statements included in this Annual Report on Form 10-K. With respect to valuations for pricing our Level 2 marketable securities, we consider quantitative and qualitative factors such as financial conditions and near term prospects of the issuer, recommendations of investment advisors, and forecasts of economic, market, or industry trends. For valuations that we determine for our Level 3 marketable securities, we regularly monitor these securities and adjust their valuations as deemed appropriate based on the facts and circumstances.

Collaborations with sanofi-aventis

Aflibercept

In September 2003, we entered into a collaboration agreement with Aventis Pharmaceuticals Inc. (predecessor to sanofi-aventis U.S.) to collaborate on the development and commercialization of aflibercept in all countries other than Japan, where we retained the exclusive right to develop and commercialize aflibercept. Sanofi-aventis made a non-refundable up-front payment of $80.0 million and purchased 2,799,552 newly issued unregistered shares of our Common Stock for $45.0 million.

In January 2005, we and sanofi-aventis amended the collaboration agreement to exclude, from the scope of the collaboration, the development and commercialization of aflibercept for intraocular delivery to the eye. In connection with this amendment, sanofi-aventis made a $25.0 million non-refundable payment to us.

In December 2005, we and sanofi-aventis amended our collaboration agreement to expand the territory in which the companies are collaborating on the development of aflibercept to include Japan. In connection with this amendment, sanofi-aventis agreed to make a $25.0 million non-refundable up-front payment to us, which was received in January 2006. Under the collaboration agreement, as amended, we and sanofi-aventis will share co-promotion rights and profits on sales, if any, of aflibercept outside of Japan for disease indications included in our collaboration. In Japan, we are entitled to a royalty of approximately 35% on annual sales of aflibercept. We may also receive up to $400 million in milestone payments upon receipt of specified marketing approvals, including up to $360 million in milestone payments related to the receipt of marketing approvals for up to eight aflibercept oncology and other indications in the United States or the European Union and up to $40 million related to the receipt of marketing approvals for up to five aflibercept oncology indications in Japan.

We have agreed to manufacture clinical supplies of aflibercept at our plant in Rensselaer, New York. Sanofi-aventis has agreed to be responsible for providing commercial scale manufacturing capacity for aflibercept.

Under the collaboration agreement, as amended, agreed upon worldwide aflibercept development expenses incurred by both companies during the term of the agreement, including costs associated with the manufacture of clinical drug supply, will be funded by sanofi-aventis. If the collaboration becomes profitable, we will be obligated to reimburse sanofi-aventis for 50% of these development expenses, including 50% of the $25.0 million payment received in connection with the January 2005 amendment to our collaboration agreement, in accordance with a formula based on the amount of development expenses and our share of the collaboration profits and Japan royalties, or at a faster rate at our option. In addition, if the first commercial sale of an aflibercept product for intraocular delivery to the eye predates the first commercial sale of an aflibercept product under the collaboration by two years, we will begin reimbursing sanofi-aventis for up to $7.5 million of aflibercept development expenses in accordance with a formula until the first commercial aflibercept sale under the collaboration occurs. Since inception of the collaboration agreement through December 31, 2010, we and sanofi-aventis have incurred $707.3 million in agreed upon development expenses related to aflibercept. Currently, multiple clinical studies to evaluate aflibercept as both a single agent and in combination with other therapies in various cancer indications are ongoing.

Sanofi-aventis funded $16.5 million, $26.6 million, and $35.6 million, respectively, of our aflibercept development costs in 2010, 2009, and 2008, of which $3.9 million, $3.6 million, and $6.3 million, respectively, were included in accounts receivable as of December 31, 2010, 2009, and 2008. In addition, the up-front payments from sanofi-aventis of $80.0 million in September 2003 and $25.0 million in January 2006 were recorded to deferred revenue and are being recognized as contract research and development revenue over the period during which we expect to perform services. In 2010, 2009, and 2008, we recognized $9.9 million, $9.9 million, and $8.8 million of revenue, respectively, related to these up-front payments.

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

Antibodies

In November 2007, we and sanofi-aventis entered into a global, strategic collaboration to discover, develop, and commercialize fully human monoclonal antibodies. The collaboration is governed by a Discovery and Preclinical Development Agreement and a License and Collaboration Agreement. In connection with the execution of the discovery agreement in 2007, we received a non-refundable up-front payment of $85.0 million from sanofi-aventis. Pursuant to the collaboration, sanofi-aventis is funding our research to identify and validate potential drug discovery targets and develop fully human monoclonal antibodies against these targets. Sanofi-aventis funded approximately $175 million of research from the collaboration's inception through December 31, 2009. In November 2009, we and sanofi-aventis amended these collaboration agreements to expand and extend our antibody collaboration. Under the amended discovery agreement, sanofi-aventis agreed to fund up to $160 million per year of our antibody discovery activities in 2010 through 2017, subject to a one-time option for sanofi-aventis to adjust the maximum reimbursement amount down to $120 million per year commencing in 2014 if over the prior two years certain specified criteria

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