

MICROMET, INC.  
Form 10-Q  
May 10, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-50440

MICROMET, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

52-2243564  
(I.R.S. Employer  
Identification No.)

6707 Democracy Boulevard, Suite 505, Bethesda, MD  
(Address of principal executive offices)

20817  
(Zip Code)

(240) 752-1420  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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(Do not check if a smaller reporting company)

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

Yes  No

The number of outstanding shares of the registrant's common stock, par value \$0.00004 per share, as of the close of business on May 5, 2011 was 91,530,393.

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MICROMET, INC.  
 FORM 10-Q — QUARTERLY REPORT  
 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011  
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## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

Micromet, Inc.  
Condensed Consolidated Balance Sheets  
(In thousands, except per share amounts)

	March 31, 2011 (unaudited)	December 31, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$62,227	\$ 97,509
Short-term investments	142,839	123,458
Accounts receivable	1,492	1,047
Prepaid expenses and other current assets	4,645	3,850
Total current assets	211,203	225,864
Property and equipment, net	6,177	5,577
Goodwill	6,462	6,462
Patents, net	238	300
Long-term investments	2,702	1,705
Restricted cash	2,471	2,396
Total assets	\$229,253	\$ 242,304
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$3,657	\$ 5,150
Accrued expenses	13,688	11,314
Common stock warrants liability	13,524	23,858
Current portion of deferred revenue	5,074	5,695
Total current liabilities	35,943	46,017
Deferred revenue, net of current portion	20,871	20,538
Other non-current liabilities	1,038	1,160
Stockholders' equity:		
Preferred stock, \$0.00004 par value; 10,000 shares authorized; no shares issued and outstanding	-	-
Common stock, \$0.00004 par value; 150,000 shares authorized; 91,483 shares issued and outstanding at March 31, 2011 and 91,160 shares issued and outstanding at December 31, 2010	4	4
Additional paid-in capital	473,658	470,368
Accumulated other comprehensive income	10,277	8,569
Accumulated deficit	(312,538 )	(304,352 )
Total stockholders' equity	171,401	174,589
Total liabilities and stockholders' equity	\$229,253	\$ 242,304

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



Micromet, Inc.  
Condensed Consolidated Statements of Operations  
(In thousands, except per share amounts)  
(Unaudited)

	Three months ended March 31,	
	2011	2010
<b>Revenues:</b>		
Collaboration agreements	\$5,383	\$6,040
License fees and other	164	270
Total revenues	5,547	6,310
<b>Operating expenses:</b>		
Research and development	18,633	12,203
General and administrative	6,668	5,220
Total operating expenses	25,301	17,423
Loss from operations	(19,754 )	(11,113 )
<b>Other income (expense):</b>		
Interest expense	(22 )	(87 )
Interest income	178	115
Change in fair value of warrants	10,142	(5,607 )
Other income (expense), net	1,270	(1,612 )
Net loss	\$(8,186 )	\$(18,304 )
<b>Basic and diluted net loss per common share</b>		
	\$(0.09 )	\$(0.26 )
Weighted average shares used to compute basic and diluted net loss per share	91,216	70,997

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

Micromet, Inc.  
Condensed Consolidated Statements of Cash Flows  
(In thousands)  
(Unaudited)

	Three months ended March 31,	
	2011	2010
<b>Cash flows from operating activities:</b>		
Net loss	\$ (8,186 )	\$ (18,304 )
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Non-cash impact of foreign currency transactions	(1,419 )	1,894
Depreciation and amortization	612	517
Accretion on lease liability	77	82
Amortization of premium/discount on investments	515	21
Non-cash change in fair value of common stock warrants liability	(10,142 )	5,607
Stock-based compensation expense	2,384	1,164
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(332 )	(83 )
Prepaid expenses and other assets	(745 )	899
Accounts payable, accrued expenses and other liabilities	96	(3,122 )
Deferred revenue	(1,824 )	5,614
Net cash used in operating activities	(18,964 )	(5,711 )
<b>Cash flows from investing activities:</b>		
Purchases of investments	(43,054 )	(41,076 )
Proceeds from the maturity of investments	25,503	2,032
Purchases of property and equipment	(786 )	(496 )
Net cash used in investing activities	(18,337 )	(39,540 )
<b>Cash flows from financing activities:</b>		
Proceeds from the issuance of common stock, net	3	75,387
Proceeds from exercise of stock options	599	186
Proceeds from exercise of warrants	112	337
Principal payments on capital lease obligations	(60 )	(48 )
Net cash provided by financing activities	654	75,862
Effect of exchange rate changes on cash and cash equivalents	1,365	(3,379 )
Net (decrease) increase in cash and cash equivalents	(35,282 )	27,232
Cash and cash equivalents at beginning of period	97,509	113,435
Cash and cash equivalents at end of period	\$ 62,227	\$ 140,667
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	22	\$ 104
<b>Supplemental disclosure of noncash investing and financing activities:</b>		
Acquisitions of equipment purchased through capital leases	—	\$ 28

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

Note 1. Business Overview

We are a biopharmaceutical company focused on the discovery, development and commercialization of innovative antibody-based therapies for the treatment of cancer. Our product development pipeline includes novel antibodies generated with our proprietary BiTE® antibody platform, as well as conventional monoclonal antibodies. Three of our BiTE antibodies and four of our monoclonal antibodies are currently in clinical development, while the remainder of our product pipeline is in preclinical development. To date, we have incurred significant research and development expenses and have not achieved any revenues from product sales.

Note 2. Basis of Presentation

The accompanying unaudited consolidated financial statements of Micromet, Inc. have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. In the opinion of management, the consolidated financial statements reflect all adjustments necessary to present fairly our results of operations for the three months ended March 31, 2011 and 2010, our financial position at March 31, 2011 and our cash flows for the three months ended March 31, 2011 and 2010. These adjustments are of a normal recurring nature.

Certain notes and other information have been condensed or omitted from the interim consolidated financial statements presented in this Quarterly Report on Form 10-Q. Therefore, these financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2010, as amended. The results of operations for the three months ended March 31, 2011 are not necessarily indicative of our future financial results.

Unless otherwise noted, all financial information is that of Micromet, Inc. and our wholly owned subsidiaries: Micromet AG; Micromet Holdings, Inc.; and Cell-Matrix, Inc. Substantially all of our operating activities are conducted through Micromet AG, a wholly-owned subsidiary of Micromet Holdings, Inc. and an indirect wholly-owned subsidiary of Micromet, Inc. The accompanying condensed consolidated financial statements include the accounts of our wholly owned subsidiaries. We have eliminated all intercompany accounts and transactions in consolidation. Unless specifically noted otherwise, as used throughout these notes to the condensed consolidated financial statements, "Micromet," "we," "us," and "our" refers to the business of Micromet, Inc. and its subsidiaries as a whole.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, the valuation of goodwill, intangibles and other long-lived assets, lease exit liabilities, asset retirement obligations and assumptions in the valuation of stock-based compensation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from those estimates.

Note 3. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents on the balance sheets are comprised of cash at banks, money market funds and short-term deposits with an original maturity from date of purchase of three months or less.



## Restricted Cash

We have issued irrevocable standby letters of credit in connection with property that we currently sublease, as well as our current property leases in Munich, Germany and Bethesda, Maryland. In addition, in December 2010 we signed a lease for new office space in Rockville, Maryland and we issued an additional irrevocable standby letter of credit for that space in the amount of \$0.3 million. As of March 31, 2011 and December 31, 2010, we had a total of \$3.5 million and \$3.4 million, respectively, in certificates of deposit relating to these letters of credit. As of March 31, 2011, \$1.0 million of restricted cash is classified as prepaid expenses and other current assets and the remaining balance of \$2.5 million is classified as non-current restricted cash. As of December 31, 2010, \$1.0 million of restricted cash is classified as prepaid expenses and other current assets and the remaining balance of \$2.4 million is classified as non-current restricted cash.

## Investments

The amortized cost, net unrealized gain or loss attributed to market pricing changes and estimated fair value of investments by security type were as follows at March 31, 2011 and December 31, 2010 (in thousands):

	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Securities at March 31, 2011:				
Foreign government bonds	\$ 58,451	\$ —	\$ (74)	\$ 58,377
U.S. Government agencies	4,705	—	(3)	4,702
Commercial paper	38,625	25	—	38,650
U.S. corporate bonds	35,477	—	(10)	35,467
Municipal bonds*	8,345	—	—	8,345
Total	\$ 145,603	\$ 25	\$ (87)	\$ 145,541

	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Securities at December 31, 2010:				
Foreign government bonds	\$ 48,417	\$ 11	\$ (25)	\$ 48,403
U.S. Government agencies	7,000	—	(4)	6,996
Commercial paper	27,928	13	(3)	27,938
U.S. corporate bonds	34,651	3	(23)	34,631
Municipal bonds*	7,195	—	—	7,195
Total	\$ 125,191	\$ 27	\$ (55)	\$ 125,163

\* Issued by a state level entity

As of March 31, 2011, we held securities in an unrealized loss position whose fair value approximated at \$89.3 million. All of these securities with an unrealized loss have been in a continuous unrealized loss position for less than one year. We have determined that the decline in fair value of these investments is temporary. We do not intend to sell these securities and it is not more likely than not we will be required to sell the securities before the recovery of their amortized cost basis.

The following table summarizes the contractual maturities of marketable investments at March 31, 2011 and December 31, 2010 (in thousands):

	Amortized Cost	Fair Value
Securities at March 31, 2011:		
Due in less than one year	\$ 142,898	\$ 142,839

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Due in one to two years	2,705	2,702
Due after two years	—	—
Total	\$ 145,603	\$ 145,541

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Securities at December 31, 2010:	Amortized Cost	Fair Value
Due in less than one year	\$ 123,486	\$ 123,458
Due in one to two years	1,705	1,705
Due after two years	—	—
Total	\$ 125,191	\$ 125,163

#### Fair Value Measurements

The fair value of an asset or liability should represent the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Such transactions to sell an asset or transfer a liability are assumed to occur in the principal or most advantageous market for the asset or liability. Accordingly, fair value is determined based on a hypothetical transaction at the measurement date, considered from the perspective of a market participant rather than from a reporting entity's perspective. New fair value measurements are not required if existing accounting guidance in the Financial Accounting Standard Board (FASB) codification require or permit fair value measurements.

Disclosure of assets and liabilities subject to fair value disclosures are to be classified according to a three level fair value hierarchy with respect to the inputs (or assumptions) used in fair value measurements. Observable inputs such as unadjusted quoted market prices for identical assets or liabilities are given the highest priority within the hierarchy (Level 1). When observable inputs are unavailable, the use of unobservable inputs is permitted — i.e., inputs that a reporting entity believes market participants would use in pricing that are developed based on the best information available (Level 2). Unobservable inputs are given the lowest priority within the hierarchy (Level 3). The level within the hierarchy at which a fair value measurement lies is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Refer to related disclosures at Note 4 of these consolidated financial statements for additional information about fair value measurements.

#### Accounts Receivable

Accounts receivable are recorded at the amount invoiced and generally do not bear interest. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses from the existing accounts receivable. We determine the allowance based on historical experience, review of specific accounts, and significant past due balances. Account balances are written off against the allowance after all reasonable means of collection have been exhausted and recovery is considered remote.

#### Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Major replacements and improvements that extend the useful life of assets are capitalized, while general repairs and maintenance are charged to expense as incurred. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, ranging from three to ten years. Leasehold improvements are amortized over the estimated useful lives of the assets or the related lease term, whichever is shorter.

#### Goodwill

We review goodwill for impairment at least annually and more frequently if events or changes in circumstances indicate a reduction in the fair value of the reporting unit to which the goodwill has been assigned. A reporting unit is an operating segment for which discrete financial information is available and segment management regularly reviews the operating results of that component. We have determined that we have only one reporting unit, the development of

biopharmaceutical products. Goodwill is determined to be impaired if the fair value of the reporting unit is less than its carrying amount. We have selected October 1 as our annual goodwill impairment testing date.

## Patents

Our patent portfolio consists primarily of internally developed patents covering our BiTE antibody platform and the composition of our BiTE antibody product candidates and conventional antibodies. The costs of generating our internally developed patent portfolio have been expensed as incurred.

We also acquired patents in 2001 covering single-chain antibody technology. These purchased patents are being amortized over their estimated useful lives through 2011 using the straight-line method. These patents are utilized in revenue-producing activities through license agreements.

## Impairment of Long-Lived and Identifiable Intangible Assets

We evaluate the carrying value of long-lived assets and identifiable intangible assets for potential impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability is determined by comparing projected undiscounted cash flows associated with such assets to the related carrying value. An impairment loss would be recognized when the estimated undiscounted future cash flow is less than the carrying amount of the asset. An impairment loss would be measured as the amount by which the carrying value of the asset exceeds the fair value of the asset.

## Common Stock Warrants Liability

We previously issued certain warrants to purchase shares of our common stock. Due to certain provisions in the common stock warrant agreement, these warrants are required to be classified as a liability. Management believes that the circumstances requiring cash settlement of the award are remote. The common stock warrants liability is recorded at fair value, which is adjusted at the end of each reporting period using the Black-Scholes option-pricing model, with changes in value included in the consolidated statements of operations.

## Foreign Currency Transactions and Translation

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-measured into the functional currency at the exchange rate in effect at the balance sheet date. Transaction gains (losses) are recorded in the consolidated statements of operations in other income (expense) and amounted to \$1.2 million and \$(1.6) million for the three-month periods ended March 31, 2011 and 2010, respectively.

The accompanying consolidated financial statements are presented in U.S. dollars. The translation of assets and liabilities to U.S. dollars is made at the exchange rate in effect at the balance sheet date, while equity accounts are translated at historical rates. The translation of statement of operations data is made at the average exchange rate in effect for the period. The translation of operating cash flow data is made at the average exchange rate in effect for the period, and investing and financing cash flow data is translated at the exchange rate in effect at the date of the underlying transaction. Translation gains and losses are recognized as a component of accumulated other comprehensive income in the accompanying consolidated balance sheets. The foreign currency translation adjustment balance included in accumulated other comprehensive income was \$6.0 million and \$7.4 million at March 31, 2011 and December 31, 2010, respectively.

## Revenue Recognition

Our revenues consist of licensing fees, milestone payments and fees for research services earned from license agreements or from research and development collaboration agreements. We recognize revenue in accordance with

the Securities and Exchange Commission's (SEC) Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition, upon the satisfaction of the following four criteria: persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, and collectibility is reasonably assured.

We recognize revenues under collaborative research agreements as we perform the services specified in the related agreement, or as we incur expenses that are passed through to the collaborator. Fees for research and development services performed under an agreement are generally stated at a yearly fixed fee per research scientist, and are recognized as revenues as the services are provided. We record any amounts received in advance of services performed as deferred revenue and recognize it as revenues if and when earned.

Under certain license agreements, we may receive initial license fees and annual renewal fees, which are recognized as revenue when the SAB No. 104 criteria have been satisfied, unless we have further obligations associated with the license granted. We recognize revenue from payments received at the time of entering into an agreement on a straight-line basis over the term of our obligations under the agreement.

We are entitled to receive royalty payments on the sale of products developed under our license and collaboration agreements. Any such royalties are based upon the volume of products sold and would be recognized as revenue upon notification by our collaborator or licensee that is commercializing the product that sales have occurred. There have been no product sales to date that would result in any royalty payments to us.

Revenues from the achievement of research and development milestones, if deemed substantive, are recognized as revenue when the milestones are achieved and the milestone payments are due and collectible. If not deemed substantive, we would recognize such milestone payments as revenue on a straight-line basis over the remaining expected term of continued involvement in the research and development process. Milestones are considered substantive if all of the following conditions are met: (1) the milestone is non-refundable; (2) achievement of the milestone was not reasonably assured at the inception of the arrangement; (3) substantive effort is involved to achieve the milestone; and (4) the amount of the milestone appears reasonable in relation to the effort expended, the other milestones in the arrangement and the related risk associated with the achievement of the milestone and any ongoing research and development or other services are priced at fair value. Payments received in advance of work performed are recorded as deferred revenue.

For revenue arrangements including multiple deliverables and entered into prior to January 1, 2011, revenue was allocated among the separate elements based on their relative fair values, provided the elements had value on a stand-alone basis and there was objective and reliable evidence of fair value. Applicable revenue recognition criteria are considered separately for each unit of accounting. We recognize revenue on development and collaboration agreements, including upfront payments, where they are considered combined units of accounting, over the period specified in the related agreement or as we perform services under the agreement

For multiple element arrangements entered into or materially modified on or subsequent to January 1, 2011, the total consideration for an arrangement is allocated among the separate elements in the arrangement based on a selling price hierarchy. The selling price hierarchy for a deliverable is based on (i) vendor specific objective evidence (VSOE), if available; (ii) third party evidence of selling price if VSOE is not available; or (iii) an estimated selling price, if neither VSOE nor third party evidence is available. Since we did not enter into or materially modify any multiple-element arrangements during the three months ended March 31, 2011, the adoption of this new accounting guidance did not have a material impact on our consolidated financial statements as of and for the three months ended March 31, 2011. We do anticipate that when we enter into new multiple-element arrangements or materially modify existing multiple-element arrangements, this new guidance will change the revenue recognition methodology for these arrangements, as compared to past practice.

#### Research and Development

Except for payments made in advance of services rendered, research and development expenditures, including direct and allocated expenses, are charged to operations as incurred.





## Comprehensive Income (Loss)

Comprehensive income (loss) is comprised of net loss and other comprehensive income (loss). Other comprehensive income (loss) is the result of foreign currency exchange translation adjustments and unrealized gains on available for sale investments. The following table sets forth the components of comprehensive income (loss) (in thousands):

	Three Months Ended March 31,	
	2011	2010
Net loss	\$ (8,186 )	\$ (18,304 )
Realized foreign currency transactions	223	213
Unrealized foreign currency transactions	2,934	(1,704 )
Foreign currency translation adjustments	(1,415 )	1,158
Unrealized (loss) gain on available for sale investments	(34 )	10
Comprehensive loss	\$ (6,478 )	\$ (18,627 )

## Stock-Based Compensation

We account for stock-based payments to employees by estimating the fair value of the grant and recognizing the resulting value ratably over the requisite service period. The estimated fair value is determined by utilizing the Black-Scholes option pricing model. The determination of the estimated fair value of our stock-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding expected volatility, risk-free interest rate, dividend yield and expected term.

We recognize stock-based compensation expense for options granted with graded vesting over the requisite service period of the individual stock option grants, which typically equals the vesting period, using the straight-line attribution method. For stock-based awards that contain a performance condition, expense is recognized using the accelerated attribution method. Compensation expense related to stock-based compensation is allocated to research and development or general and administrative based upon the department to which the associated employee reports.

Options or stock awards issued to non-employees are measured at their estimated fair value. Expense is recognized when service is rendered; however, the expense may fluctuate with changes in the fair value of the underlying common stock, until the award is vested.

## Income Taxes

We account for income taxes using the liability method. Deferred income taxes are recognized at the enacted tax rates for temporary differences between the financial statement and income tax bases of assets and liabilities. Deferred tax assets are reduced by a valuation allowance if, based upon the weight of available evidence, it is more likely than not that some portion or all of the related tax asset will not be recovered.

We account for uncertain tax positions pursuant to ASC Topic 740. Financial statement recognition of a tax position taken or expected to be taken in a tax return is determined based on a more-likely-than-not threshold of that position being sustained. If the tax position meets this threshold, the benefit to be recognized is measured at the largest amount that is more than 50 percent likely to be realized upon ultimate settlement. In making such determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations. It is our policy to record interest and penalties related to uncertain tax positions as a component of income tax expense.



## Net Loss Per Share

Basic net loss per share is calculated by dividing the net loss by the weighted average number of common shares outstanding for the period, without consideration for common stock equivalents. Diluted net loss per share is computed by dividing the net loss by the weighted average number of common stock equivalents outstanding for the period determined using the treasury-stock method. For purposes of this calculation, stock options, and warrants are considered to be common stock equivalents and are only included in the calculation of diluted net loss per share when their effect is dilutive. The following options and warrants to purchase additional shares were excluded from the weighted average share calculation for the three-month periods ended March 31, 2011 and 2010, respectively, as their effect would be anti-dilutive (in thousands):

	Three months ended March 31,	
	2011	2010
Options outstanding	12,657	9,412
Warrants outstanding	8,023	8,070
Total shares excluded from calculation	20,680	17,482

## Recent Accounting Standards and Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (“FASB”) or other standard setting bodies that are adopted by us as of the specified effective date. Unless otherwise discussed, our management believes that the impact of recently issued standards that are not yet effective will not have a material impact on our consolidated financial position or results of operations upon adoption.

## Note 4. Fair Value Measurements

We include disclosures about fair value measurements pursuant to ASC Topic 820. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Such transactions to sell an asset or transfer a liability are assumed to occur in the principal or most advantageous market for the asset or liability. Accordingly, fair value as described by ASC Topic 820 is determined based on a hypothetical transaction at the measurement date, considered from the perspective of a market participant.

ASC Topic 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: 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 following table presents information about our assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2011 (in thousands):

Description	March 31, 2011	Quoted Prices	Significant Other	Significant
		in Active Markets Level 1	Inputs Level 2	Unobservable Inputs Level 3
<b>Assets:</b>				
Cash and cash equivalents	\$62,227	\$ 62,227	\$ —	\$ —
Restricted cash	1,000	1,000	—	—
<b>Short-term investments:</b>				
Foreign government bonds	58,377	—	58,377	—
U.S. Government agencies	2,000	—	2,000	—
Commercial paper	38,650	—	38,650	—
U.S. corporate bonds	35,467	—	35,467	—
Municipal bonds	8,345	—	8,345	—
Restricted cash, long-term	2,471	2,471	—	—
<b>Long-term investments:</b>				
U.S. Government agencies	2,702	—	2,702	—
<b>Total assets</b>	<b>\$211,329</b>	<b>\$ 65,698</b>	<b>\$ 145,541</b>	<b>\$ —</b>
<b>Liabilities:</b>				
Common stock warrant liability	\$(13,524 )	\$ —	\$ —	\$ (13,524 )

There were no transfers of financial assets or liabilities between Level 1 and Level 2 during the three months ended March 31, 2011. The following table presents information about our common stock warrant liability, which was our only financial instrument measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC Topic 820 during the three months ended March 31, 2011 and 2010 (in thousands):

	Three months ended March 31,	
	2011	2010
Beginning balance	\$ (23,858 )	\$ (20,244 )
Transfers to (from) Level 3	—	—
Realized gains included in earnings	10,142	—
Realized losses included in earnings	—	(5,607 )
Purchases	—	—
Issuances	—	—
Settlements	192	—
Ending balance	\$ (13,524 )	\$ (25,851 )

The settlement above represents a warrant exercise and the corresponding decrease in the liability. The settlement is valued as of the actual transaction date. The carrying value of the common stock warrant liability is calculated using the Black-Scholes option pricing model, which requires the input of highly subjective assumptions. These assumptions include the risk-free rate of interest, expected dividend yield, expected volatility, and the expected life of the award. The risk-free rate of interest is based on the U.S. Treasury rates appropriate for the expected term of the award. Expected dividend yield is projected at 0%, as we have not paid any dividends on our common stock since our inception and we do not anticipate paying dividends on our common stock in the foreseeable future. Expected volatility is based on our historical volatility and the historical volatility of the common stock of comparable publicly traded companies. The expected term is determined based on the contractual period of the warrants.

#### Note 5. Deferred Revenue

We have recorded deferred revenues from our research and development agreements as follows (in thousands):



	March 31, 2011	December 31, 2010
Nycomed	\$ 6,074	\$ 6,310
Sanofi-aventis	6,029	5,640
Bayer Schering Pharma	5,091	5,155
Boehringer Ingelheim	6,726	6,405
Merck Serono	732	1,368
TRACON	1,096	1,121
Other	197	234
Subtotal	25,945	26,233
Current portion	(5,074 )	(5,695 )
Long-term portion	\$ 20,871	\$ 20,538

The deferred revenue from agreements with Boehringer Ingelheim, Nycomed, sanofi-aventis, Bayer Schering and TRACON consists mainly of the upfront license fees that are being recognized over the periods that we are required to participate on joint steering committees, which are 20 years, 20 years, 6 years, 4.5 years and 15 years, respectively.

The upfront license fees and research and development service reimbursements under our collaboration agreement with Merck Serono are considered to be a combined unit of accounting and, accordingly, we are recognizing the related amounts into revenue ratably over the expected period of the research and development program, which continues through mid-2011.

#### Note 6. Other Liabilities

Other liabilities consist of the following (in thousands):

	March 31, 2011	December 31, 2010
Facility lease exit liability	\$ 1,460	\$ 1,504
GEK subsidy	67	75
Asset retirement obligation	670	620
Capital lease obligations	493	521
Other	11	14
Subtotal	2,701	2,734
Less current portion included in accrued expenses	(1,663 )	(1,574 )
Other non-current liabilities	\$ 1,038	\$ 1,160

#### Facility Lease Exit Liability and Restructuring Provision

We review the adequacy of our estimated exit accruals on an ongoing basis. The following table summarizes the facility lease activity for these obligations for the three-month periods ended March 31, 2011 and 2010 (in thousands):

	Three months ended March 31,	
	2011	2010
Beginning balance	\$ 1,504	\$ 1,276
Amounts paid in period	(111 )	(104 )
Accretion expense	67	56
Ending balance	\$ 1,460	\$ 1,228

The accretion expense is included in general and administrative expenses. Of the \$1,460 lease exit liability as of March 31, 2011, \$1,344 is current and \$116 is non-current.

Note 7. Committed Equity Financing Facility

In December 2008, we entered into a Committed Equity Financing Facility (CEFF) with Kingsbridge Capital Limited (Kingsbridge) which entitles us to sell, and obligates Kingsbridge to purchase, shares of our common stock from time to time through December 2011 for up to \$75.0 million, subject to certain conditions and restrictions. As of March 31, 2011, Kingsbridge's remaining commitment under the CEFF is equal to the lesser of \$69.7 million or 8,684,351 shares (which shares would be priced at a discount ranging from 6% to 14% of the average market price during any future draw down), subject to certain conditions and restrictions.

Note 8. Subsequent Event

On April 11, 2011 we received notice from TRACON Pharmaceuticals, Inc. that it was terminating its license agreement with our Cell-Matrix subsidiary for the development of our monoclonal antibody product candidate known as MT293. This termination will become effective during the second quarter of 2011, at which time the MT293 program will revert to us. In connection with such termination, we received in April 2011 a one-time payment of \$1.0 million for amounts due to us under the license agreement with TRACON. We will recognize the \$1.0 million as revenue in the quarter ending June 30, 2011.

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

Any statements in the discussion below, and elsewhere in this report, about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and are forward-looking statements. Such forward-looking statements include statements regarding our expectations regarding future revenue and expense levels, the efficacy, safety and intended utilization of our product candidates, the development of our clinical stage product candidates and our BiTE antibody technology, the future development of blinatumomab by us, the conduct, timing and results of future clinical trials, plans regarding regulatory filings, our available cash resources and the availability of financing generally, including our ability to draw down under our committed equity financing facility, and our plans regarding partnering activities. You can identify these forward-looking statements by the use of words or phrases such as "believe," "may," "could," "will," "possible," "can," "estimate," "continue," "ongoing," "consider," "anticipate," "seek," "plan," "project," "expect," "should," "would," or "assume" or the negative of these terms, or other comparable terminology, although not all forward-looking statements contain these words.

Among the factors that could cause actual results to differ materially from those indicated in the forward-looking statements are risks and uncertainties inherent in our business including, without limitation, the progress, timing or success of our clinical trials; difficulties or delays in development, testing, obtaining regulatory approval for producing and marketing our product candidates; regulatory developments in the United States or in foreign countries; the risks associated with our reliance on collaborations for the development and commercialization of our product candidates; unexpected adverse side effects or inadequate therapeutic efficacy of our product candidates that could delay or prevent product development or commercialization, or that could result in recalls or product liability claims; our ability to attract and retain key scientific, management or commercial personnel; the size and growth potential of the markets for our product candidates and our ability to serve those markets; the scope and validity of patent protection for our product candidates; competition from other pharmaceutical or biotechnology companies; our ability to establish and maintain strategic collaborations or to otherwise obtain additional financing to support our operations on commercially reasonable terms; successful administration of our business and financial reporting capabilities; and other risks detailed in this report, including those below in Part II, Item 1A, "Risk Factors."

Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee future results, events, levels of activity, performance or achievement. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or



otherwise, unless required by law.

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The interim financial statements included in this report and this Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2010, and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 4, 2011, as amended on April 15, 2011.

## Overview

We are a biopharmaceutical company focused on the discovery, development and commercialization of innovative antibody-based therapies for the treatment of cancer. Our product development pipeline includes novel antibodies generated with our proprietary BiTE® antibody platform, as well as conventional monoclonal antibodies. BiTE antibodies represent a new class of antibodies that activate the T cells of a patient's immune system to eliminate cancer cells. T cells are considered the most powerful "killer cells" of the human immune system. Seven of our antibodies are currently in clinical trials, while the remainder of our product pipeline is in preclinical development.

Our lead product candidate is the BiTE antibody blinatumomab, also known as MT103. Blinatumomab targets the human protein molecule CD19, which is expressed on the surface of tumor cells of certain cancers. In a phase 2 clinical trial evaluating blinatumomab as a treatment for patients with acute lymphoblastic leukemia, or ALL, 16 of 20 evaluable patients experienced elimination of cancerous cells in their bone marrow, which was the primary endpoint of the trial. We have initiated a pivotal, multi-center, single-arm study — referred to as BLAST (Blinatumomab Adult ALL MRD Study of T cell engagement) — which, if successful, has the potential to support the filing of a marketing authorization application in Europe. We have also initiated a phase 2 trial in adult patients with relapsed or refractory B-precursor ALL and are evaluating blinatumomab in an ongoing phase 1 clinical trial for the treatment of patients with non-Hodgkin's lymphoma, or NHL.

We are evaluating a second BiTE antibody, MT110, in a phase 1 clinical trial for the treatment of patients with advanced solid tumors. MT110 targets the epithelial cell adhesion molecule, or EpCAM, which is overexpressed in many solid tumors. Our collaboration partner MedImmune, LLC has initiated a phase 1 clinical trial of MT111, a BiTE antibody targeting carcinoembryonic antigen, or CEA, in patients with advanced solid tumors. Additional BiTE antibodies are at different stages of lead candidate selection and preclinical development. In addition to the collaboration with MedImmune, we have also entered into collaboration agreements with Bayer Schering Pharma and sanofi-aventis for the development of BiTE antibodies targeting other solid tumor targets, and with Boehringer Ingelheim for the development of a BiTE antibody for the treatment of multiple myeloma.

Our conventional monoclonal antibody MT203, a human antibody neutralizing the activity of granulocyte/macrophage colony stimulating factor, or GM-CSF, which has potential applications in the treatment of various inflammatory and autoimmune diseases, such as rheumatoid arthritis, psoriasis, or multiple sclerosis, is under development in a phase 1 clinical trial being conducted by our collaboration partner Nycomed. Our other conventional antibodies include adecatumumab, also known as MT201, which binds to EpCAM and is the subject of a collaboration with Merck Serono, MT228, which is licensed to Morphotek, Inc. and is the subject of an ongoing phase 1 clinical trial in patients with advanced melanoma, and MT293, which has completed a phase 1 clinical trial for the treatment of patients with cancer.

To date, we have incurred significant research and development expenses and have not achieved any revenues from sales of our product candidates. Each of our programs will require a number of years and significant costs to advance through development. Typically, it takes many years from the initial identification of a lead antibody target to the completion of preclinical and clinical trials, before applying for marketing approval from the U.S. Food and Drug Administration, or FDA, or the European Medicines Agency, or EMA, or equivalent regulatory agencies in other countries and regions. The risk that a program has to be terminated, in part or in full, for safety reasons or lack of

adequate efficacy is very high. In particular, we cannot predict which, if any, product candidates can be successfully developed and for which marketing approval may be obtained, or the time and cost to complete development and receive marketing approvals.

As we obtain results from preclinical studies or clinical trials, we may elect to discontinue the development of one or more product candidates for safety, efficacy or commercial reasons. We may also elect to discontinue or delay development of one or more product candidates in order to focus our resources on more promising product candidates. Our business strategy includes entering into collaborative agreements with third parties for the development and commercialization of certain of our product candidates. Depending on the structure of these collaborative agreements, we may grant a third party control over the clinical trial process, manufacturing process or other development processes or activities for one or more of our product candidates. In such a situation, the third party, rather than us, could control development and commercialization decisions with respect to the product candidate. We cannot predict the terms of future agreements or their potential impact on our capital requirements. Our inability to complete our research and development projects in a timely manner, or our failure to enter into new collaborative agreements, when appropriate, could significantly increase our capital requirements and adversely affect our liquidity.

### Research and Development

Our research and development expenses consist of costs associated with the clinical development of blinatumomab, adecatumumab and MT110, as well as development costs incurred for MT111 and MT203, and research conducted with respect to our preclinical BiTE antibodies and the BiTE antibody platform generally. This includes costs associated with clinical trials and manufacturing processes, quality systems and analytical development, compensation and other personnel expenses, supplies and materials, consultant fees and related contract research, facility costs, license fees and depreciation. We charge all research and development expenses to operations as incurred.

We expect to incur substantial additional research and development expenses that may increase from historical levels as we further develop our product candidates into more advanced stages of clinical development and increase our preclinical development for certain of our BiTE antibodies and conventional antibodies.

Our strategic collaborations and license agreements generally provide for our research, development and commercialization programs to be partly or wholly funded by our collaborators and provide us with the opportunity to receive additional payments if specified development or commercialization milestones are achieved, as well as royalty payments upon the successful commercialization of any products based upon our collaborations. We also may retain co-promotion rights in certain of our agreements. We intend to pursue additional collaborations to provide resources for further development of our product candidates and may grant technology access licenses. However, we cannot forecast with any degree of certainty whether we will be able to enter into collaborative agreements, and if we do, on what terms we might do so.

### Results of Operations

#### Comparison of Three Months Ended March 31, 2011 and 2010

Revenues. Collaborative research and development revenue consists of reimbursements for full-time equivalents and pass-through expenses we incur under each of our collaboration agreements. License and other revenue consists primarily of revenues from licenses of patents relating to single-chain antibody technology, for which we serve as the exclusive marketing partner under a marketing agreement with Enzon Pharmaceuticals, Inc. The following table summarizes our sources of revenue for the periods presented (in millions):

	Three Months Ended March	
	31,	
	2011	2010
<b>Research and development revenue by collaborator:</b>		
Bayer Schering Pharma	\$ 1.3	\$ 2.1
Nycomed	2.1	1.8
Sanofi-aventis	1.1	1.2
Merck Serono	0.7	0.7
MedImmune	0.1	0.2
Boehringer Ingelheim	0.1	—
Total collaborative R&D revenue	5.4	6.0
License and other revenue	0.1	0.3
Total revenues	\$ 5.5	\$ 6.3

**Bayer Schering Pharma.** Revenues under this agreement represent Bayer Schering Pharma's responsibility for the full cost of the product development program under this collaboration, plus a portion of the approximately \$7.0 million in up-front payments received that are being recognized as revenue on a straight-line basis over a 54-month period ending in 2014. During the quarter ended March 31, 2011, we recognized \$0.9 million in revenue as payment for our preclinical development activities and \$0.4 million of the up-front fee. During the same period of 2010, we recognized \$1.7 million as payment for our preclinical development activities and \$0.4 million of the up-front fee.

**Nycomed.** Revenues under this agreement reflect Nycomed's responsibility for the full cost of the MT203 product development program under this collaboration. In addition to revenue recognized from the reimbursement of our preclinical development activities, we are recognizing a \$6.7 million up-front payment from Nycomed into revenue on a straight-line basis over a 20-year period ending in 2027, or approximately \$0.3 million per year based on the current exchange rate. The \$2.1 million of revenue recorded during the three months ended March 31, 2011 represented a slightly higher level of activity under this agreement than for the same period in 2010; however, we expect to see a decrease in this revenue in the second half of 2011, as the future development work will be performed by Nycomed.

**Sanofi-aventis.** Revenues under this agreement represent sanofi-aventis' responsibility for the full cost of the product development program under this collaboration. In addition to revenue recognized from the reimbursement of our preclinical development activities, we are recognizing a \$7.3 million up-front payment from sanofi-aventis into revenue on a straight-line basis over a 74-month period ending in 2015, or approximately \$1.2 million per year based on the current exchange rate. For the three months ended March 31, 2011, we recognized \$0.8 million for our preclinical development activities and \$0.3 million of the up-front fee. During the same period in 2010, we recognized \$0.9 million for our preclinical development activities and \$0.3 million of the up-front fee.

**Merck Serono.** Revenues of \$0.7 million for each of the three months ended March 31, 2011 and 2010 under this agreement reflect a portion of the up-front payment we received from Merck Serono that is being recognized on a straight-line basis through 2012. During 2010, the development expenses reimbursable by Merck Serono for the current stage of development reached a pre-negotiated maximum. Accordingly, we do not expect to receive any further reimbursement of expenses under this program pending our and Merck Serono's determination of the next steps for the development of this product candidate.

**MedImmune.** Revenues under this agreement generally represent payments from MedImmune for our costs incurred in the development of MT111. The slight decrease in revenue of \$0.1 million for the three-month period ended March 31, 2011 as compared to the same period in 2010 is due to the lower activity by us under this agreement. We expect full year 2011 collaborative revenue from MedImmune for MT111 to decrease compared to 2010 due to our limited development obligations while MedImmune conducts the ongoing phase 1 clinical trial with MT111.



Boehringer Ingelheim. We entered into the collaboration agreement with Boehringer Ingelheim during the second quarter of 2010. The revenues recognized for the period represent a portion of the up-front payment to us of approximately \$6.1 million that is being recognized over a 20-year period ending in 2030, or approximately \$0.3 million per year, based on the current exchange rate.

**License and Other Revenue.** License and other revenue consists primarily of revenues from licenses of our patents relating to single-chain antibody technology, for which we serve as the exclusive marketing partner under a marketing agreement with Enzon Pharmaceuticals, Inc. We do not expect future revenue from these licenses to be material. There was a slight reduction in license and other revenue during the three months ended March 31, 2011 as compared to the same period of 2010.

**Research and Development Expenses.** Research and development expense consists of costs incurred to discover and develop product candidates. These expenses consist primarily of salaries and related expenses for personnel, outside service costs including production of clinical material, fees for services in the context of clinical trials, medicinal chemistry, consulting and sponsored research collaborations, and occupancy and depreciation charges. Research and development expenses increased by \$6.4 million, or 58%, to \$18.6 million for the three months ended March 31, 2011 from \$12.2 million for the same period of 2010. The increase was largely the result of increased spending on our MT103 program of \$3.2 million, primarily for manufacturing, salary and related expenses of \$1.4 million due to increased staff, increases in stock-based compensation expenses of \$0.8 million and higher facility costs of \$0.6 million primarily due to repairs and maintenance.

Since 2007, we have tracked our external research and development expenses by major project candidate development program or allocated the expenses to our BiTE antibody platform generally. We do not allocate salary and overhead costs or stock-based compensation expense to specific research and development projects or product candidates. Our research and development expenses for the three ended March 31, 2011 and 2010 and cumulative amounts expended since 2007 are summarized in the table below (in thousands):

	Three months ended		Cumulative since January 1, 2007
	March 31, 2011	2010	
Blinatumomab	\$ 5,949	\$ 2,701	\$ 37,109
MT203	1,900	1,307	18,701
Adecatumumab	198	285	6,763
MT110	506	1,342	8,772
BiTE antibody platform and other	940	828	10,938
Unallocated salary and overhead	7,798	5,227	93,576
Stock-based compensation	1,342	513	11,688
Total	\$ 18,633	\$ 12,203	\$ 187,547

**General and Administrative Expenses.** General and administrative expense consists primarily of salaries and related costs for personnel in executive, finance, accounting, legal, information technology, corporate communications and human resource functions. Other costs include allocated facility costs not otherwise included in research and development expense, insurance, and professional fees for legal and audit services. General and administrative expenses increased by \$1.5 million, or 28.8%, to \$6.7 million for the three months ended March 31, 2011 from \$5.2 million for the same period in 2010. The increase was the result of higher stock-based compensation expense of \$0.4 million and increases in personnel costs due to new hires of \$0.4 million, increases in recruiting costs of \$0.3 million and increases in consulting costs of \$0.4 million.

Interest Expense. Interest expense consists primarily of amortization of premiums on our investments and capital leases and amounted to \$22,000 and \$87,000 for the three months ended March 31, 2011 and 2010, respectively.



**Interest Income.** Interest income for the three months ended March 31, 2011 and 2010 was \$178,000 and \$115,000, respectively. The increase is due to higher investment balances during the three months ended March 31, 2011 over the same period in 2010.

**Change in Fair Value of Common Stock Warrants Liability.** We have issued warrants to purchase our common stock that require us, or any successor entity, to purchase each unexercised warrant for a cash amount equal to its fair value (computed using the Black-Scholes option-pricing model with prescribed guidelines) in any of the following circumstances: we are merged or consolidated with or into another company, we sell all or substantially all of our assets in one or a series of related transactions, any tender offer or exchange offer is completed pursuant to which holders of our common stock are permitted to tender or exchange their shares for other securities, cash or property, or we effect any reclassification of our common stock or any compulsory share exchange pursuant to which the common stock is effectively converted into or exchanged for other securities, cash or property. As a consequence of these provisions, the warrants are classified as a liability on our consolidated balance sheets, and changes in our stock price cause the fair value of the warrants to change each reporting period, with these changes being reflected in our consolidated statements of operations. Increases in our stock price cause the warrant liability to increase, and this increase is charged to expense, while decreases in our stock price cause the liability to decrease, which is recorded as a reduction to other income.

During the three months ended March 31, 2011, the market value of our common stock decreased from \$8.12 per share on December 31, 2010 to \$5.61 per share on March 31, 2011, resulting in a decrease in the fair value of the warrant liability on our balance sheet, and a corresponding increase in other income, of \$10.1 million. During the three months ended March 31, 2010, the market value of our common stock increased from \$6.66 per share on December 31, 2009 to \$8.08 per share on March 31, 2010, resulting in an increase in the fair value of the warrant liability on our balance sheet, and a corresponding charge to other expense, of \$1.6 million.

**Other Income (Expense), Net.** Other income (expense), net includes foreign currency transaction gains and losses and miscellaneous other items. The increase in income of \$6.9 million for the three months ending March 31, 2011 as compared to 2010 resulted from the realization of gains from foreign currency exchange rate fluctuations due to maturities of our foreign-denominated available-for-sale securities, as well as changes in foreign currency exchange rates for foreign-denominated cash equivalents held by the U.S. entity.

## Liquidity and Capital Resources

**Summary of Cash Flows.** We had unrestricted cash and cash equivalents and available-for-sale investments of \$207.8 million and \$222.7 million as of March 31, 2011 and December 31, 2010, respectively. This net decrease resulted from our net loss for the three months ended March 31, 2011, adjusted for non-cash charges and changes in operating assets and liabilities.

Our net cash used in operating activities was \$18.9 million for the three months ended March 31, 2011, as compared to \$5.7 million used in operating activities for the three months ended March 31, 2010. The majority of our cash is used to fund our ongoing research and development efforts, which resulted in a net loss of \$8.2 million for the three months ended March 31, 2011, which loss was \$10.1 million less than the net loss of \$18.3 million during the same period of the prior year. During the three months ended March 31, 2011, net loss included \$8.0 million in net non-cash gains, primarily the result of a \$10.1 million gain from the change in the fair value of our common stock warrant liability, partially offset by \$2.4 million in non-cash expenses for stock-based compensation, \$0.6 million for depreciation and amortization and \$0.5 million for amortization of premiums and discounts on investments. This compares to \$9.3 million in net non-cash expenses during the three months ended March 31, 2010, including \$1.2 million in stock-based compensation, \$0.5 million in depreciation and amortization, and \$5.6 million in expense due to the increase in the fair value of our common stock warrant liability. Changes in our working capital during the three

months ended March 31, 2011 resulted in lower cash balances of \$2.8 million, including a \$0.3 million net outflow due to increases in our accounts receivable, a \$0.7 million net outflow due a reduction in prepaid expenses and other assets, and an outflow due to a decrease in deferred revenue of \$1.8 million. This compares to a \$3.3 million increase in cash flows from changes in working capital during the three months ended March 31, 2010, resulting primarily from a \$5.6 million increase in our deferred revenue and an increase of \$0.9 million from a decrease in our prepaid expenses and other assets, partially offset by outflows resulting from decreases in accounts payable and accrued expenses of an aggregate of \$3.1 million.

Our net cash used in investing activities was \$18.3 million for the three months ended March 31, 2011, as compared to \$39.5 million used in investing activities for the three months ended March 31, 2010. In both periods the changes were primarily the result of maturities of investments in our investment portfolio. During the three months ended March 31, 2011, we purchased a net \$17.6 million of investments denominated in Euros in order to maintain liquid assets in the currency in which the majority of our expenses are denominated. As these investments mature, some have been reinvested in similar securities. During the same period of 2010, we purchased a net \$39.0 million of these investments. Our investment in property and equipment was \$0.8 million during the first three months of 2011, primarily for research and process development equipment, as compared to property and equipment investments of \$0.5 million during the same period of 2010.

Our net cash provided by financing activities was \$0.7 million for the three months ended March 31, 2011, as compared to \$75.9 million for the three months ended March 31, 2010. In March 2010, we completed a public offering of our common stock, which resulted in proceeds of \$75.4 million, net of financing costs. During the three months ended March 31, 2011, we also received \$0.7 million from the exercise of stock options and warrants, as compared to \$0.5 million from the exercise of stock options during the prior year period.

Sources and Uses of Cash. We have funded our recent operations through public offerings and private placements of common stock and associated warrants, equity draws under the CEFF with Kingsbridge, research-contribution revenues from our collaborations with pharmaceutical companies and licensing and milestone payments related to our product candidate partnering activities. We expect that operating losses and negative cash flows from operations will continue for at least the next several years. If appropriate, we may raise substantial funds through the sale of our common stock or debt securities or through establishing additional strategic collaboration agreements. We do not know whether additional financing will be available when needed, or whether it will be available on favorable terms, or at all. Based on our capital resources as of the date of this report, we believe that we have adequate resources to fund our operations into 2013, without considering any potential future milestone payments that we may receive under our current or any new collaborations we may enter into in the future, any future capital raising transactions or any additional drawdowns from our CEFF with Kingsbridge, which is scheduled to expire in December 2011.

If we are unable to raise additional funds when needed, we may not be able to continue development of our product candidates or we could be required to delay, scale back or eliminate some or all of our development programs and other operations. If we were to raise additional funds through the issuance of common stock, it could result in substantial dilution to our existing stockholders. If we were to raise additional funds through additional debt financing, the terms of the debt may involve significant cash payment obligations, as well as covenants and financial ratios that could restrict our ability to operate our business. Having insufficient funds could require us to delay, scale back or eliminate some or all of our research or development programs or to relinquish some or all of our rights to our product candidates at an earlier stage of development or on less favorable terms than we would otherwise choose. If we raise funds through corporate collaborations or licensing arrangements, we may be required to relinquish, on terms that are not favorable to us, rights to some of our technologies or product candidates that we would otherwise seek to develop or commercialize ourselves. Failure to obtain adequate financing may also adversely affect our operating results or our ability to operate as a going concern.

Our future capital uses and requirements depend on numerous forward-looking factors and involve risks and uncertainties. Actual results could vary as a result of a number of factors, including the factors discussed in “Risk Factors” in this report. In light of the numerous risks and uncertainties associated with the development and commercialization of our product candidates, we are unable to estimate the amounts of capital outlays and operating expenditures associated with our current and anticipated clinical trials. Our future funding requirements will depend on many factors, including:

- the number, scope, rate of progress, results and costs of our preclinical studies, clinical trials and other research and development activities;
- the terms and timing of any corporate collaborations that we may establish, and the success of these collaborations;
  - the cost, timing and outcomes of regulatory approvals;
  - the number and characteristics of product candidates that we pursue;
  - the cost and timing of establishing manufacturing, marketing, sales and distribution capabilities;
  - the cost of establishing clinical and commercial supplies of our product candidates;
- the cost of preparing, filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights;
- the cost of preparing for, defending against and the ultimate resolution of litigation or other claims brought against us; and
- the extent to which we acquire or invest in businesses, products or technologies, although we currently have no commitments or agreements relating to any of these types of transactions.

**Committed Equity Financing Facility.** On December 1, 2008, we entered into the CEFF with Kingsbridge pursuant to which Kingsbridge committed to purchase, subject to certain conditions, up to \$75.0 million of our common stock through December 2011. The facility is subject to early termination in specified circumstances. In connection with this CEFF, we issued a warrant to Kingsbridge to purchase up to 135,000 shares of our common stock with an exercise price of \$4.44 per share. The warrant is exercisable until June 2014. Under the CEFF, the maximum number of shares that we may sell to Kingsbridge is 10,104,919 shares, exclusive of the shares underlying the warrant issued to Kingsbridge. Subject to specified conditions and limitations, from time to time under the CEFF, we may require Kingsbridge to purchase shares of our common stock at a price that is between 86% and 94% of the volume weighted average price on each trading day during an eight-day pricing period, provided that if the average market price on any day during the pricing period is less than the greater of \$2.00 or 85% of the closing price of the day preceding the first day of the pricing period, then that day would not be used in determining the number of shares that would be issued in the draw down and the aggregate amount of the draw down would be decreased by one-eighth.

The maximum dollar amount of shares that we may require Kingsbridge to purchase in any pricing period is equal to the greater of (a) a percentage of our market capitalization as determined at the time of the draw down, which percentage ranges from 1.0% to 1.5% depending upon our market capitalization at the time of the draw down, or (b) four times the average trading volume of our common stock for a specified period prior to the draw down notice, multiplied by the closing price of the common stock on the trading day prior to the draw down notice, in each case subject to specified conditions. If either of the foregoing calculations yields a draw down amount in excess of \$10 million, then the individual draw down amount is limited to \$10 million.



We filed a registration statement which became effective in December 2008 with respect to the resale of shares issuable under the CEFF and underlying the warrant issued to Kingsbridge, and the registration rights agreement requires us to maintain the effectiveness of the registration statement. If we fail to maintain the effectiveness of the registration statement, or if we suspend the use of the registration statement, then under certain circumstances we may be required to pay certain amounts to Kingsbridge, or issue to Kingsbridge additional shares of common stock in lieu of cash payment, in each case as liquidated damages. We are not obligated to sell any of the \$75.0 million of common stock available under the CEFF and there are no minimum commitments or minimum use penalties. The CEFF does not contain any restrictions on our operating activities, automatic pricing resets or minimum market volume restrictions.

During 2009, we made two drawdowns under the CEFF in which we issued a total of 1,420,568 shares of common stock for gross proceeds of \$5.3 million. Accordingly, the remaining amount available under the CEFF has decreased to the lesser of \$69.7 million or 8,684,351 shares of common stock.

**Public Offerings of Common Stock.** On November 10, 2010, we entered into a purchase agreement with Piper Jaffray & Co. pursuant to which we sold 9,900,000 shares of our common stock at a price per share of \$7.15. Our gross proceeds from the sale were \$70.8 million. We incurred investment banking fees, legal fees and other financing costs of approximately \$0.3 million, resulting in net proceeds of \$70.5 million. On March 11, 2010, we entered into an underwriting agreement with Goldman, Sachs & Co., as representative of the several underwriters, pursuant to which we issued an aggregate of 11,500,000 shares of common stock, including the exercise of an over-allotment option for 1,500,000 shares, at a public offering price of \$7.00 per share, for gross proceeds of \$80.5 million. After underwriting discount and estimated expenses payable by us of approximately \$5.1 million, net proceeds from the public offering were approximately \$75.4 million.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

#### Interest Rates

Our financial instruments consist primarily of cash, cash equivalents, and short-term and long-term investments. Our cash equivalents and investments, principally comprised of corporate obligations and U.S. and foreign government obligations, are subject to interest rate risk and will decline in value if interest rates increase. Because of the relatively short maturities of our investments, we do not expect interest rate fluctuations to materially affect the aggregate value of our financial instruments. We do not have derivative financial instruments in our investment portfolio.

#### Exchange Rates

A substantial portion of our operating expenses are incurred in Euros. Thus, our financial results and capital resources are affected by changes in the U.S. dollar/Euro exchange rate. We partially hedge our Euro-denominated expenses budgeted over the next twelve months by maintaining an equivalent portfolio of Euro-denominated cash, cash equivalents and short-term investments. In addition, several of our current collaboration agreements provide for our collaborators to reimburse us in Euros for our development expenses incurred under those collaborations. These collaboration agreements also provide for milestone payments to be paid in Euros, which also hedges against currency fluctuations associated with our future Euro-denominated operating expenses and obligations.

A decrease in the value of the U.S. dollar relative to the Euro would result in an increase in our reported operating expenses due to the translation of our Euro-denominated expenses into U.S. dollars, and such changes would negatively impact the length of time that our existing capital resources would be sufficient to finance our operations.

As of March 31, 2011, we had U.S. dollar-denominated cash and investments of approximately \$138.2 million and Euro-denominated cash and investments of approximately €49.3 million, or approximately \$69.6 million using the exchange rate as of that date. As of March 31, 2011, we had Euro-denominated liabilities of approximately €27.6 million, or approximately \$38.9 million, using the exchange rate as of that date. The following table shows the hypothetical impact of a change to the Euro/U.S. Dollar exchange rate as of March 31, 2011:

Change in Euro/\$ U.S. Exchange Rate	10%	15%	20%
Increase in reported net operating loss for the three months ended March 31, 2011 (in thousands)	\$ 1,396	\$ 2,094	\$ 2,792

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

As of March 31, 2011, management performed, with the participation of our Chief Executive Officer and our Chief Financial Officer, an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. Based on our evaluation and the identification of the material weaknesses in our internal control over financial reporting, as previously disclosed in our Annual Report on Form 10-K/A for the year ended December 31, 2010, our disclosure controls and procedures were not effective as of March 31, 2011. During 2011, we have taken a number of steps to strengthen our internal control over financial reporting in order to address the weaknesses. The improvements include additional procedures relating to foreign currency and investment activity. We expect to complete the full implementation of our remediation measures during the second quarter of 2011.

Because of the material weaknesses identified in our evaluation of internal control over financial reporting as of December 31, 2010, we performed additional substantive procedures, similar to those previously disclosed in our Form 10-K/A for the year ended December 31, 2010, to ensure that our consolidated condensed financial statements as of and for the three-month period ended March 31, 2011 are fairly stated in all material respects in accordance with GAAP.

Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected.

##### Changes in Internal Control over Financial Reporting

During the quarter ended March 31, 2011, we determined that a deficiency in controls relating to the accounting for foreign currency related to our investments existed as of the previous assessment date and have further concluded that such a deficiency represented a material weakness as of December 31, 2010. As a result, we concluded that our internal controls over financial reporting were not effective as of December 31, 2010. We have implemented additional substantive procedures over financial reporting including adding additional review procedures on complex accounting issues such as foreign currency transactions relating to foreign-denominated available-for-sale securities, to ensure that our consolidated condensed financial statements are fairly stated in all material respects in accordance with GAAP.

## PART II — OTHER INFORMATION

#### Item 1. Legal Proceedings



None.

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Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. The following information sets forth factors that could cause our actual results to differ materially from those contained in forward-looking statements we have made in this report and those we may make from time to time in our other filings with the Securities and Exchange Commission. If any of the following risks actually occur, the market price of our common stock could decline, and you could lose all or part of your investment. Additional risks not presently known to us or that we currently believe are immaterial may also significantly impair our business operations and could result in a complete loss of your investment. Certain factors individually or in combination with others may have a material adverse effect on our business, financial condition and results of operations and you should carefully consider them.

Risks Relating to Our Financial Results, Financial Reporting and Need for Financing

We have identified a material weakness in our internal controls over financial reporting related to the accounting for foreign currency transactions, which has resulted in the restatement of our financial statements and could cause investors to lose confidence in the reliability of our financial statements.

As described in Item 9A of Amendment No. 1 to our Annual Report on Form 10-K/A for the year ended December 31, 2010, during the first quarter of 2011 our management identified a material weakness in our internal control over financial reporting as of December 31, 2010 with respect to the accounting for foreign currency transactions. As a result of the material weakness, our management concluded that, as of December 31, 2010, our disclosure controls and procedures were not effective. Further, the material weakness resulted in the restatement of our consolidated financial statements as of and for the years ended December 31, 2010 and 2009.

While we will continue to review our disclosure controls and procedures and our internal control over financial reporting and to make changes, as necessary, to ensure the quality of our financial reporting, we cannot guarantee that this material weakness has been fully remediated or that no future material weaknesses, significant deficiencies or other errors or omissions will be discovered. If we do not adequately remedy the material weakness, or if we fail to maintain proper and effective internal control over financial reporting in future periods, including any failure to implement or difficulty in implementing new or improved controls, our ability to provide timely and reliable financial results could suffer, and investors could lose confidence in our reported financial information, which may have a material adverse effect on our stock price.

We have a history of losses, we expect to incur substantial losses and negative operating cash flows for the foreseeable future and we may never achieve or maintain profitability.

We have incurred losses since our inception and expect to incur substantial losses for the foreseeable future. We have no current sources of material ongoing revenue, other than upfront license fees, the reimbursement of development expenses and potential future milestone payments from our collaborators or licensees, which currently include Boehringer Ingelheim, Bayer Schering Pharma, sanofi-aventis, Nycomed, Merck Serono, MedImmune, TRACON, and Morphotek. We have not commercialized any products to date, and if we are not able to do so, whether alone or with a collaborator, we will likely never achieve profitability.

Even if our collaboration agreements provide funding for a portion of our research and development expenses for some of our programs, we expect to spend significant capital to fund our internal research and development programs for the foreseeable future. As a result, we will need to generate significant revenues in order to achieve profitability. We cannot be certain whether or when this will occur because of the significant uncertainties that affect our business. Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. Our failure to become and remain profitable may depress the market value of our common stock and could

impair our ability to raise capital, expand our business, diversify our product offerings or continue our operations and, as a result, you could lose part or all of your investment.

We will require additional financing, which may be difficult to obtain and may dilute your ownership interest in us. If we fail to obtain the capital necessary to fund our operations, we will be unable to develop or commercialize our product candidates and our ability to operate as a going concern may be adversely affected.

We will require substantial funds to continue our research and development programs and our future capital requirements may vary from what we expect. There are a number of factors, many of which are outside our control, that may affect our future capital requirements and accelerate our need for additional financing, such as:

- continued progress in our research and development programs, as well as the scope of these programs;
- our ability to establish and maintain collaborative arrangements for the discovery, development and commercialization of our product candidates;
- the timing, receipt and amount of research funding and milestone, license, royalty and other payments, if any, from collaborators;
- the timing, receipt and amount of revenues and associated royalties to us, if any, from sales of our product candidates;
- our ability to sell shares of our common stock under the CEFF with Kingsbridge, which is scheduled to expire in December 2011;
- the costs of preparing, filing, prosecuting, maintaining, defending and enforcing patent claims and other patent-related costs, including litigation costs and technology license fees; and
- competing technological and market developments.

We expect to seek funding through public or private offerings of equity or debt securities or from existing or new strategic collaborations with respect to programs that are not currently licensed. However, the market for stock of companies in the biotechnology sector in general, and the market for our common stock in particular, is highly volatile. Due to market conditions and the status of our product development pipeline, additional funding may not be available to us on acceptable terms, or at all. Having insufficient funds may require us to delay, scale back or eliminate some or all of our research or development programs or to relinquish certain rights to product candidates at an earlier stage of development or on less favorable terms than we would otherwise choose. Failure to obtain adequate financing also may adversely affect our ability to operate as a going concern.

If we raise additional funds through the issuance of equity securities, our stockholders would experience dilution of their ownership interest in our company, including as a result of the issuance of warrants in connection with the financing, or the equity securities may have rights, preferences or privileges senior to those of existing stockholders. If we raise additional funds through debt financing, the debt may involve significant cash payment obligations and covenants that restrict our ability to operate our business and make distributions to our stockholders. We also could elect to seek funds through arrangements with collaborators or others that may require us to relinquish rights to certain technologies, product candidates or products.

Our committed equity financing facility with Kingsbridge may not be available to us if we elect to make a draw down, may require us to make additional “blackout” or other payments to Kingsbridge and may result in dilution to our stockholders.

In December 2008, we entered into a CEFF with Kingsbridge, which entitles us to sell and obligates Kingsbridge to purchase, from time to time over a period of three years, up to 10,104,919 shares of our common stock for cash

consideration of up to \$75.0 million, subject to certain conditions and restrictions. To date, we have sold 1,420,568 shares of common stock for gross proceeds of \$5.3 million under this agreement. Kingsbridge will not be obligated to purchase additional shares under the CEFF unless certain conditions are met, which include:

- a minimum price for our common stock that is not less than 85% of the closing price of the day immediately preceding the applicable eight-day pricing period, but in no event less than \$2.00 per share;
- the accuracy of representations and warranties made to Kingsbridge;
- our compliance with all applicable laws which, if we failed to so comply, would have a Material Adverse Effect (as that term is defined in the purchase agreement with Kingsbridge); and
- the effectiveness of a registration statement registering for resale the shares of common stock to be issued in connection with the CEFF.

Kingsbridge is permitted to terminate the CEFF by providing written notice to us upon the occurrence of certain events. For example, we are only eligible to draw down funds under the CEFF at such times as our stock price is above \$2.00 per share.

We filed a registration statement, which became effective in December 2008, with respect to the resale of shares issuable pursuant to the CEFF and underlying a warrant issued to Kingsbridge, and the registration rights agreement requires us to maintain the effectiveness of the registration statement. We are entitled, in certain circumstances, to deliver a blackout notice to Kingsbridge to suspend the use of the registration statement and to prohibit Kingsbridge from selling shares under the registration statement for a certain period of time. If we deliver a blackout notice during the 15 trading days following our delivery of shares to Kingsbridge in connection with any draw down, then we may be required to make a payment to Kingsbridge, or issue to Kingsbridge additional shares in lieu of this payment, calculated on the basis of the number of shares purchased by Kingsbridge in the most recent draw down and held by Kingsbridge immediately prior to the blackout period and the decline in the market price, if any, of our common stock during the blackout period. If the trading price of our common stock declines during a blackout period, this blackout payment could be significant.

In addition, if we fail to maintain the effectiveness of the registration statement in circumstances not permitted by our agreement with Kingsbridge, we may be required to make a payment to Kingsbridge, calculated on the basis of the number of shares held by Kingsbridge during the period that the registration statement is not effective, multiplied by the decline in market price, if any, of our common stock during the ineffective period. If the trading price of our common stock declines during a period in which the registration statement is not effective, this payment could be significant.

Should we sell shares to Kingsbridge under the CEFF or issue shares in lieu of a blackout payment, it will have a dilutive effect on the holdings of our current stockholders and may result in downward pressure on the price of our common stock. If we draw down under the CEFF, we will issue shares to Kingsbridge at a discount of 6% to 14% from the volume-weighted average price of our common stock. If we draw down amounts under the CEFF when our share price is decreasing, we would need to issue more shares to raise the same amount than if our stock price was higher. Issuances in the face of a declining share price would have an even greater dilutive effect than if our share price were stable or increasing and may further decrease our share price. Moreover, the number of shares that we would be able to issue to Kingsbridge in a particular draw down may be materially reduced if our stock price declines significantly during the applicable eight-day pricing period.

The CEFF is scheduled to expire in December 2011 in accordance with its terms. Once the CEFF expires, or if Kingsbridge terminates the CEFF prior to its expiration or we are otherwise unable to access funds through the CEFF, we may be unable to access capital from other sources on favorable terms, or at all.

Our quarterly operating results and stock price may fluctuate significantly.

We expect our results of operations to be subject to quarterly fluctuations. The level of our revenues and results of operations for any given period are based primarily on the following factors:

- the status of development of our product candidates;

- the time at which we enter into research and license agreements with strategic collaborators that provide for payments to us, the timing and accounting treatment of payments to us, if any, under those agreements, and the progress made by our strategic collaborators in advancing the development of our product candidates;
- whether or not we achieve specified research, development or commercialization milestones under any agreement that we enter into with strategic collaborators, and the timely payment by these collaborators of any amounts payable to us;
  - the addition or termination of research programs or funding support under collaboration agreements;
- the timing of milestone payments under license agreements and other payments that we may be required to make to others;
- variations in the level of research and development expenses related to our clinical or preclinical product candidates during any given period;
- quarterly fluctuations in the fair value of our common stock warrant liability that are recorded as other income or expense; and
  - general market conditions affecting companies with our risk profile and market capitalization..

These factors may cause the price of our stock to fluctuate substantially. We believe that quarterly comparisons of our financial results are not necessarily meaningful and should not be relied upon as an indication of our future performance.

If the estimates we make and the assumptions on which we rely in preparing our financial statements prove inaccurate, our actual results may vary significantly.

Our financial statements have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of our assets, liabilities, revenues and expenses, the amounts of charges taken by us and related disclosure. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. We cannot assure you that our estimates, or the assumptions underlying them, will be correct. Accordingly, our actual financial results may vary significantly from the estimates contained in our financial statements.

Changes in, or interpretations of, accounting rules and regulations could result in unfavorable accounting charges or require us to change our compensation policies.

Accounting methods and policies for biopharmaceutical companies, including policies governing revenue recognition, research and development and related expenses and accounting for stock-based compensation, are subject to further review, interpretation and guidance from relevant accounting authorities, including the SEC. Changes to, or interpretations of, accounting methods or policies may require us to reclassify, restate or otherwise change or revise our financial statements, including those contained in this filing.



## Risks Relating to Our Common Stock

Substantial sales of shares, or the perception that such sales may occur, could adversely impact the market price of our common stock and our ability to issue and sell shares in the future.

Substantially all of the outstanding shares of our common stock are eligible for resale in the public market. A significant portion of these shares is held by a small number of stockholders. We have also registered shares of our common stock that we may issue under our equity incentive plans and our employee stock purchase plan. In addition, any shares issued to Kingsbridge under our CEFF will be eligible for immediate resale in the public market.

If our stockholders sell substantial amounts of our common stock, or the market perceives that such sales may occur, the market price of our common stock may decline, which could make it more difficult for us to sell equity securities at a time and price that we deem advantageous, which could adversely affect our ability to raise needed capital.

Our stock price may be volatile, and you may lose all or a substantial part of your investment.

The market price for our common stock is volatile and may fluctuate significantly in response to a number of factors, many of which we cannot control, including:

- our ability to successfully raise capital to fund our continued operations;
- our ability to successfully develop our product candidates within acceptable timeframes;
- changes in the regulatory status of our product candidates;
- changes in significant contracts, strategic collaborations, new technologies, acquisitions, commercial relationships, joint ventures or capital commitments;
- the execution of new collaboration agreements or termination of existing collaborations related to our clinical or preclinical product candidates or our BiTE antibody technology platform;
  - announcements of the invalidity of, or litigation relating to, our key intellectual property;
- announcements of the achievement of milestones in our agreements with collaborators or the receipt of payments under those agreements;
- announcements of the results of clinical trials by us or by companies with commercial products or product candidates in the same therapeutic categories as our product candidates;
  - events affecting our collaborators;
- fluctuations in stock market prices and trading volumes generally and those of companies in our industry and companies with similar risk profiles;
- announcements of new products or technologies, clinical trial results, commercial relationships or other corporate developments by us, our collaborators or our competitors;
- our ability to successfully complete strategic collaboration arrangements with respect to our product candidates, including our BiTE antibodies and our BiTE antibody platform generally;

- variations in our quarterly operating results;
- changes in securities analysts' estimates of our financial performance or product development timelines;
- changes in accounting principles;
- sales of large amounts of our common stock, including sales by our executive officers, directors and significant stockholders;
- additions or departures of key personnel; and

- discussions of Micromet or our stock price by the financial and scientific press and online investor communities, such as chat rooms.

Our stockholder rights plan, anti-takeover provisions in our organizational documents and Delaware law may discourage or prevent a change in control, even if an acquisition would be beneficial to our stockholders, which could affect our stock price adversely and prevent attempts by our stockholders to replace or remove our current management.

Our stockholder rights plan and provisions contained in our amended and restated certificate of incorporation and amended and restated bylaws may delay or prevent a change in control, discourage bids at a premium over the market price of our common stock and affect the voting and other rights of the holders of our common stock, any of which could adversely affect the market price of our common stock. The provisions in our amended and restated certificate of incorporation and amended and restated bylaws include:

- dividing our board of directors into three classes serving staggered three-year terms;
- prohibiting our stockholders from calling a special meeting of stockholders;
- permitting the issuance of additional shares of our common stock or preferred stock without stockholder approval;
- prohibiting our stockholders from making certain changes to our amended and restated certificate of incorporation or amended and restated bylaws except with 66 2/3% stockholder approval; and
- requiring advance notice for raising matters of business or making nominations at stockholders' meetings..

We are also subject to provisions of the Delaware corporation law that, in general, prohibit any business combination with a beneficial owner of 15% or more of our common stock for five years unless the holder's acquisition of our stock was approved in advance by our board of directors.

We may become involved in securities class action litigation that could divert management's attention and harm our business.

The stock market has from time to time experienced significant price and volume fluctuations that have affected the market prices for the common stock of pharmaceutical and biotechnology companies. These broad market fluctuations may cause the market price of our common stock to decline. In the past, following periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against that company. We may become involved in this type of litigation in the future. Litigation often is expensive and diverts management's attention and resources, which could adversely affect our business.

#### Risks Relating to Our Collaborations and Clinical Programs

We are dependent on collaborators for the development and commercialization of many of our product candidates. If we lose any of these collaborators, or if they fail or incur delays in the development or commercialization of our current and any future product candidates, our operating results would suffer.

The success of our strategy for development and commercialization of our product candidates depends upon our ability to enter into and maintain productive strategic collaborations and license arrangements. We currently have strategic collaborations or license arrangements with Boehringer Ingelheim, Bayer Schering Pharma, sanofi-aventis, Nycomed, Merck Serono, MedImmune, TRACON, and Morphotek. We expect to enter into additional collaborations

and license arrangements in the future. Our existing and any future collaborations and licensed programs may not be scientifically or commercially successful. The risks that we face in connection with these collaborations and licensed programs include the following:

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- Each of our collaborators has significant discretion in determining the efforts and resources that it will apply to the collaboration. The timing and amount of any future royalty and milestone revenue that we may receive under collaborative and licensing arrangements will depend on, among other things, each collaborator's efforts and allocation of resources.
- All of our strategic collaboration and license agreements are for fixed terms and are subject to termination under various circumstances, including, in some cases, on short notice without cause. If any of our collaborative partners were to terminate its agreement with us, we may attempt to identify and enter into an agreement with a new collaborator with respect to the product candidate covered by the terminated agreement. If we are not able to do so, we may not have the funds or capability to undertake the development, manufacturing and commercialization of that product candidate, which could result in a discontinuation or delay of the development of that product candidate.
- Our collaborators may develop and commercialize, either alone or with others, products that are similar to or competitive with the product candidates that are the subject of their collaborations with us or programs licensed from us.
  - Our collaborators may discontinue the development of our product candidates in specific indications, for example as a result of their assessment of the results obtained in clinical trials, or fail to initiate development in indications that have a significant commercial potential.
- Pharmaceutical and biotechnology companies from time to time re-evaluate their research and development priorities, including in connection with mergers and consolidations, which have been common in recent years. The ability of our product candidates involved in strategic collaborations to reach their potential could be limited if, as a result of changes in priorities, our collaborators decrease or fail to increase spending related to our product candidates, or decide to discontinue the development of our product candidates and terminate their collaboration or license agreement with us. In the event of such a termination, we may not be able to identify and enter into a collaboration agreement for our product candidates with another pharmaceutical or biotechnology company on terms favorable to us or at all, and we may not have sufficient financial resources to continue the development program for these product candidates on our own. As a result, we may fail or incur delays in the development of these product candidates following any termination of the collaboration agreement, or we may need to reallocate financial resources that could cause delays in other development programs for our other product candidates.

We may not be successful in establishing additional strategic collaborations, which could adversely affect our ability to develop and commercialize product candidates.

As an integral part of our ongoing research and development efforts, we periodically review opportunities to establish new collaborations for development and commercialization of new BiTE antibodies or existing product candidates in our development pipeline. We face significant competition in seeking appropriate collaborators, and the negotiation process is time-consuming and complex. We may not be successful in our efforts to establish additional collaborations or other alternative arrangements. Even if we are successful in establishing a collaboration, the terms of the agreement may not always be favorable to us. Finally, such collaborations or other arrangements may not result in successful products and associated revenue from milestone payments, royalties or profit share payments.

If we cannot successfully establish clinical and regulatory operations in the United States, or if we do not obtain the necessary regulatory approvals from the FDA, the development and commercialization of blinatumomab in the United States may be delayed or may not occur at all.

In November 2009, we re-acquired North American development and commercialization rights from MedImmune and terminated our collaboration and license agreement with MedImmune relating to blinatumomab. As a result, we now control the rights to develop and commercialize blinatumomab in the United States. We have begun to hire personnel in order to prepare and execute our clinical development plan and to obtain the necessary regulatory approvals for the development and marketing of blinatumomab in the United States. No patients have been enrolled in clinical trials of blinatumomab in the United States. If we are not able to hire appropriate personnel, or if the FDA does not grant the necessary approvals, the development of blinatumomab in the United States could be delayed or may never occur. There can be no assurances that we will be able to successfully develop blinatumomab or that such development will not be delayed as a result of financial constraints or if the FDA does not agree with our clinical development plans. There can also be no assurance that we will be able to enter into a new collaboration agreement with respect to blinatumomab with another industry partner for the development of blinatumomab in the United States or in any other territories if we desire to do so, or that we will ever be successful, alone or with a collaborator, in commercializing blinatumomab in the United States or in any other territories.

Our European pivotal clinical trial of blinatumomab may not be sufficient to obtain European marketing approval for the treatment of MRD-positive acute lymphoblastic leukemia. Furthermore, our planned clinical trials of blinatumomab may not be sufficient to obtain marketing approval in other jurisdictions, including the United States.

We have initiated a single-arm, non-blinded European pivotal clinical trial of blinatumomab in adult patients with MRD-positive ALL. Depending on the results of this trial, we intend to seek marketing approval of blinatumomab in Europe for the treatment of ALL. The EMA, as well as the FDA, and regulatory authorities in other countries generally require two randomized, blinded clinical trials in order to grant marketing approval for pharmaceutical products. We will be required to demonstrate robust efficacy results from our single-arm, non-blinded pivotal trial to obtain marketing approval. Furthermore, our pivotal trial has both primary and secondary endpoints, each of which will likely be required to be achieved with robust results in order to sufficiently demonstrate efficacy. We believe that our ongoing European pivotal trial will not be sufficient to support marketing approval of blinatumomab in the United States for treatment of ALL and that, regardless of the results of that trial, we will be required to conduct additional clinical trials in order to receive marketing approval from the FDA.

Our second development path for blinatumomab in ALL aims at seeking approval for the treatment of adult patients with relapsed or refractory ALL, and our third development path in ALL is focused on obtaining marketing approval for blinatumomab for the treatment of children with relapsed or refractory ALL. There can be no assurance that this development program, considered as a whole, will be sufficient to support EMA or FDA approval of blinatumomab for the treatment of ALL. If the EMA and FDA conclude that our trial design or the data from our planned pivotal clinical trials are not sufficient to approve blinatumomab for marketing in Europe or the United States, as applicable, they may require us to conduct expanded or additional clinical trials. This could significantly increase the cost required to develop blinatumomab and would substantially delay, or could prevent, marketing approval for blinatumomab.

Our clinical-stage product candidates have not yet been proven to be safe or effective in confirmatory studies. If we discontinue the development of any of our clinical-stage product candidates due to adverse events, lack of efficacy, or any other reason, the value of your investment may be adversely affected.

Our product candidates have not yet been proven safe or effective in clinical trials and early positive results may fail to be confirmed in subsequent larger clinical trials. For example, in 2006 and 2007 we completed two phase 2 clinical trials of adecatumumab in patients with metastatic breast cancer and in patients with prostate cancer but did not

achieve the primary endpoints of the trials. Also, in our ongoing phase 1 clinical trial utilizing continuous infusion with blinatumomab in patients with NHL, we have observed adverse events that required discontinuation of treatment of patients. Events leading to discontinuation of blinatumomab have included neurological disorders in dosing schedules tested to date, including flat dosing and dosing schedules using gradually increasing doses. We are working on methods for identifying patients who we believe are likely to experience such events and for recognizing early signs of a neurological event, and we believe that these neurological events may be managed by proactively identifying and treating patients who exhibit early signs of a CNS event. As a result of these potential neurological implications, we may not be able to treat all NHL patients with a uniform dosing schedule.

With all of our product candidates, there can be no assurance that we will not encounter unacceptable adverse events, that any preliminary suggestion of anti-tumor activity will be confirmed in ongoing or future clinical trials, or that ongoing clinical trials will not be suspended or ended for any other reason. If we are unable to continue the development of any of our clinical-stage product candidates, it would negatively affect our business prospects and could impair your investment in our company.

Many of the product candidates in our pipeline are in early stages of development, and our efforts to develop and commercialize these product candidates are subject to a high risk of delay and failure. If we fail to successfully develop our product candidates, our ability to generate revenues will be substantially impaired.

Many of our product candidates are in early stages of clinical and preclinical development, so we will require substantial additional financial resources, as well as research, product development and clinical development capabilities, to pursue the development of these product candidates, and we may never develop an approvable or commercially viable product. The process of successfully developing product candidates for the treatment of human diseases is very time-consuming, expensive and unpredictable, and there is a high rate of failure for product candidates in preclinical development and in clinical trials. Preclinical studies and clinical trials may produce negative, inconsistent or inconclusive results, and the results from early clinical trials may not be statistically significant or predictive of results that will be obtained from expanded, advanced clinical trials. Further, we or our collaborators may decide, or the FDA, EMA or other regulatory authorities may require us, to conduct preclinical studies or clinical trials or other development activities in addition to those performed or planned by us or our collaborators, which may be expensive or could delay the time to market for our product candidates. In addition, we do not know whether the clinical trials will result in marketable products.

We do not know whether our planned preclinical development or clinical trials for our product candidates will begin on time or be completed on schedule, if at all. The timing and completion of clinical trials of our product candidates depend on, among other factors, the number of patients that will be required to enroll in the clinical trials, the inclusion and exclusion criteria used for selecting patients for a particular clinical trial, and the rate at which those patients are enrolled. Any increase in the required number of patients, tightening of selection criteria, or decrease in recruitment rates or difficulties retaining trial participants may result in increased costs, delays in the development of the product candidate, or both. For example, we have discontinued enrollment in a phase 2 trial of adecatumumab in patients with resected liver metastases from colorectal cancer due to a change in the standard of care in this disease setting, which resulted in slower recruitment than was planned.

Our product candidates may not be effective in treating any of our targeted diseases or may prove to have undesirable or unintended side effects, toxicities or other characteristics that may prevent or limit their commercial use. Institutional review boards or regulators, including the FDA and EMA, may hold, suspend or terminate our clinical research or the clinical trials of our product candidates for various reasons, including non-compliance with regulatory requirements or if, in their opinion, participating patients are being exposed to unacceptable health risks, or if additional information may be required for the regulatory authority to assess our proposed development activities. Further, regulators may not approve study protocols at all or in a timeframe anticipated by us if they believe that the study design or the mechanism of action of our product candidates poses an unacceptable health risk to participants in the trial.

We have limited financial and managerial resources. These limitations require us to focus on a select group of product candidates in specific therapeutic areas and to forego the exploration of other product opportunities. While our technologies may permit us to work in multiple areas, resource commitments may require trade-offs resulting in delays in the development of certain programs or research areas, which may place us at a competitive disadvantage. Our decisions as to resource allocation may not lead to the development of viable commercial products and may divert resources away from other market opportunities, which would otherwise have ultimately proved to be more profitable.



In addition, our product candidates may have different efficacy profiles in certain clinical indications, sub-indications or patient profiles, and an election by us or our collaborators to focus on a particular indication, sub-indication or patient profile may result in a failure to capitalize on other potentially profitable applications of our product candidates.

We rely heavily on third parties for the conduct of preclinical studies and clinical trials of our product candidates, and we may not be able to control the proper performance of the studies or trials.

In order to obtain regulatory approval for the commercial sale of our product candidates, we and our collaborators are required to complete extensive preclinical studies as well as clinical trials in humans to demonstrate to the FDA, EMA and other regulatory authorities that our product candidates are safe and effective. We have limited experience and internal resources for conducting certain preclinical studies and clinical trials and rely primarily on collaborators and contract research organizations for the performance and management of these studies and trials.

We are responsible for confirming that our preclinical studies are conducted in accordance with applicable regulations and that each of our clinical trials is conducted in accordance with its general investigational plan and protocol. Our reliance on third parties does not relieve us of responsibility for ensuring compliance with appropriate regulations and standards for conducting, monitoring, recording and reporting of preclinical and clinical trials. If our collaborators or contractors fail to properly perform their contractual or regulatory obligations with respect to conducting or overseeing the performance of our preclinical studies or clinical trials, do not meet expected deadlines, fail to comply with the good laboratory practice guidelines or good clinical practice regulations, do not adhere to our preclinical and clinical trial protocols, suffer an unforeseen business interruption unrelated to our agreement with them that delays the clinical trial, or otherwise fail to generate reliable clinical data, then the completion of these studies or trials may be delayed, the results may not be useable and the studies or trials may have to be repeated, and we may need to enter into new arrangements with alternative third parties. Any of these events could cause our clinical trials to be extended, delayed, or terminated or create the need for them to be repeated, or otherwise create additional costs in the development of our product candidates and could adversely affect our and our collaborators' ability to market a product if marketing approvals are obtained.

Even if we complete the lengthy, complex and expensive development process, there is no assurance that we or our collaborators will obtain the regulatory approvals necessary for the launch and commercialization of our product candidates.

To the extent that we or our collaborators are able to successfully complete the clinical development of a product candidate, we or our collaborators will be required to obtain approval by the FDA, EMA or other regulatory authorities prior to marketing and selling the product candidate in the United States, the European Union or other countries. The process of preparing and filing applications for regulatory approvals with the FDA, EMA and other regulatory authorities, and of obtaining the required regulatory approvals from these regulatory authorities, is expensive and may take several years or more. This process is further complicated because some of our product candidates use non-traditional materials in novel ways, and regulatory officials may have little precedent to follow.

Any marketing approval by the FDA, EMA or other regulatory authorities may be subject to limitations on the indicated uses for which we or our collaborators can market the product candidate. These limitations could restrict the size of the market for the product and affect reimbursement levels by third-party payers.

As a result of these factors, we or our collaborators may not successfully launch and commercialize any product candidates in the time periods estimated, if at all. Moreover, if we or our collaborators incur costs and delays in development programs or fail to successfully develop and commercialize products based upon our technologies, we may not become profitable and our stock price could decline.

#### Risks Relating to Our Operations, Business Strategy, and the Life Sciences Industry

We face substantial competition, which may result in our competitors discovering, developing or commercializing products before or more successfully than we do.

Our product candidates face competition with existing and new products being developed by biotechnology and pharmaceutical companies, as well as universities and other research institutions. Research in the field of antibody-based therapeutics for the treatment of cancers is highly competitive. A number of entities are seeking to identify and patent antibodies, as well as potentially active proteins and other potentially active compounds without specific knowledge of their therapeutic functions. Our competitors may discover, characterize or develop molecules or genes into therapeutic product candidates in advance of us.

Many of our competitors have substantially greater capital resources, research and development staffs and facilities than we have. Efforts by other biotechnology and pharmaceutical companies could render our programs or product candidates uneconomical or result in therapies that are superior to those that we are developing alone or with a collaborator. We and our collaborators face competition from companies that may be more experienced in product development and commercialization, obtaining regulatory approvals and product manufacturing. As a result, they may develop competing products more rapidly that are safer, more effective, or have fewer side effects, or are less expensive, or they may discover, develop and commercialize products that render our product candidates non-competitive or obsolete. We expect competition to intensify in antibody research as technical advances in the field are made and become more widely known.

We may not be successful in our efforts to expand our portfolio of product candidates.

A key element of our strategy is to discover, develop and commercialize a portfolio of new BiTE antibody therapeutics. We are seeking to do so through our internal research programs, which could place a strain on our human and capital resources. A significant portion of the research that we are conducting involves new and unproven technologies. Research programs to identify new disease targets and product candidates require substantial technical, financial and human resources, regardless of whether or not any suitable candidates are ultimately identified. Our research programs may initially show promise in identifying potential product candidates, yet fail to yield product candidates suitable for clinical development. If we are unable to discover, develop or in-license suitable potential product candidates on acceptable business terms, our business prospects will suffer.

We and our collaborators are subject to governmental regulations in addition to those imposed by the FDA and EMA and may not be able to comply with these regulations. Any non-compliance could subject us or our collaborators to penalties and otherwise result in the limitation of our operations.

In addition to regulations imposed by the FDA, EMA and other health regulatory authorities, we and our collaborators are subject to regulation in the United States under the Occupational Safety and Health Act, the Environmental Protection Act, the Toxic Substances Control Act and the Research Conservation and Recovery Act, as well as regulations administered by the Nuclear Regulatory Commission, national restrictions on technology transfer, import, export and customs regulations and certain other local, state or federal regulations, or comparable laws and regulations in Europe and other countries. From time to time, other governmental agencies and legislative or international governmental bodies have indicated an interest in implementing further regulation of biotechnology applications. We are not able to predict whether any such regulations will be adopted or whether, if adopted, such regulations will apply to our or our collaborators' businesses, or whether we or our collaborators would be able to comply, without incurring unreasonable expense, or at all, with any applicable regulations.

Our growth could be limited if we are unable to attract and retain key personnel and consultants.

We have limited experience in filing and prosecuting regulatory applications to obtain marketing approval from the FDA, EMA or other regulatory authorities. Our success depends on our ability to attract, train and retain qualified scientific and technical personnel, including consultants, to further our research and development efforts. The loss of services of one or more of our key employees or consultants could have a negative impact on our business or our ability to expand our development programs. Competition for skilled personnel is intense and the turnover rate can be high. Competition for experienced management and clinical, scientific and engineering personnel from numerous companies and academic and other research institutions may limit our ability to attract and retain qualified personnel on acceptable terms. As a result, locating candidates with the appropriate qualifications can be difficult, and we may not be able to attract and retain sufficient numbers of highly skilled employees in order to operate our business.

Any growth and expansion into areas and activities that may require additional personnel or expertise, such as in regulatory affairs, quality assurance and control, or compliance, would require us to either hire new personnel or to obtain such services from a third party. The pool of personnel with the skills that we require could be limited, and we may not be able to hire or contract such additional personnel on commercially reasonable terms, or at all. Failure to attract and retain personnel would likely prevent us from developing and commercializing our product candidates.

Even if regulatory authorities approve our product candidates for marketing, we may fail to comply with ongoing regulatory requirements or experience unanticipated problems with marketed products, which could then be subject to restrictions or withdrawal from the market.

Any product candidates for which we obtain marketing approval, along with the manufacturing processes, post-approval clinical trials and promotional activities for such product candidates, will be subject to periodic review and inspection by the FDA, EMA and other regulatory authorities. Even if regulatory approval of a product candidate is granted, the approval may be subject to limitations on the indicated uses for which the product may be marketed or contain requirements for costly post-marketing testing and surveillance to monitor the safety or efficacy of the product. Post-approval discovery of previously unknown problems, including unanticipated adverse events or adverse events of unanticipated severity or frequency, difficulties with a manufacturer or manufacturing processes, product defects or recalls related to the approved delivery device for a product, or failure to comply with regulatory requirements, may result in restrictions on such approved products or manufacturing processes, limitations in the scope of our approved labeling, withdrawal of the approved products from the market, voluntary or mandatory recall and associated publicity requirements, fines, suspension or withdrawal of regulatory approvals, product seizures, injunctions or the imposition of civil or criminal penalties, any of which would have a material and adverse effect on our business.

The procedures and requirements for granting marketing approvals vary among countries, which may cause us to incur additional costs or delays or may prevent us from obtaining marketing approvals in different countries and regulatory jurisdictions.

We intend to market our product candidates in many countries and regulatory jurisdictions. In order to market our product candidates in the United States, the European Union and many other jurisdictions, we must obtain separate regulatory approvals in each of these countries and territories. The procedures and requirements for obtaining marketing approval vary among countries and regulatory jurisdictions, and can involve additional clinical trials or other tests. Also, the time required to obtain approval in markets outside of the United States and Europe may differ from that required to obtain FDA and EMA approval, while still including all of the risks associated with obtaining FDA and EMA approval. We may not be able to obtain all of the desirable or necessary regulatory approvals on a timely basis, if at all. Approval by a regulatory authority in a particular country or regulatory jurisdiction, such as the FDA in the United States or the EMA in the European Union, does not ensure approval by a regulatory authority in another country. We may not be able to file for regulatory approvals and may not receive necessary approvals to commercialize our product candidates in any or all of the countries or regulatory jurisdictions in which we desire to market our product candidates.

If we fail to obtain an adequate level of reimbursement from third-party payers for any approved products, there may be no commercially viable markets for these products or the markets may be much smaller than expected. The continuing efforts of the government, insurance companies, managed care organizations and other payers of healthcare costs to contain or reduce costs of healthcare may adversely affect our ability to generate revenues and achieve profitability, the future revenues and profitability of our potential customers, suppliers and collaborators, and the availability of capital.

Our ability to commercialize our product candidates successfully will depend in part on the extent to which governmental authorities, private health insurers and other organizations establish appropriate reimbursement levels for the price charged for our product candidates and related treatments. The efficacy, safety and cost-effectiveness of our product candidates, as well as the efficacy, safety and cost-effectiveness of any competing products, will determine in part the availability and level of reimbursement. These third-party payers continually attempt to contain or reduce the costs of healthcare by challenging the prices charged for healthcare products and services. In 2010, the Biologics Price Competition and Innovation Act (BPCIA), together with the Patient Protection and Affordable Care

Act, became law in the United States. Among other things, these laws provide a statutory pathway for approval of biosimilar products that could compete with our products if our products are approved, which could result in decreased market share and product revenues for us. In certain countries, particularly the countries of the European Union, the pricing of prescription pharmaceuticals is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take between six and twelve months, or longer, after the receipt of regulatory marketing approval for a product. To obtain reimbursement or pricing approval in some countries, we may be required to conduct clinical trials that compare the cost-effectiveness of our product candidates to other available therapies. If reimbursement for our product candidates becomes unavailable or limited in scope or amount, or if reimbursement levels or prices are set at unsatisfactory levels, our projected and actual revenues and our prospects for profitability would be negatively affected.

We are unable to predict what additional legislation or regulation — including implementation of the BPCIA, or relating to the healthcare industry, drug importation from foreign countries, or third-party coverage and reimbursement — may be enacted in the future or what effect such legislation or regulation would have on our business. Any cost containment measures or other healthcare system reforms that are adopted or implemented could have a material adverse effect on our ability to commercialize successfully any future products or could limit or eliminate our spending on development projects and affect our ultimate profitability.

If our product candidates are not accepted by physicians and patients, our ability to generate product revenue in the future will be adversely affected.

Our product candidates, if successfully developed and approved by regulatory authorities, may not gain market acceptance among physicians, healthcare payers, patients and the medical community. Market acceptance of and demand for any product candidate that we may develop will depend on many factors, including:

- our ability to provide acceptable evidence of safety and efficacy;
- convenience and ease of administration;
- prevalence and severity of adverse side effects;
- the timing of our market entry relative to competitive treatments;
- cost-effectiveness;
- effectiveness of our marketing and pricing strategy;
- publicity concerning our product candidates or competitive products;
- the strength of marketing and sales support; and
- our ability to obtain third-party coverage or reimbursement.

If any product candidates for which we may receive marketing approval fail to gain market acceptance, our ability to generate product revenue in the future will be adversely affected.

We face the risk of product liability claims and may not be able to obtain insurance.

Our business exposes us to the risk of product liability claims that is inherent in the testing, manufacturing, and marketing of drugs and biologics. Although we have product liability and clinical trial liability insurance that we believe is appropriate, this insurance is subject to deductibles and coverage limitations. We may not be able to obtain or maintain adequate protection against potential liabilities. If any of our product candidates is approved for marketing, we may seek additional insurance coverage. If we are unable to obtain insurance at acceptable cost or on acceptable terms with adequate coverage or otherwise protect ourselves against potential product liability claims, we could be exposed to significant liabilities, which may cause a loss of revenue or otherwise harm our business. These liabilities could prevent or interfere with our product commercialization efforts. Defending a suit, regardless of merit, could be costly, could divert management attention and might result in adverse publicity, injury to our reputation, or reduced acceptance of our product candidates in the market. If we are sued for any injury caused by any future products, any resulting liability could exceed our total assets.





Our operations involve hazardous materials that require us to comply with environmental laws and regulations, which can be expensive.

Our research and development activities involve the controlled use of hazardous materials, including chemicals and radioactive and biological materials. Our operations also produce hazardous waste products. We are subject in the United States to a variety of federal, state and local regulations, and in Europe to European, national, state and local regulations, relating to the use, handling, storage and disposal of these materials. We generally contract with third parties for the disposal of such substances, and we may store certain low-level radioactive waste at our facilities until the materials are no longer considered radioactive. We cannot, however, eliminate the risk of accidental contamination or injury from these materials. We may be required to incur substantial costs to comply with current or future environmental and safety regulations that could impose greater compliance costs and increased risks and penalties associated with violations. If an accident or contamination occurred, we would likely incur significant costs associated with civil penalties or criminal fines, substantial investigation and remediation costs, and costs associated with complying with environmental laws and regulations. There can be no assurance that violations of environmental laws or regulations will not occur in the future as a result of the inability to obtain permits, human error, accident, equipment failure or other causes. We do not have any insurance for liabilities arising from hazardous materials. Compliance with environmental and safety laws and regulations is expensive, and current or future environmental regulation may impair our research, development or production efforts.

#### Risks Relating to Our Intellectual Property and Litigation

We may not be able to obtain or maintain adequate patents and other intellectual property rights to protect our business and product candidates against competitors.

We believe that the value of our company will be significantly enhanced if we are able to obtain adequate patents and other intellectual property rights that protect our business and product candidates against competitors. For that reason, we allocate significant financial and personnel resources to the filing, prosecution, maintenance and defense of patent applications, patents and trademarks claiming or covering our product candidates and key technology relating to these product candidates.

To date, we have sought to protect our proprietary positions related to our important technology, inventions and improvements by filing patent applications in the United States, Europe and other jurisdictions throughout the world. Because the patent position of pharmaceutical and biopharmaceutical companies involves complex legal and factual questions, the issuance, scope and enforceability of patents cannot be predicted with certainty, and we cannot be certain that patents will issue on pending or future patent applications that cover our product candidates and technologies. Claims could be restricted in prosecution that might lead to a scope of protection that is of minor value for a particular product candidate. Patents, even if issued, may be challenged and sought to be invalidated by third parties in litigation. In addition, U.S. patents and patent applications may be subject to interference proceedings, and U.S. patents may be subject to reexamination proceedings in the U.S. Patent and Trademark Office, while European patents may be subject to opposition proceedings in the European Patent Office. Similar proceedings to challenge patents may be available in countries outside of Europe or the United States.

Any interference, reexamination or opposition proceedings could result in either a loss of the patent or a denial of the patent application or loss or reduction in the scope of one or more of the claims of the patent or patent application. Thus, any patents that we own or license from others may not ultimately provide any protection against competitors. Furthermore, an adverse decision in an interference proceeding could result in a third party receiving the patent rights sought by us, which in turn could affect our ability to market a potential product or product candidate to which that patent filing was directed. Our pending patent applications, those that we may file in the future, or those that we may license from third parties may not result in patents being issued for a number of reasons. In addition, we rely on

third-party payment services and external law firms for the payment of foreign patent annuities and other fees, and non-payment or delay in payment of such fees, whether intentional or unintentional, could result in the loss of patents or other rights important to our business.

Even if patents issue, they may not provide us with sufficient proprietary protection or competitive advantages against competitors with similar technology. Furthermore, others may independently develop similar technologies or duplicate any technology that we have developed, which fall outside the scope of our patents. Our products or technology could also be copied by competitors after expiration of the patent life. Furthermore, claims of our current or former employees related to their inventorship or compensation pursuant to the German Act on Employees' Inventions could lead to legal disputes.

We may incur substantial costs in enforcing our patents against third parties. If we are unable to protect our intellectual property rights, our competitors may develop or market products with similar features that may reduce demand for our potential products.

We own or control a substantial portfolio of issued patents. From time to time, we may become aware of third parties that undertake activities that infringe our patents. We may decide to grant those third parties a license under our patents, or to enforce the patents against those third parties by pursuing an infringement claim in litigation. If we initiate patent infringement litigation, it could consume significant financial and management resources, regardless of the merit of the claims or the outcome of the litigation. In addition, the outcome of patent litigation is subject to uncertainties that cannot be adequately quantified in advance, including the demeanor and credibility of witnesses and the identity of the adverse party, especially in biotechnology-related patent cases that may turn on the testimony of experts as to technical facts upon which experts may reasonably disagree. Some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively than we can because of their substantially greater financial resources. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could harm our ability to compete in the marketplace.

Our ability to enforce our patents may also be restricted under applicable law. Many countries, including certain countries in Europe, have compulsory licensing laws under which a patent owner may be compelled to grant licenses to third parties. For example, compulsory licenses may be required in cases where the patent owner has failed to "work" the invention in that country, or the third party has patented improvements. In addition, many countries limit the enforceability of patents against government agencies or government contractors. In these countries, the patent owner may have limited remedies, which could materially diminish the value of the patent. Moreover, the legal systems of certain countries, particularly certain developing countries, do not favor the aggressive enforcement of patent and other intellectual property rights, which makes it difficult to stop infringement. In addition, our ability to enforce our patent rights depends on our ability to detect infringement. It is difficult to detect infringers who do not advertise the compounds used in their products or the methods used in the research and development of their products. If we are unable to enforce our patents against infringers, it could have a material adverse effect on our competitive position and our ability to develop and commercialize our product candidates.

If we are not able to protect and control our unpatented trade secrets, know-how and other technology, we may suffer competitive harm.

We rely on proprietary trade secrets and unpatented know-how to protect our research, development and manufacturing activities and maintain our competitive position, particularly when we do not believe that patent protection is appropriate or available. However, trade secrets are difficult to protect. Although we attempt to protect our trade secrets and unpatented know-how by requiring our employees, consultants and advisors to execute confidentiality and non-use agreements, we cannot guarantee that these agreements will provide meaningful protection or will not be breached, that we will have an adequate remedy for any such breach, or that our trade secrets or proprietary know-how will not otherwise become known or independently developed by a third party. Our trade secrets, and those of our present or future collaborators that we utilize by agreement, may become known or may be independently discovered by others, which could adversely affect the competitive position of our product candidates. If any trade secret, know-how or other technology not protected by a patent or intellectual property right were disclosed to, or independently developed by a competitor, our business, financial condition and results of operations

could be materially and adversely affected.

If third parties claim that our product candidates or technologies infringe their intellectual property rights, we may become involved in expensive patent litigation, which could result in liability for damages or require us to stop the development or commercialization of our product candidates, even if they have been approved and launched in the market, or we could be forced to obtain a license and pay royalties under unfavorable terms.

Our commercial success will depend in part on not infringing the patents or violating the proprietary rights of third parties. Our competitors or other third parties may obtain patents that may claim the composition, manufacture or use of our product candidates or the technology required to perform research and development activities relating to our product candidates.

From time to time we receive correspondence inviting us to license patents from third parties. While we believe that our pre-commercialization activities fall within the scope of an available exemption against patent infringement provided by U.S. federal statutes and by similar research exemptions in Europe, claims may be brought against us in the future based on patents held by others. Also, we are aware of patents and other intellectual property rights of third parties relating to our areas of practice, and we know that others have filed patent applications in various countries that relate to areas in which we are developing product candidates. Some of these patent applications have already resulted in patents and some are still pending. In addition, there is a delay between the filing of a patent application and its publication, and as a result we may not be aware of all relevant patent applications of third parties at a given point in time. Further, publication of discoveries in the scientific or patent literature often lags behind actual discoveries, so we may not be able to determine whether inventions claimed in patent applications of third parties have been made before or after the date on which inventions claimed in our patent applications and patents have been made.

All issued patents are entitled to a presumption of validity in many countries, including the United States and many European countries. Issued patents held by others may therefore limit our freedom to operate unless and until these patents expire or are declared invalid or unenforceable in a court of applicable jurisdiction. We and our collaborators may not have rights under some patents that cover the composition of matter, manufacture or use of product candidates that we seek to develop and commercialize, drug targets to which our product candidates bind, or technologies that we use or may seek to use in our research and development activities. As a result, our ability to develop and commercialize our product candidates may depend on our ability to obtain licenses or other rights under these patents. The third parties who own or control such patents may be unwilling to grant those licenses or other rights to us or our collaborators under terms that are commercially viable, if at all. Third parties who own or control these patents could bring patent infringement claims against us or our collaborators and seek monetary damages or to enjoin further clinical testing, manufacturing and marketing of our product candidates.

If a third party brings a patent infringement suit against us, and we do not settle the suit and are not successful in defending against the patent infringement claims, we could be required to pay substantial damages or to stop or delay research, development, manufacturing or sales of the product or product candidate that is claimed by the third party's patent. We or our collaborators may choose to seek, or be required to seek, a license from the third party and would most likely be required to pay license fees or royalties or both. However, there can be no assurance that any such license would be available on acceptable terms or at all. Even if we or our collaborators were able to obtain a license, the rights may be non-exclusive, which would give our competitors access to the same intellectual property. Ultimately, as a result of patent infringement claims, we could be prevented from commercializing a product candidate or forced to cease some aspect of our business operations, which would harm our business.

Our success depends on our ability to maintain and enforce our licensing arrangements with various third party licensors.

We are party to intellectual property licenses and agreements that are important to our business, and we expect to enter into similar licenses and agreements in the future. These licenses and agreements impose various research, development, commercialization, sublicensing, milestone payments, indemnification, insurance and other obligations on us. Moreover, certain of our license agreements contain an obligation for us to make payments to our licensors based upon revenues received in connection with such licenses. If we or our collaborators fail to perform under these agreements or we otherwise breach our obligations, our licensors may terminate these agreements, we could lose licenses to intellectual property rights that are important to our business and could be required to pay damages to our licensors. Any such termination could materially harm our ability to develop and commercialize the product candidate that is the subject of the agreement.

If licensees or assignees of our intellectual property rights breach any of the agreements under which we have licensed or assigned our intellectual property to them, we could be deprived of important intellectual property rights and future revenue.

We are a party to intellectual property out-licenses, collaborations and agreements that are important to our business, and we expect to enter into similar agreements with third parties in the future. Under these agreements, we license or transfer intellectual property to third parties and impose various research, development, commercialization, sublicensing, royalty, indemnification, insurance and other obligations on them. If a third party fails to comply with its obligations, we generally retain the right to terminate the agreement. In the event of breach, we may also enforce our rights under these agreements by resorting to arbitration or litigation. During the period of arbitration or litigation, we may be unable to effectively use, assign or license the relevant intellectual property rights and may be deprived of current or future revenues that are associated with such intellectual property, which could have a material adverse effect on our results of operations and financial condition.

We may be subject to damages resulting from claims that we or our employees have wrongfully used or disclosed alleged trade secrets of their former employers.

Many of our employees were previously employed at other biotechnology or pharmaceutical companies, including our competitors or potential competitors. Although no claims against us are currently pending or, to our knowledge, threatened, we may be subject to claims that these employees or we have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. Even if we are successful in defending against potential claims, litigation could result in substantial costs and be a distraction to management. If we fail in defending such claims, in addition to paying money claims, we may lose valuable intellectual property rights or personnel. A loss of key personnel or their work product could hamper or prevent our ability to commercialize certain product candidates.

#### Risks Relating to Manufacturing and Sales

We depend on our collaborators and third-party manufacturers to produce our product candidates, and if these third parties do not successfully manufacture these product candidates, or do not follow current good manufacturing practices or do not maintain their facilities in accordance with these practices, our product development and commercialization efforts may be harmed.

We have no manufacturing experience or manufacturing capabilities for the production of our product candidates for clinical trials or commercial sale. In order to continue to develop product candidates, apply for regulatory approvals, and commercialize our product candidates following approval, we or our collaborators must be able to manufacture or contract with third parties to manufacture our product candidates in clinical and commercial quantities, in compliance with regulatory requirements, at acceptable costs and in a timely manner. For example, as a result of the termination of our collaboration with MedImmune relating to blinatumomab, we have assumed the responsibility for the manufacture of blinatumomab for clinical trials and have engaged Lonza AG, Boehringer Ingelheim Pharma GmbH & Co. KG, and Rentschler Biotechnologie as our contract manufacturers. To the extent that we or our collaborators seek to enter into manufacturing arrangements with third parties, we are dependent upon these third parties to perform their obligations in a timely and effective manner and in accordance with government regulations. These or other contract manufacturers may breach their manufacturing agreements because of factors beyond our control or may terminate or fail to renew a manufacturing agreement based on their own business priorities at a time that is costly or inconvenient for us.



The manufacture of our product candidates may be complex, difficult to accomplish and difficult to scale up if and when large-scale production is required, which could impair our ability to meet commercial demands for any approved products. Manufacture of our product candidates may also be subject to delays, inefficiencies and poor or low yields of quality products. Furthermore, the cost of manufacturing our product candidates may make them prohibitively expensive. If supplies of any of our product candidates or related materials, such as diluent, the liquid used to dilute drug product for administration to patients, or the infusion pumps or other devices used to administer drug product to patients, were to become unavailable on a timely basis or are contaminated or otherwise lost, we may not be able to obtain an alternative source of the materials on commercially reasonable terms or at all, which could cause the initiation or completion of our clinical trials to be seriously delayed. For example, in the third quarter of 2010 we recalled a batch of diluent because of potential damage to the primary packaging material of the diluent. Due to the batch recall, we halted recruitment in the ongoing phase 1 clinical trial with MT110 until January 2011, when replacement quantities of diluent were available from our third party manufacturer.

Product candidates used in clinical trials or sold after marketing approval has been obtained must also be manufactured in accordance with current good manufacturing practices, or cGMP, regulations. There are a limited number of manufacturers that operate under these regulations, including the FDA's and EMA's good manufacturing practices regulations, and that are capable of manufacturing our product candidates. Third-party manufacturers may encounter difficulties in achieving quality control and quality assurance and may experience shortages of qualified personnel. Also, manufacturing facilities are subject to ongoing periodic, unannounced inspection by the FDA, EMA and other regulatory agencies or authorities, to ensure strict compliance with cGMP and other governmental regulations and standards.

A failure of third-party manufacturers to follow cGMP or other regulatory requirements, or to document their adherence to such practices, may lead to significant delays in the availability of product candidates for use in a clinical trial or for commercial sale, the termination of, or hold on, a clinical trial, or may delay or prevent filing or approval of marketing applications for our product candidates. In addition, as a result of such a failure, we could be subject to sanctions, including fines, injunctions and civil penalties, refusal or delays by regulatory authorities to grant marketing approval of our product candidates, suspension or withdrawal of marketing approvals, seizures or recalls of product candidates, operating restrictions and criminal prosecutions, any of which could significantly and adversely affect our business.

If we were required to change manufacturers for any reason, we may be required to conduct additional clinical trials and the revalidation of the manufacturing process and procedures in accordance with applicable current good manufacturing practices, which could require further FDA or EMA approval. This revalidation may be costly and time-consuming, and if we are unable to arrange for third-party manufacturing of our product candidates, or to do so on commercially reasonable terms, we may not be able to complete development or marketing of our product candidates.

The transfer of the manufacturing process for blinatumomab from MedImmune may not be successful, which could result in a shortage of clinical trial materials and a delay in the development of blinatumomab.

As described above, we are responsible for the manufacture of blinatumomab for clinical trials and have engaged Lonza and BI Pharma as our contract manufacturers. Lonza has initiated the manufacture of clinical supply of blinatumomab. Until those materials become available, we plan to utilize the inventory of blinatumomab produced by MedImmune prior to the termination of the collaboration.

We believe that the existing stock of blinatumomab will be sufficient to supply our ongoing and planned clinical trials of blinatumomab until product manufactured by Lonza and BI Pharma becomes available. However, if there is a delay in Lonza's ability to provide us with blinatumomab or in BI Pharma's ability to fill and finish the final drug product, we

may have to delay certain clinical trials, which could have a material adverse effect on our business. Furthermore, as part of the termination of our collaboration, MedImmune is required to perform studies confirming that the stock of blinatumomab supplied by MedImmune to us is stable and within our required specifications. If MedImmune ceases to perform these stability studies or to deliver the data from the stability studies as required, or if the data indicate that the stock of blinatumomab has degraded to an extent that it no longer meets the required specifications, we may not have sufficient quantities of the product candidate required to perform the planned clinical trials with blinatumomab. There can be no assurance that the transferred materials will be sufficient for use in our clinical trials, or that we, Lonza or BI Pharma will be able to implement the manufacturing processes transferred from MedImmune in a manner that results in materials that are comparable or that are suitable for use in clinical trials. Any of these or similar or other events could cause delays in the development and potential regulatory approval of blinatumomab, which would have an adverse effect on its commercial potential.

We have no sales, marketing or distribution experience and will depend significantly on third parties who may not be able to successfully sell our product candidates following approval.

We have no sales, marketing or product distribution experience. If we receive required regulatory approvals to market any of our product candidates, we plan to rely primarily on sales, marketing and distribution arrangements with third parties, including our collaborators. For example, as part of our existing collaboration agreements with Boehringer Ingelheim, Bayer Schering Pharma, sanofi-aventis, Nycomed, Merck Serono, MedImmune and TRACON, we have granted these companies the right to market and distribute products resulting from such collaborations, if any are ever successfully developed. We may have to enter into additional marketing arrangements in the future, and we may not be able to enter into these additional arrangements on terms that are favorable to us, if at all. In addition, we may have limited or no control over the sales, marketing and distribution activities of these third parties, and sales through these third parties could be less profitable to us than direct sales by us. Third parties with whom we have marketing or distribution agreements could sell competing products and may devote insufficient sales efforts to our product candidates following their approval. As a result, our future revenues from sales of our product candidates, if any, will be materially dependent upon the success of the efforts of these third parties.

We may seek to co-promote products with our collaborators, or to independently market products that are not already subject to marketing agreements with other parties. For example, under our collaboration agreement with Boehringer Ingelheim, we have the right to co-promote in the United States any approved products resulting from the collaboration. If we determine to perform sales, marketing and distribution functions ourselves, then we could face a number of additional risks, including the following:

- we may not be able to attract and build an experienced marketing staff or sales force;
- the cost of establishing a marketing staff or sales force may not be justifiable in light of the revenues generated by any particular product;
- our direct sales and marketing efforts may not be successful; and
- we may face competition from other products or sales forces with greater resources than our own sales force.

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

None.

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. Reserved

## Item 5. Other Information

### Termination of TRACON License Agreement

On April 11, 2011, we received notice from TRACON Pharmaceuticals, Inc. that TRACON had elected to terminate its license agreement with our subsidiary Cell-Matrix, Inc. covering our monoclonal antibody known as MT293, in accordance with the terms of the agreement. The termination will become effective during the second quarter of 2011, at which time the MT293 program will revert to us. In connection with such termination, we received a one-time

payment of approximately \$1.0 million for amounts due to us under the license agreement with TRACON.

Amended and Restated Executive Employment Agreements

On May 6, 2011, we entered into Amended and Restated Executive Employment Agreements (each, an “Employment Agreement”) with each of Christian Itin, our President and Chief Executive Officer; Barclay Phillips, our Senior Vice President and Chief Financial Officer; Patrick Baeuerle, our Senior Vice President and Chief Scientific Officer; Jan Fagerberg, our Senior Vice President and Chief Medical Officer; and Matthias Alder, our Senior Vice President and General Counsel (each, an “Executive”).

Dr. Fagerberg, Mr. Phillips and Mr. Alder previously entered into employment agreements with the Company in 2008 and/or 2009. The changes to these Executives’ prior employment agreements that are part of the new Employment Agreements are intended to supplement and/or amend certain provisions to ensure their compliance with the requirements of, and the Treasury Regulations promulgated under, Section 409A of the Internal Revenue Code of 1986, as amended, as well as other applicable laws, and to include a “best-after-tax-result” clause with respect to excise taxes that may become due on compensation paid to the Executive in connection with a termination following a change of control of the Company.

Dr. Itin and Dr. Baeuerle previously entered into employment agreements with the Company in June 2006. The new Employment Agreements for these Executives reflects changes to the form of executive employment agreement that had been approved by the compensation committee of the board of directors since that time, including the changes referenced in the preceding paragraph with respect to the other Executives. The terms of the new Employment Agreements now are substantially similar for all Executives. The Employment Agreements do not provide for any change in compensation from what was approved by the compensation committee of the board of directors in the first quarter of 2011 and previously reported.

The foregoing description of the Employment Agreements is not complete and is qualified in its entirety by reference to the Employment Agreements, which will be filed as exhibits to the Company’s Quarterly Report on Form 10-Q for the quarter ending June 30, 2011.

Item 6. Exhibits

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of the Registrant, incorporated by reference from the Registrant’s Quarterly Report on Form 10-Q filed with the SEC on December 11, 2003.
3.2	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Registrant, incorporated by reference from the Registrant’s Quarterly Report on Form 10-Q filed with the SEC on May 10, 2006.
3.3	Certificate of Designations for Series A Junior Participating Preferred Stock of the Registrant, incorporated by reference from the Registrant’s Current Report on Form 8-K filed with the SEC on November 8, 2004.
3.4	Amended and Restated Bylaws effective October 3, 2007, incorporated by reference from the Registrant’s Current Report on Form 8-K filed with the SEC on October 9, 2007.
10.1+	2011 Management Incentive Compensation Plan.
31.1	

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Certification of Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32(\*) Certifications of Principal Executive Officer and Principal Financial Officer pursuant to Rules 13a-14(b) and 15d-14(b) promulgated under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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Management contract or compensatory plan.

\*These certifications are being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of the Registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

SIGNATURES

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

Dated: May 10, 2011

Micromet, Inc.

By: /s/ Barclay A. Phillips  
 Barclay A. Phillips  
 Senior Vice President and Chief Financial Officer  
 (Duly authorized officer and Principal Financial Officer)

Exhibit List

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