

MICROMET, INC.  
Form 10-Q  
November 06, 2009

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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 September 30, 2009

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 ☐

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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<br>filer <input type="checkbox"/> | Accelerated filer <input type="checkbox"/> | Non-accelerated filer <input type="checkbox"/> | Smaller reporting<br>company <input type="checkbox"/> |
|-----------------------------------------------------|--------------------------------------------|------------------------------------------------|-------------------------------------------------------|

(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 November 2, 2009 was 68,985,005.

MICROMET, INC.  
FORM 10-Q — QUARTERLY REPORT  
FOR THE QUARTERLY PERIOD ENDED September 30, 2009  
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## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

Micromet, Inc.  
Condensed Consolidated Balance Sheets  
(In thousands, except par value)  
(unaudited)

|                                                                                                                                                                                        | September 30,<br>2009 | December 31,<br>2008 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| <b>ASSETS</b>                                                                                                                                                                          |                       |                      |
| Current assets:                                                                                                                                                                        |                       |                      |
| Cash and cash equivalents                                                                                                                                                              | \$ 100,029            | \$ 46,168            |
| Short-term investments                                                                                                                                                                 | 14,360                | -                    |
| Accounts receivable                                                                                                                                                                    | 1,979                 | 3,424                |
| Prepaid expenses and other current assets                                                                                                                                              | 2,029                 | 1,950                |
| Total current assets                                                                                                                                                                   | 118,397               | 51,542               |
| Property and equipment, net                                                                                                                                                            | 3,751                 | 3,322                |
| Goodwill                                                                                                                                                                               | 6,462                 | 6,462                |
| Patents, net                                                                                                                                                                           | 1,164                 | 5,250                |
| Other long-term assets                                                                                                                                                                 | 3                     | 959                  |
| Restricted cash                                                                                                                                                                        | 3,167                 | 3,140                |
| Total assets                                                                                                                                                                           | \$ 132,944            | \$ 70,675            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                                            |                       |                      |
| Current liabilities:                                                                                                                                                                   |                       |                      |
| Accounts payable                                                                                                                                                                       | \$ 1,508              | \$ 710               |
| Accrued expenses                                                                                                                                                                       | 7,159                 | 6,492                |
| Common stock warrants liability                                                                                                                                                        | 20,477                | 12,294               |
| Current portion of deferred revenue                                                                                                                                                    | 5,608                 | 4,054                |
| Total current liabilities                                                                                                                                                              | 34,752                | 23,550               |
| Deferred revenue, net of current portion                                                                                                                                               | 7,413                 | 7,555                |
| Other non-current liabilities                                                                                                                                                          | 2,352                 | 2,025                |
| Long-term debt obligations                                                                                                                                                             | -                     | 2,157                |
| 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; 68,932 shares issued and outstanding at September 30, 2009 and 50,913 shares issued and outstanding at December 31, 2008 | 3                     | 2                    |
| Additional paid-in capital                                                                                                                                                             | 312,470               | 227,806              |
| Accumulated other comprehensive income                                                                                                                                                 | 8,291                 | 5,749                |
| Accumulated deficit                                                                                                                                                                    | (232,337)             | (198,169)            |
| Total stockholders' equity                                                                                                                                                             | 88,427                | 35,388               |
| Total liabilities and stockholders' equity                                                                                                                                             | \$ 132,944            | \$ 70,675            |

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<br>September 30, |                  | Nine months ended<br>September 30, |                  |
|------------------------------------------------------------------------------|-------------------------------------|------------------|------------------------------------|------------------|
|                                                                              | 2009                                | 2008             | 2009                               | 2008             |
| <b>Revenues:</b>                                                             |                                     |                  |                                    |                  |
| Collaboration agreements                                                     | \$ 3,361                            | \$ 7,009         | \$ 15,261                          | \$ 20,658        |
| License fees and other                                                       | 660                                 | 29               | 1,153                              | 756              |
| Total revenues                                                               | 4,021                               | 7,038            | 16,414                             | 21,414           |
| <b>Operating expenses:</b>                                                   |                                     |                  |                                    |                  |
| Research and development                                                     | 13,324                              | 9,943            | 30,963                             | 30,655           |
| General and administrative                                                   | 3,808                               | 3,429            | 11,124                             | 10,346           |
| Total operating expenses                                                     | 17,132                              | 13,372           | 42,087                             | 41,001           |
| Loss from operations                                                         | (13,111)                            | (6,334)          | (25,673)                           | (19,587)         |
| <b>Other income (expense):</b>                                               |                                     |                  |                                    |                  |
| Interest expense                                                             | (52)                                | (45)             | (222)                              | (189)            |
| Interest income                                                              | 66                                  | 183              | 346                                | 649              |
| Change in fair value of warrants                                             | (6,354)                             | (6,794)          | (8,183)                            | (8,503)          |
| Other (expense) income                                                       | (441)                               | 99               | (437)                              | 246              |
| Net loss                                                                     | \$ (19,892)                         | \$ (12,891)      | \$ (34,169)                        | \$ (27,384)      |
| <b>Basic and diluted net loss per common share</b>                           | <b>\$ (0.32)</b>                    | <b>\$ (0.31)</b> | <b>\$ (0.62)</b>                   | <b>\$ (0.67)</b> |
| Weighted average shares used to compute basic and diluted net loss per share | 62,655                              | 41,041           | 55,058                             | 40,883           |

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

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

|                                                                             | Nine months ended September 30, |             |
|-----------------------------------------------------------------------------|---------------------------------|-------------|
|                                                                             | 2009                            | 2008        |
| Cash flows from operating activities:                                       |                                 |             |
| Net loss                                                                    | \$ (34,169)                     | \$ (27,384) |
| Adjustments to reconcile net loss to net cash used in operating activities: |                                 |             |
| Depreciation and amortization                                               | 2,484                           | 2,871       |
| Non-cash interest on long-term debt obligations                             | 248                             | 269         |
| Amortization of premium/discount on short-term investments                  | 126                             | —           |
| Non-cash change in fair value of common stock warrants liability            | 8,183                           | 8,503       |
| Stock-based compensation expense                                            | 4,344                           | 2,539       |
| Impairment of long-term assets                                              | 2,585                           | —           |
| Net loss on disposal of property and equipment                              | 36                              | —           |
| Changes in operating assets and liabilities:                                |                                 |             |
| Accounts receivable                                                         | 1,571                           | 2,724       |
| Prepaid expenses and other current assets                                   | 75                              | 833         |
| Accounts payable, accrued expenses and other liabilities                    | 627                             | (406)       |
| Deferred revenue                                                            | 744                             | 1,373       |
| Net cash used in operating activities                                       | (13,146)                        | (8,678)     |
| Cash flows from investing activities:                                       |                                 |             |
| Purchases of investments                                                    | (27,974)                        | —           |
| Proceeds from the maturity of investments                                   | 15,900                          | —           |
| Purchases of property and equipment                                         | (666)                           | (377)       |
| Restricted cash used as collateral                                          | —                               | 5           |
| Net cash used in investing activities                                       | (12,740)                        | (372)       |
| Cash flows from financing activities:                                       |                                 |             |
| Proceeds from the issuance of common stock, net                             | 80,029                          | —           |
| Proceeds from exercise of stock options                                     | 1,110                           | 608         |
| Proceeds from the exercise of warrants                                      | —                               | 421         |
| Principal payments on debt obligations                                      | (2,187)                         | (2,466)     |
| Principal payments on capital lease obligations                             | (92)                            | (148)       |
| Net cash provided by (used in) financing activities                         | 78,860                          | (1,585)     |
| Effect of exchange rate changes on cash and cash equivalents                | 887                             | (495)       |
| Net increase (decrease) in cash and cash equivalents                        | 53,861                          | (11,130)    |
| Cash and cash equivalents at beginning of period                            | 46,168                          | 27,066      |
| Cash and cash equivalents at end of period                                  | 100,029                         | \$ 15,936   |
| Supplemental disclosure of noncash investing and financing activities:      |                                 |             |
| Acquisitions of equipment purchased through capital leases                  | 653                             | 219         |
| Reclassification of warrant liability to additional paid-in capital         | —                               | 988         |

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





Note 1. Business Overview

We are a biopharmaceutical company developing novel, proprietary antibodies for the treatment of cancer, inflammation and autoimmune diseases. Five of our antibodies are currently in clinical trials, while the remainder of our product pipeline is in earlier stages of 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

Unless otherwise noted, all financial information is that of Micromet, Inc. and our wholly owned subsidiaries: Micromet AG; Micromet Holdings, Inc.; Tarcanta, 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. All intercompany accounts and transactions have been eliminated 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.

The accompanying financial statements have been prepared assuming we will continue as a going concern. This basis of accounting contemplates the recovery of our assets and the satisfaction of our liabilities in the normal course of business. As of September 30, 2009, we had an accumulated deficit of \$232.3 million. We expect that operating losses and negative cash flows from operations will continue for at least the next several years and we will need to generate additional funds to achieve our strategic goals. If necessary, we may raise substantial funds through the sale of our common stock and common stock warrants, or through debt financing 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 and the proceeds received from the sale of common stock in August 2009 (see Note 9), we believe that we have adequate resources to fund our operations for at least 24 months, 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 draw downs from our committed equity financing facility, or CEFF, with Kingsbridge Capital Limited (see Note 8).

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. Our money market funds consist of at least 80% of net assets in U.S. Treasury obligations and repurchase agreements secured by U.S. Treasury obligations.

## Short-Term Investments

In accordance with the Accounting Standards Codification (ASC) Topic 320 (formerly Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Debt and Equity Securities), short-term investments are classified as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in other comprehensive income (loss). The amortization of premiums and accretion of discounts to maturity is included in investment income. Realized gains and losses and declines in value judged to be other-than-temporary, if any, on available-for-sale securities are included in other income or expense. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in investment income. As of September 30, 2009 our investments are in debt of foreign governments with maturities of less than one year. The amortized cost basis is \$12.7 million and the aggregate fair value is \$14.4 million as of September 30, 2009. Other comprehensive income for the nine months ended September 30, 2009 includes unrealized gains of \$115,000 and unrealized losses of \$99,000.

#### Restricted Cash

We have issued irrevocable standby letters of credit in connection with prior building leases for properties that are currently subleased, as well as our current building leases in Munich, Germany and Bethesda, Maryland. As of September 30, 2009 and December 31, 2008, we had a total of \$3.2 million and \$3.1 million, respectively, in certificates of deposit that are classified as non-current restricted cash.

#### 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

In accordance with ASC Topic 350 (formerly SFAS No. 142, Goodwill and Other Intangible Assets), 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 to which the goodwill has been assigned 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 has 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. Evidence from recent licensing transactions indicates that our future licensing fees derived from these purchased patents will be lower than previously expected. We deemed these events in connection with lower expectations of future licensing fees to be an indication of potential impairment.

In accordance with ASC Topic 350, we periodically assess whether the carrying value of the purchased patents is recoverable if there is an indicator of impairment. We evaluated whether the carrying value of the patents would be recoverable by comparing their carrying value to the undiscounted cash flows generated from these assets. The carrying value was in excess of the undiscounted cash flows; therefore, we calculated the fair value of the patents to determine the amount of impairment. We calculated the fair value of the patents using the income approach (discounted cash flows). Based on the fair value, we recognized a non-cash patent impairment charge of approximately \$2.6 million for the three months ended September 30, 2009. The impairment charge was recorded within research and development expenses on the statement of operations. Key inputs utilized in the determination of this non-recurring fair value measurement relate to our estimates of cash flows for the remaining patent life and the discount rate factor. The determination of the discount rate was based upon the risk-free rate, adjusted by a risk premium. Because these inputs are unobservable, the fair value determination is a Level 3 measurement.

#### Impairment of Long-Lived and Identifiable Intangible Assets

In accordance with the provisions of ASC Topic 360 (formerly SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived 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

In June 2007, we completed a private placement of 9,216,709 shares of common stock and issued warrants to purchase an additional 4,608,356 shares of 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 to its estimated fair value at the end of each reporting period using the Black-Scholes option-pricing model. Changes in the estimated fair value from the previous reporting period are 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 and losses are recorded in the consolidated statements of operations in other income (expense) and amounted to \$(285,000) and \$(75,000) for the three months ended September 30, 2009 and 2008, respectively, and \$(325,000) and \$(164,000) for the nine months ended September 30, 2009 and 2008, respectively.

The accompanying condensed 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 rate in effect for the period. The translation of operating cash flow data is made at the average rate in effect for the period, and investing and financing cash flow data is translated at the rate in effect at the date of the underlying transaction. Translation gains and losses are recognized within accumulated other comprehensive income in the accompanying condensed consolidated balance sheets.

## 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.

Revenues under collaborative research agreements are recognized as the services specified in the related agreement are performed, or as expenses that are passed through to the collaborator are incurred. Milestone payments are derived from the achievement of predetermined goals under the collaboration agreements. For milestones that are deemed substantive, the related contingent revenue is not recognized until the milestone has been reached and customer acceptance has been obtained as necessary. Milestones are considered substantive if all the following criteria are met: 1) milestone payment is non-refundable and relates solely to past performance; 2) achievement of the milestone was not reasonably assured at the inception of the arrangements; 3) substantive effort is involved to achieve the milestone; and 4) the amount of the milestone payment appears reasonable in relation to the effort expended, other milestones in the arrangement and the related risk of achieving the milestone. Fees for research and development services performed under the agreements are generally stated at a yearly fixed fee per research scientist. We recognize revenue as the research and development services are performed. Amounts received in advance of services performed are recorded as deferred revenue until earned. We have received upfront initial license fees and annual renewal fees each year under certain license agreements. Revenue is recognized when the above noted criteria are satisfied, unless we have further obligations associated with the license granted. We recognize revenue from up front payments on a straight-line basis over the term of our obligations as specified in the agreement.

For arrangements that include multiple deliverables, we identify separate units of accounting based on the consensus reached on ASC Topic 605 (formerly Emerging Issues Task Force Issue (EITF) No. 00-21, Revenue Arrangements with Multiple Deliverables). ASC Topic 605 provides that revenue arrangements with multiple deliverables should be divided into separate units of accounting if certain criteria are met. The consideration for the arrangement is allocated to the separated units of accounting based on their relative fair values. 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 the services are performed.

## 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 income (loss) and other comprehensive income (loss). Other comprehensive income (loss) is primarily the result of foreign currency exchange translation adjustments. The following table sets forth the components of comprehensive income (loss) (in thousands):

|                                                   | Three Months Ended<br>September 30, |             | Nine Months Ended<br>September 30, |             |
|---------------------------------------------------|-------------------------------------|-------------|------------------------------------|-------------|
|                                                   | 2009                                | 2008        | 2009                               | 2008        |
| Net loss                                          | \$ (19,892)                         | \$(12,891 ) | \$ (34,169)                        | \$ (27,384) |
| Foreign currency translation adjustments          | 974                                 | 6           | 2,566                              | (260)       |
| Unrealized gain on investments available for sale | (42)                                | —           | (22)                               | —           |
| Comprehensive loss                                | \$ (18,960)                         | \$(12,885 ) | \$ (31,625)                        | \$ (27,644) |

### Share-based compensation

We account for share-based payments in accordance with ASC Topic 718 (formerly SFAS No. 123(R), Share-Based Payment Awards), utilizing the Black-Scholes option pricing method for determining the fair value of stock-based awards. The determination of the estimated fair value of our share-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, 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 share-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 in accordance with ASC Topic 718 and ASC Topic 505 (formerly EITF Issue No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring or in Conjunction with Selling Goods or Services). 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 under ASC Topic 740 (formerly SFAS No. 109, Accounting 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 (formerly FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109). ASC Topic 740 was adopted on January 1, 2007 with no material impact on our consolidated financial statements. 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

We calculate net loss per share in accordance with ASC Topic 260 (formerly SFAS No. 128, Earnings 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, convertible preferred stock, 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. Options to purchase 9,099,000 and 7,920,000 shares of common stock, respectively, and warrants to purchase 8,222,000 and 5,264,000 shares, respectively, were excluded from the net loss calculation for the nine months ended September 30, 2009 and 2008, respectively, as their effect would be anti-dilutive.



## Recent Accounting Standards and Pronouncements

In October 2009, the FASB approved ASC Topic 605-25, Arrangements with Multiple Deliverables. This statement provides principles for allocation of consideration among multiple elements, allowing more flexibility in identifying and accounting for separate deliverables under an arrangement. ASC Topic 605-25 introduces an estimated selling price method for valuing the elements of a bundled arrangement if vendor-specific objective evidence or third-party evidence of selling price is not available, and significantly expands related disclosure requirements. ASC Topic 605-25 is effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Alternatively, adoption may be on a retrospective basis, and early application is permitted. We are currently evaluating the impact of adopting this pronouncement.

In July 2009, the FASB issued ASC Topic 105 (formerly SFAS No. 168, The Hierarchy of Generally Accepted Accounting Principles). ASC Topic 105 contains guidance that reduces the U.S. GAAP hierarchy to two levels, one that is authoritative and one that is not. This pronouncement is effective September 15, 2009. The adoption of this pronouncement did not have an effect on our consolidated financial statements.

We adopted the provisions of ASC Topic 820-10, Fair Value Measurements and Disclosures (formerly SFAS No. 157, Fair Value Measurements), with respect to non-financial assets and liabilities effective January 1, 2009. This pronouncement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The adoption of ASC Topic 820-10 did not have an impact on our consolidated financial statements.

## 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 September 30, 2009 (in thousands):

| Description                    | September 30,<br>2009 | Quoted Prices in<br>Active Markets<br>Level 1 | Significant Other<br>Observable inputs<br>Level 2 | Significant<br>Unobservable<br>Inputs<br>Level 3 |
|--------------------------------|-----------------------|-----------------------------------------------|---------------------------------------------------|--------------------------------------------------|
| <b>Assets:</b>                 |                       |                                               |                                                   |                                                  |
| Cash and cash equivalents      | \$ 100,029            | \$ 100,029                                    | \$ —                                              | —                                                |
| Restricted cash                | 3,167                 | 3,167                                         | —                                                 | —                                                |
| Foreign government bonds       | 14,360                | —                                             | 14,360                                            | —                                                |
| <b>Total assets</b>            | <b>\$ 117,556</b>     | <b>\$ 103,196</b>                             | <b>\$ 14,360</b>                                  | <b>\$ —</b>                                      |
| <b>Liabilities:</b>            |                       |                                               |                                                   |                                                  |
| Common stock warrant liability | \$ (20,477)           | \$ —                                          | \$ —                                              | (20,477)                                         |

The following table presents information about our common stock warrant liability, which was our only financial asset or liability measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC Topic 820 at September 30, 2009 and December 31, 2008:

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|                                                                | September 30, 2009 |                |
|----------------------------------------------------------------|--------------------|----------------|
|                                                                | 3-months ended     | 9-months ended |
| Beginning balance                                              | \$ (14,123)        | \$ (12,294)    |
| Transfers to (from) Level 3                                    | —                  | —              |
| Total gains/(losses) realized/ unrealized included in earnings | (6,354)            | (8,183)        |
| Purchases/ issuances/ settlements, net                         | —                  | —              |
| Balance September 30, 2009                                     | \$ (20,477)        | \$ (20,477)    |

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 remaining contractual term 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 volatilities of the common stock of comparable publicly traded companies.

We also adopted ASC Topic 820 for non-financial assets and liabilities in the first quarter of 2009. We had no required fair value measurements for non-financial assets and liabilities during the nine months ended September 30, 2009 and no required additional disclosures upon adoption.

#### Note 5. Deferred Revenue

Deferred revenues were derived from research and development agreements with Nycomed, Bayer Schering, TRACON Pharmaceuticals, Inc. and Merck Serono International SA as follows (dollars in thousands):

|                       | September 30,<br>2009 | December 31,<br>2008 |
|-----------------------|-----------------------|----------------------|
| Nycomed               | \$ 6,809              | \$ 7,260             |
| Bayer Schering Pharma | 1,642                 | —                    |
| TRACON                | 1,246                 | 1,321                |
| Merck Serono          | 2,521                 | 2,523                |
| Other                 | 803                   | 505                  |
| Subtotal              | 13,021                | 11,609               |
| Current portion       | (5,608)               | (4,054)              |
| Long term portion     | \$ 7,413              | \$ 7,555             |

The deferred revenue for Nycomed and TRACON consists mainly of the upfront license fees that are being recognized over the period that we are required to participate on joint steering committees of 20 years and 15 years, respectively. The deferred revenue for Bayer Schering Pharma consists of an option fee that is being recognized over a period of one year, which began in the first quarter of 2009. Under the terms of the agreement with Bayer Schering Pharma, we received €4.5 million, or \$6.0 million at the exchange rate in effect as of the date of this transaction, as a fee for a one-year option on a specific BiTE antibody. Bayer Schering Pharma may exercise this option on or before January 5, 2010 through the additional payment of an option exercise fee. The exercise of the option would trigger a formal collaboration for the development of the BiTE antibody through the completion of phase 1 clinical trials, at which point Bayer Schering Pharma would assume full control of the further development and commercialization of the BiTE antibody. The upfront license fees and research and development service reimbursements in the collaboration agreement with Merck Serono are considered to be a combined unit of accounting and, accordingly, the related amounts are recognized ratably over the expected period of the research and development program, which is expected to continue through 2011.

Note 6. Other Non-Current Liabilities

Other non-current liabilities consist of the following (in thousands):

|                                                       | September 30,<br>2009 | December 31,<br>2008 |
|-------------------------------------------------------|-----------------------|----------------------|
| Facility lease exit liability, net of current portion | \$ 1,049              | \$ 1,215             |
| GEK subsidy, net of current portion                   | 98                    | 135                  |
| Asset retirement obligation                           | 554                   | 471                  |
| Capital lease obligations, net of current portion     | 632                   | 187                  |
| Other                                                 | 19                    | 17                   |
|                                                       | \$ 2,352              | \$ 2,025             |

## Facility Lease Exit Liability and Restructuring Provision

We acquired a facility lease exit liability as of May 2006, the date of our merger with CancerVax Corporation. As of April 2007, we fully subleased our former corporate headquarters in Carlsbad, California. 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 nine months ended September 30, 2009 (in thousands):

|                            |    |       |
|----------------------------|----|-------|
| Balance January 1, 2009    | \$ | 1,432 |
| Amounts paid in period     |    | (298) |
| Accretion expense          |    | 187   |
| Balance September 30, 2009 | \$ | 1,321 |

Of the \$1,321,000 lease exit liability as of September 30, 2009, \$272,000 is current and \$1,049,000 is non-current.

## Asset Retirement Obligation

In February 2001, we entered into a building lease agreement with GEK. Under the terms of the agreement, GEK agreed to lease laboratory and office space to us for a period of 10 years beginning on July 1, 2002. Upon termination of the agreement, we may, under certain conditions, be obligated to remove those leasehold improvements that will not be assumed by GEK. The fair value of the asset retirement obligation will increase due to accretion through the term of the lease agreement. In connection with our sublease with Roche in 2007, certain leasehold improvements were made to our facility which we will be required to remove at the end of our lease. The following table summarizes the activity for the nine months ended September 30, 2009 (in thousands):

|                                 |    |     |
|---------------------------------|----|-----|
| Balance January 1, 2009         | \$ | 471 |
| Accretion expense               |    | 63  |
| Currency translation adjustment |    | 20  |
| Balance September 30, 2009      | \$ | 554 |

## Note 7. Current Portion of Long-Term Debt

Our only long-term debt obligation at December 31, 2008 was an unsecured promissory note in favor of an affiliate of MedImmune, Inc. with a maturity date of June 6, 2010. Interest on this note was payable monthly at an interest rate of 4.5% per annum. On August 20, 2009, the remaining principal balance and accrued but unpaid interest was repaid in full.

## Note 8. 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, from time to time through December 2011, 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. We are not eligible to draw down any funds under the CEFF at any time when our stock price is below \$2.00 per share. In connection with the December 2008 CEFF, we terminated a prior CEFF with Kingsbridge that had been in place since August 2006. The December 2008 CEFF expanded the amount available to draw from \$25.0 million under the August 2006 CEFF to \$75.0 million. We did not draw down on the August 2006 CEFF. In connection with the December 2008 CEFF, we entered into a common stock purchase agreement and registration rights agreement and issued a warrant to Kingsbridge to purchase 135,000 shares of our common stock at

a price of \$4.44 per share. The warrant is exercisable until June 2014. In connection with the August 2006 CEFF, we issued to Kingsbridge a warrant to purchase up to 285,000 shares of common stock at an exercise price of \$3.2145 per share, which warrant was not affected by the new CEFF or the issuance of the new warrant to Kingsbridge. The aggregate fair value of the two warrants issued to Kingsbridge approximated \$0.8 million as of the dates of issuance.

During the second quarter of 2009, we completed two draw downs under the CEFF and issued a total of 1,420,568 shares for aggregate gross proceeds of \$5.3 million. In May 2009, we issued 764,700 shares to Kingsbridge for gross proceeds of \$2.5 million (average price per share of \$3.27), and in June 2009, we issued 655,868 shares to Kingsbridge in exchange for gross proceeds of \$2.8 million (average price per share of \$4.19). Accordingly, the remaining commitment of Kingsbridge under the CEFF for the potential purchase of our common stock is equal to the lesser of \$69.7 million in cash consideration 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. In connection with the CEFF, we have incurred legal fees and other financing costs of approximately \$138,000. Upon completion under the CEFF drawdown these costs along with the \$0.8 million fair value of the warrants were recorded as a component of stockholders' equity during the second quarter of 2009.

Note 9. Stockholders' Equity

On July 30, 2009, we entered into a definitive agreement with various underwriters pursuant to which we issued an aggregate of 16,100,000 shares of common stock in a public offering, including the exercise in full of an over-allotment option for 2,100,000 shares, for aggregate gross proceeds, before underwriting discount and expenses, of \$80.5 million. After underwriting discount and expenses payable by us of approximately \$0.3 million, net proceeds from the public offering were \$74.9 million. The offering closed, and we received the proceeds, on August 4, 2009. The shares were sold to the public at a price of \$5.00 per share, and the underwriters purchased the shares from us under the purchase agreement at a price of \$4.675 per share, reflecting an underwriting discount of \$0.325 per share.

The offering was made pursuant to a registration statement on Form S-3 (File No. 333-160130) filed with the Securities and Exchange Commission on June 19, 2009, which became effective on July 2, 2009 and a registration statement on Form S-3 (File No. 333-160888) filed on July 30, 2009 with the Commission pursuant to Rule 462(b) under the Securities Act of 1933, as amended (the Securities Act), which became automatically effective upon filing, and pursuant to the prospectus dated July 2, 2009 and a prospectus supplement dated July 30, 2009, which was filed pursuant to Rule 424(b)(5) of the Securities Act on July 30, 2009.

Note 10. Subsequent Events

We have evaluated subsequent events through the time of filing these financial statements on November 5, 2009.

Collaboration and License Agreement with sanofi-aventis

In October 2009, we and sanofi-aventis entered into a collaboration and license agreement under which the two companies will collaborate on the development of a new BiTE® antibody targeting solid tumors. Under the terms of the agreement, we will be responsible for generating and developing the BiTE antibody through the completion of phase 1 clinical trials, at which point sanofi-aventis will assume full control of the development and commercialization of the product candidate on a worldwide basis. We will receive an upfront payment of €8 million and are eligible to receive payments upon the achievement of development milestones of up to €162 million and sales milestones of up to €150 million, and up to a low double-digit royalty on worldwide net sales of the product. In addition, sanofi-aventis will bear the cost of development activities and will reimburse us for our expenses incurred in connection with the development program. A portion of the upfront payment in the amount of €2.75 million will be credited towards the reimbursement of FTEs allocated by us to the performance of the development program. After the second anniversary of the execution of the agreement and at certain specified time points thereafter, sanofi-aventis may terminate the agreement at will upon ninety days prior notice. In addition, sanofi-aventis may terminate the agreement at any time after the completion of the first phase 2 clinical trial upon 180 days prior notice. Also, the agreement may be terminated by either party for material breach.

Termination and License Agreement with MedImmune, LLC

In November 2009, we entered into a termination and license agreement (the 2009 Agreement) with MedImmune, LLC under which we acquired MedImmune's remaining option right to commercialize our BiTE antibody product candidate blinatumomab, also known as MT103, in North America. The 2009 Agreement terminates the June 2003 collaboration and license agreement (the 2003 Agreement) under which MedImmune had been granted the right to develop and commercialize blinatumomab and other BiTE antibodies for the treatment of hematological cancers in North America. As previously disclosed in our SEC filings, in March 2009, MedImmune elected to end the clinical development of blinatumomab in North America, while continuing the development of the commercial manufacturing process at its cost. MedImmune also elected to commence the development of a new BiTE antibody for the treatment

of hematological cancers under the terms of the 2003 Agreement. Further, MedImmune retained a one-time option to reacquire the commercialization rights to blinatumomab in North America at pre-defined terms upon the first marketing approval obtained by us for blinatumomab in the United States. As a result of the 2009 Agreement, we now control the worldwide rights to develop and commercialize blinatumomab, as well as other BiTE antibodies binding to targets relevant for hematological tumors that had been licensed to MedImmune under the 2003 Agreement.



Under the terms of the 2009 Agreement, MedImmune will sell to us the remaining stock of blinatumomab clinical trial material and will transfer the manufacturing process for this product candidate to us or our contract manufacturer. We will make an upfront payment of \$6.5 million in installments through December 2010. In addition, MedImmune is eligible to receive up to an aggregate of \$19 million from us based upon the achievement of specified strategic and regulatory milestone events relating to blinatumomab in North America and a low single-digit royalty based on net sales of blinatumomab in North America.

The termination of the 2003 Agreement regarding blinatumomab does not affect our ongoing collaboration with MedImmune for the development of our BiTE antibody product candidate MT111 targeting carcinoembryonic antigen (CEA).

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

The following discussion contains forward-looking statements, which involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in Part II — Item 1A below under the caption "Risk Factors."

The interim financial statements and this Management's Discussion and Analysis of the Financial Condition and Results of Operations should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2008, 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 16, 2009.

### Ongoing Business Activities

We are a biopharmaceutical company developing novel, proprietary antibodies for the treatment of cancer, inflammation and autoimmune diseases. 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. Five of our antibodies are currently in clinical trials, while the remainder of our product pipeline is in preclinical development.

Our CD19 targeting BiTE antibody blinatumomab, also known as MT103, is being evaluated in a phase 2 clinical trial for the treatment of patients with acute lymphoblastic leukemia, or ALL, and in a phase 1 clinical trial for the treatment of patients with non-Hodgkin's lymphoma, or NHL. We currently expect to initiate a pivotal trial of blinatumomab in ALL patients in 2010. Until March 2009, blinatumomab was being developed under a collaboration and license agreement with MedImmune, LLC entered into in 2003 (the 2003 Agreement). In March 2009, MedImmune elected to end the clinical development of blinatumomab in North America, while continuing the development of the commercial manufacturing process at its cost. MedImmune also elected to commence the development of a new BiTE antibody for the treatment of hematological cancers under the terms of the 2003 Agreement. Further, MedImmune retained a one-time option to reacquire the commercialization rights to blinatumomab in North America at pre-defined terms upon the first marketing approval obtained by us for blinatumomab in the United States. In November 2009, we entered into a termination and license agreement (the 2009 Agreement) with MedImmune under which we acquired MedImmune's remaining rights to commercialize blinatumomab in North America. As a result of the 2009 Agreement, we now control the rights to develop and commercialize blinatumomab in all territories. Under the terms of the 2009 Agreement, MedImmune will sell to us the remaining stock of blinatumomab clinical trial material and will transfer the manufacturing process for this product candidate to us or our contract manufacturer.

A second BiTE antibody, MT110, is being tested in a phase 1 clinical trial for the treatment of patients with solid tumors. MT110 binds to the epithelial cell adhesion molecule, or EpCAM, which is overexpressed in many solid tumors. We are also developing our human monoclonal antibody adecatumumab, also known as MT201, which also binds to EpCAM and is being developed under a collaboration with Merck Serono. The current clinical development of this antibody includes a phase 2 clinical trial in colorectal carcinoma patients after complete resection of liver metastases, and a phase 1b clinical trial evaluating adecatumumab in combination with docetaxel for the treatment of patients with metastatic breast cancer. Our monoclonal antibody MT293, also known as TRC093, is licensed to TRACON Pharmaceuticals, Inc. and is being developed in a phase 1 clinical trial for the treatment of patients with cancer. 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 licensee Morphotek, a wholly-owned subsidiary of Eisai, is also expected to commence a phase 1 clinical trial in 2010 to evaluate our glycolipid-binding human antibody MT228 for the treatment of melanoma.

Our preclinical product pipeline includes several novel BiTE antibodies generated with our proprietary BiTE antibody platform technology. A BiTE antibody targeting carcinoembryonic antigen, or CEA, for the treatment of solid tumors is being developed in collaboration with MedImmune. In addition, we have entered into an option, collaboration and license agreement with Bayer Schering Pharma AG under which Bayer Schering Pharma was granted an exclusive option until January 2010 to license a specified BiTE antibody against an undisclosed solid tumor target. In October 2009, we entered into a collaboration and license agreement with sanofi-aventis for the development and commercialization of a BiTE antibody binding to another undisclosed solid tumor target. Other BiTE antibodies are in various stages of preclinical development.

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 compound to the completion of preclinical and clinical trials, before applying for marketing approval from the FDA or EMEA, 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 such collaborative agreements, a third party may be granted control over the clinical trial process, manufacturing process or other key development process, for one of our product candidates. In such a situation, the third party, rather than us, may in fact control development and commercialization decisions for the respective product candidate. Consistent with our business model, we may enter into additional collaboration agreements in the future. We cannot predict the terms of such 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 affect our liquidity.

Since our inception, we have financed our operations through public offerings and private placements of preferred stock, common stock and associated warrants, government grants for research, research-contribution revenues from our collaborations with pharmaceutical companies, licensing and milestone payments related to our product candidate partnering activities, debt financing and equity draws under the CEFF with Kingsbridge. We may seek funding through public or private financings in the future. If we raise additional funds through the issuance of equity securities, stockholders may experience substantial dilution, or the equity securities may have rights, preferences or privileges senior to existing stockholders. If we raise additional funds through debt financings, these financings may involve significant cash payment obligations and covenants that restrict our ability to operate our business. There can be no assurance that we can raise additional capital on acceptable terms, or at all.

## Research and Development

Through September 30, 2009, our research and development expenses consisted of costs associated with the clinical development of adecatumumab, blinatumomab 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. The costs incurred include costs associated with clinical trials and manufacturing processes, quality systems and analytical development, including compensation and other personnel expenses, supplies and materials, costs for consultants 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 human antibodies and BiTE antibodies in cancer, anti-inflammatory and autoimmune diseases.

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.

Under our collaboration agreement with Merck Serono, we have received \$22.0 million in up front and milestone payments from Merck Serono to date, not including reimbursements for costs and expenses incurred in connection with the development of adecatumumab. The agreement provides for potential future clinical development milestone payments of up to an additional \$126.0 million. In a November 2006 amendment to the original agreement, we and Merck Serono agreed that Micromet would continue to conduct an ongoing phase 1 clinical trial testing the safety of adecatumumab in combination with docetaxel in patients with metastatic breast cancer. In October 2007, we and Merck Serono further amended the agreement and reallocated certain of our respective development responsibilities with respect to adecatumumab. As part of the revised responsibilities, Micromet now has all decision making authority and operational responsibility for the clinical trials conducted by us. Merck Serono will continue to bear the development expenses associated with the collaboration in accordance with the agreed-upon budget.

Through March 2009, we developed blinatumomab under the 2003 Agreement. Under the 2003 Agreement, MedImmune reimbursed a portion of the clinical development costs incurred by us in our clinical trials in Europe. In November 2009, we entered into the 2009 Agreement under which we acquired MedImmune's remaining option right to commercialize blinatumomab in North America. The 2009 Agreement terminates the 2003 Agreement, under which MedImmune had been granted the right to develop and commercialize blinatumomab and other BiTE antibodies binding to antigens relevant for hematological cancers in North America. As a result of the 2009 Agreement, we now control the rights to develop and commercialize blinatumomab in all territories, as well as any other BiTE antibodies binding to antigens relevant for hematological cancers that had been licensed to MedImmune under the 2003 Agreement. Under the terms of the 2009 Agreement, MedImmune will sell to us the remaining stock of blinatumomab clinical trial material and will transfer the manufacturing process for this product candidate to us or our contract manufacturer. In return, we will make an upfront payment of \$6.5 million in installments through December 2010. In addition, MedImmune is eligible to receive up to an aggregate of \$19 million from us based upon the achievement of specified strategic and regulatory milestone events relating to blinatumomab in North America and a low single-digit royalty based on net sales of blinatumomab in North America.

A second agreement with MedImmune under which we are collaborating with MedImmune on the development of MT111 provides for potential future milestone payments and royalty payments based on future sales of MT111. The potential milestone payments are subject to the successful completion of clinical development and obtaining marketing approval in one or more national markets.

In October 2009, we and sanofi-aventis entered into a collaboration and license agreement under which the two companies will collaborate on the development of a new BiTE® antibody targeting solid tumors. Under the terms of the agreement, we will be responsible for generating and developing the BiTE antibody through the completion of phase 1 clinical trials, at which point sanofi-aventis will assume full control of the development and commercialization of the product candidate on a worldwide basis. We will receive an upfront payment of €8 million and are eligible to receive payments upon the achievement of development milestones of up to €162 million and sales milestones of up to €150 million, and up to a low double-digit royalty on worldwide net sales of the product. In addition, sanofi-aventis will bear the cost of development activities and will reimburse us for our expenses incurred in connection with the development program. A portion of the upfront payment in the amount of €2.75 million will be credited towards the reimbursement of FTEs allocated by us to the performance of the development program.

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.

We are unable to estimate with any certainty the costs we will incur in the continued development of our product candidates. However, we expect our research and development costs associated with these product candidates to increase as we continue to develop new indications and advance these product candidates through preclinical and

clinical trials.

Clinical development timelines, the likelihood of success and total costs vary widely. We anticipate that we will make determinations as to which research and development projects to pursue and how much funding to direct to each project on an ongoing basis in response to the scientific and clinical success of each product candidate as well as relevant commercial factors.

The costs and timing for developing and obtaining regulatory approvals of our product candidates vary significantly for each product candidate and are difficult to estimate. The expenditure of substantial resources will be required for the lengthy process of clinical development and obtaining regulatory approvals as well as to comply with applicable regulations. Any failure by us to obtain, or any delay in obtaining, regulatory approvals could cause our research and development expenditures to increase and, in turn, could have a material adverse effect on our results of operations.

## Results of Operations

## Comparison of Three Months Ended September 30, 2009 and 2008

Revenues. The following table summarizes our primary sources of revenue for the periods presented (in millions):

|                                       | Three Months Ended       |                          |
|---------------------------------------|--------------------------|--------------------------|
|                                       | September<br>30,<br>2009 | September<br>30,<br>2008 |
| <b>Collaborative R&amp;D Revenue:</b> |                          |                          |
| Nycomed                               | \$ 0.7                   | \$ 4.4                   |
| Bayer Schering                        | 1.6                      | —                        |
| MedImmune                             | 0.3                      | 1.7                      |
| Merck Serono                          | 0.7                      | 0.7                      |
| TRACON                                | 0.1                      | —                        |
| Other                                 | —                        | 0.1                      |
| Total collaborative R&D revenue       | 3.4                      | 6.9                      |
| License and other revenue             | 0.6                      | 0.1                      |
| Total revenues                        | \$ 4.0                   | \$ 7.0                   |

**Collaborative R&D Revenue.** Collaborative R&D revenue consists of reimbursements for full-time equivalents and pass-through expenses we incur under each collaborative agreement.

**Nycomed.** Collaborative research and development revenues from Nycomed reflect Nycomed's full cost responsibility for the MT203 product development program. The Nycomed revenue represents the reimbursement of our preclinical development activities, including reimbursement for full-time equivalents as well as the portion of the up-front payment from Nycomed that is being recognized over a 20-year period ending in 2027. The decrease in revenue of \$3.7 million for the three months ended September 30, 2009 compared to the same period in 2008 was due primarily to lower level of activity performed by us as Nycomed assumed primary responsibility for the development of MT203.

**Bayer Schering.** Revenues from Bayer Schering represent a portion of the upfront option fee of approximately \$6.0 million received in January 2009 under an option, collaboration and license agreement. The option fee is being recognized over the option period of one year.

**MedImmune.** Collaborative research and development revenues from MedImmune represent reimbursements received from MedImmune for our costs incurred in the development of blinatumomab and MT111. The decrease in MedImmune revenue was primarily due to the termination of MedImmune's participation in the development of blinatumomab in North America. As described elsewhere in this report, the 2003 Agreement was terminated in November 2009, and therefore there will be no further collaborative research and development revenue for blinatumomab in future periods except for the final payment due from MedImmune for development activities performed by Micromet under the 2003 Agreement.

**Merck Serono.** Collaborative research and development revenues from Merck Serono reflect Merck Serono's full responsibility for the costs for the development of the adecatumumab program. We expect 2009 revenues to be generally consistent with those of 2008.

TRACON. Collaborative research and development revenues from TRACON reflect TRACON's full responsibility for the costs of the MT293 product development program. Revenue under this agreement consists of miscellaneous pass-through expenses and the portion of the upfront payment received from TRACON that is being recognized over a 15-year period ending in 2022.

License and Other Revenue. 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.



**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. Process development expenses were mainly incurred for production of GMP-grade clinical trial material, as well as fermentation, purification and formulation development. Preclinical development expenses cover pharmacological in vitro and in vivo experiments as well as development of analytical testing procedures. Except for payments made in advance of services rendered, we expense research and development costs as incurred. Payments made in advance of services are recognized as research and development expense as the related services are incurred.

Research and development expenses were \$13.3 million and \$9.9 million for the three months ended September 30, 2009 and 2008, respectively. We recorded a non-cash impairment charge of \$2.6 million related to the patents we acquired in 2001. We also recorded within research and development expenses a non-cash share-based compensation charge of \$0.9 million and a severance accrual of \$0.3 million in 2009 related to a former executive. Program spending on our blinatumomab program increased by \$0.7 as we assumed full responsibility for the clinical development of this product candidate, and there were expense increases in our new BiTE antibody programs of \$0.5 million as these programs advance in preclinical development. Partially offsetting these increases were decreases in the MT203 program of \$2.9 million as a result of Nycomed assuming primary responsibility for the development of MT203.

We track our external research and development expenses by major project candidate development program, such as for blinatumomab, MT203, adecatumumab and MT110, or allocate such expenses to our BiTE antibody platform. We do not allocate salary and overhead costs or stock-based compensation expense to specific projects or product candidates. Our incurred research and development expenses for the three months ended September 30, 2009 and 2008 are summarized in the table below (in thousands):

|                                  | Three Months Ended<br>September 30, |          |
|----------------------------------|-------------------------------------|----------|
|                                  | 2009                                | 2008     |
| Blinatumomab                     | \$ 1,281                            | \$ 557   |
| MT203                            | 29                                  | 3,205    |
| Adecatumumab                     | 928                                 | 234      |
| MT110                            | 544                                 | 279      |
| BiTE antibody platform and other | 1,017                               | 279      |
| Unallocated salary and overhead  | 8,146                               | 5,045    |
| Share-based compensation         | 1,379                               | 344      |
| Total                            | \$ 13,324                           | \$ 9,943 |

**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 facility costs not otherwise included in research and development expense, insurance, and professional fees for legal and audit services. General and administrative expenses were \$3.8 million and \$3.4 million for the three months ended September 30, 2009 and 2008, respectively. The increase is primarily related to an increase in recruiting expenses of \$0.1 million and higher legal fees of \$0.2 million.

**Interest Expense.** Interest expense for the three months ended September 30, 2009 and 2008 was \$52,000 and \$45,000, respectively. The increase was due to the amortization of premiums on our investments.

**Interest Income.** Interest income for the three months ended September 30, 2009 and 2008 was \$66,000 and \$183,000, respectively. The decrease was due to lower interest rates during 2009 as compared to 2008.

**Change in Fair Value of Common Stock Warrants Liability.** Under the terms of the warrants issued in connection with a private placement that we closed in June 2007, if at any time while any of the warrants is outstanding, 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, then we (or any successor entity) are obligated to purchase any unexercised warrants from the holder for cash in an amount equal to its value computed using the Black-Scholes option-pricing model with prescribed guidelines. As a consequence of these provisions, the warrants are classified as a liability on our balance sheet, and changes in our stock price cause the fair value of the warrants to change each reporting period, with these changes being reflected in the statement of operations. Increases in our stock price cause the warrant liability to increase, and this increase is recorded as a component of other (expense), while decreases in our stock price cause the liability to decrease, which is recorded as a component of other income. The expense of \$6.4 million recorded during the third quarter of 2009 represents an increase in the fair value of the warrant as of September 30, 2009 as compared to its value on June 30, 2009. The expense of \$6.8 million recorded during the third quarter of 2008 represents an increase in the fair value of the warrant as of September 30, 2008 as compared to its value on June 30, 2008.

#### Comparison of Nine Months Ended September 30, 2009 and 2008

**Revenues.** The following table summarizes our primary sources of revenue for the periods presented (in millions):

|                                 | Nine Months Ended        |                          |
|---------------------------------|--------------------------|--------------------------|
|                                 | September<br>30,<br>2009 | September<br>30,<br>2008 |
| Collaborative R&D revenue:      |                          |                          |
| Nycomed                         | \$ 6.4                   | \$ 12.4                  |
| Bayer Schering                  | 4.6                      | —                        |
| MedImmune                       | 2.0                      | 5.5                      |
| Merck Serono                    | 2.1                      | 2.3                      |
| TRACON                          | 0.2                      | 0.2                      |
| Other                           | —                        | 0.2                      |
| Total collaborative R&D revenue | 15.3                     | 20.6                     |
| License and other revenue       | 1.1                      | 0.8                      |
| Total revenues                  | \$ 16.4                  | \$ 21.4                  |

The decrease in revenue from Nycomed for the nine months ended September 30, 2009 compared to the same period in 2008 was due primarily to a decrease in ongoing development revenue of \$7.2 million under this collaboration as the program progresses from the pre-clinical stage to clinical trials, and the responsibility for the development work shifts to Nycomed. Partially offsetting this decrease was the receipt of a milestone payment of approximately \$2.0 million recognized as revenue during 2009 as a result of Nycomed's filing of a clinical trial application for MT203 in Europe, as compared to milestone revenue of \$0.8 million received in the same period in 2008.

**Bayer Schering.** Revenues from Bayer Schering represent a portion of the upfront option fee of approximately \$6.0 million received in January 2009 under an option, collaboration and license agreement. The option fee is being recognized over the option period of one year.

**MedImmune.** The decrease in MedImmune revenue was primarily due to the discontinuation of a research program for EphA2 in the fourth quarter of 2008 and the diminished activity and subsequent termination of MedImmune's participation in the blinatumomab development program.

**Merck Serono.** Collaborative research and development revenues from Merck Serono reflect Merck Serono's full responsibility for the costs for the development of the adecatumumab program.

**TRACON.** Collaborative research and development revenues from TRACON reflect TRACON's full responsibility for the costs of the MT293 product development program. Revenue under this agreement consists of miscellaneous pass-through expenses and the portion of the upfront payment received from TRACON that is being recognized over a 15-year period ending in 2022.

**License and Other Revenue.** 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.

**Research and Development Expenses.** Research and development expenses were \$31.0 million and \$30.7 million for the nine months ended September 30, 2009 and 2008, respectively. The 2009 non-cash patent impairment charge of \$2.6 million, increased share-based compensation charge of \$1.4 million and increase to the severance accrual of \$0.3 million, as well as increases in expenses under our MT103 program of \$1.2 million and our MT201 program of \$0.8 million were largely offset by a decrease in MT203 program of \$4.5 million and a favorable exchange rate variance of \$1.4 million in 2009 as compared to 2008.

Our incurred research and development expenses for the nine months ended September 30, 2009 and 2008 are summarized in the table below (in thousands):

|                                  | Nine Months Ended<br>September 30, |           |
|----------------------------------|------------------------------------|-----------|
|                                  | 2009                               | 2008      |
| Blinatumomab                     | \$ 3,164                           | \$ 2,179  |
| MT203                            | 1,559                              | 7,420     |
| Adecatumumab                     | 1,672                              | 881       |
| MT110                            | 1,219                              | 1,300     |
| BiTE antibody platform and other | 2,152                              | 1,913     |
| Unallocated salary and overhead  | 18,807                             | 15,926    |
| Share-based compensation         | 2,390                              | 1,036     |
| Total                            | \$ 30,963                          | \$ 30,655 |

**General and Administrative Expenses.** General and administrative expenses were \$11.1 million and \$10.3 million for the nine months ended September 30, 2009 and 2008, respectively. The increase is primarily related to an increase in share-based compensation expense of \$0.5 million related to the vesting of performance-based stock option grants during 2009, increases in salary expenses of \$0.2 million and increases in investor relations expenses of \$0.1 million.

**Interest Expense.** Interest expense for the nine months ended September 30, 2009 and 2008 was \$222,000 and \$189,000, respectively. The increase was due to the amortization of premiums on our investments, partially offset by reduced interest expense resulting from the repayment of indebtedness in July 2008.

**Interest Income.** Interest income for the nine months ended September 30, 2009 and 2008 was \$346,000 and \$649,000, respectively. The decrease was due to lower interest rates during 2009 as compared to 2008.

**Change in Fair Value of Common Stock Warrants Liability.** The non-cash expense resulting from the change in the fair value of the warrants was \$8.2 million and \$8.5 million for the nine months ended September 30, 2009 and 2008, respectively. In each case, increases in our stock price during the period caused the warrant liability to increase.

#### Liquidity and Capital Resources

We had unrestricted cash and cash equivalents and available for sale investments of \$114.4 million and \$46.2 million as of September 30, 2009 and December 31, 2008, respectively. We are also parties to irrevocable standby letters of credit in connection with prior building leases for properties that are currently subleased, as well as our current building leases in Munich, Germany and Bethesda, Maryland. As of September 30, 2009, we had \$3.2 million of cash and certificates of deposit relating to these letters of credit that are considered restricted cash, all of which is recorded as a non-current asset.

**Summary of Cash Flows.** Net cash used in operating activities was \$13.1 million for the nine months ended September 30, 2009, compared to \$8.7 million used in operating activities for the nine months ended September 30, 2008. The majority of our cash is used to fund our ongoing research and development efforts, which resulted in a net loss of \$34.2 million for the nine months ended September 30, 2009. Net loss was adjusted by \$18.0 million for non-cash expenses, including \$4.3 million for stock-based compensation, \$8.2 million for the change in the common stock warrant liability, \$2.6 million for impairment of patents and \$2.5 million for depreciation and amortization. Changes in working capital during the nine months ended September 30, 2009 included higher cash balances of \$1.6 million from net decreases in accounts receivable, higher cash balances due to increases in accounts payable and accrued expenses of \$0.6 million, and higher cash balances of \$0.7 million resulting from an increase in deferred revenue, which gives effect to the \$6.0 million option fee received from Bayer Schering in January 2009 that is being recognized as revenue through January 2010.

Net cash used in investing activities was \$12.7 million for the nine months ended September 30, 2009, compared to \$372,000 used in investing activities for the nine months ended September 30, 2008. In 2009, we purchased short-term investments denominated in Euros to maintain liquid assets in the currency in which the majority of our expenses are denominated. Some of these investments matured and were reinvested.

Net cash provided by financing activities was \$78.9 million for the nine months ended September 30, 2009, compared to \$1.6 million used in financing activities for the nine months ended September 30, 2008. Proceeds of \$74.9 million, net of underwriters' discounts and offering expenses payable by us, were received from the sale of common stock in a public offering that closed in August 2009 and proceeds of \$5.1 million, net of financing costs, were received from the sale of common stock under our CEFF with Kingsbridge in May and June 2009. We also received \$1.1 million from the exercise of stock options during the nine months ended September 30, 2009, and we repaid the remaining \$2.2 million on our debt obligations to MedImmune following the public offering. During the same period in 2008 we received \$1.0 million from warrant and option exercises and repaid \$2.5 million on debt obligations.

**Sources and Uses of Cash.** To date, we have funded our operations through proceeds from public offerings and private placements of preferred stock, common stock and associated warrants, government grants for research, research-contribution revenues from our collaborations with pharmaceutical companies, licensing and milestone payments related to our product candidate partnering activities, debt financing and equity draws under the CEFF with Kingsbridge. We expect that operating losses and negative cash flows from operations will continue for at least the next several years and we will need to generate additional funds to achieve our strategic goals. If necessary, we may raise substantial funds through the sale of our common stock, or through debt financing 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 for at least 24 months, 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 draw downs from our CEFF with Kingsbridge.

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, substantial dilution to our existing stockholders would likely result. 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 specific financial ratios that may restrict our ability to operate our business. Having insufficient funds may require us to delay, scale back or eliminate some or all of our research or development programs or to relinquish greater or all rights to 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 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 involves 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 increased 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 and 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 a committed equity financing facility, or CEFF, with Kingsbridge Capital Limited, or Kingsbridge, pursuant to which Kingsbridge committed to purchase, subject to certain conditions, up to \$75.0 million of our common stock through December 2011, subject to early termination in certain 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 10,104,109 shares (exclusive of the shares underlying the warrant issued to Kingsbridge). Subject to certain 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 such day would not be used in determining the number of shares that would be issued in the draw down and the aggregate amount of such 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 certain 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 pursuant to 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, 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) 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 the second quarter of 2009 we made the first draw downs under the CEFF. In May and June 2009, we issued a total of 1,420,568 shares of common stock to Kingsbridge for aggregate gross proceeds of \$5.3 million. We did not make any draw downs under the CEFF during the third quarter of 2009. 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 Offering of Common Stock.** On August 4, 2009, we completed an underwritten public offering of 16,100,000 shares of common stock at a public offering price of \$5.00 per share for net proceeds of \$74.9 million after deducting the underwriters' discount and offering expenses payable by us.

#### Contractual Obligations

We have contractual obligations related to our facility leases, research agreements and financing agreements. The following table sets forth our significant contractual obligations as of September 30, 2009 (in thousands):



| Contractual Obligations                                   | Total     | Payment Due by Period |           |           |                         |
|-----------------------------------------------------------|-----------|-----------------------|-----------|-----------|-------------------------|
|                                                           |           | Less Than<br>1 Year   | 1-3 Years | 3-5 Years | More<br>Than<br>5 Years |
| Operating leases(1)                                       | \$ 14,409 | \$ 5,219              | \$ 9,190  | \$ —      | \$ —                    |
| Contractual payments<br>under licensing agreements<br>(2) | 385       | 77                    | 156       | 103       | 49                      |
| Capital leases                                            | 1,073     | 325                   | 604       | 131       | 13                      |
|                                                           | \$ 15,867 | \$ 5,621              | \$ 9,950  | \$ 234    | \$ 62                   |

(1) The amounts shown in operating leases excludes expected sub-lease income.

(2) We are a party to technology transfer, licensing and research and development agreements with various universities, research organizations and other third parties under which we have received licenses to certain intellectual property, scientific know-how and technology. In consideration for the licenses received, we are required to pay license and research support fees, milestone payments upon the achievement of certain success-based objectives and/or royalties on future sales of commercialized products, if any. We may also be required to pay minimum annual royalties and the costs associated with the prosecution and maintenance of the patents covering the licensed technology.

#### Recent Accounting Standards and Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) approved for issuance Emerging Issues Task Force (EITF) issue 08-01, Revenue Arrangements with Multiple Deliverables (currently within the scope of FASB Accounting Standards Codification (ASC) Topic 605-25). This statement provides principles for allocation of consideration among multiple elements, allowing more flexibility in identifying and accounting for separate deliverables under an arrangement. ASC Topic 605-25 introduces an estimated selling price method for valuing the elements of a bundled arrangement if vendor-specific objective evidence or third-party evidence of selling price is not available, and significantly expands related disclosure requirements. This standard is effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Alternatively, adoption may be on a retrospective basis, and early application is permitted. We are currently evaluating the impact of adopting this pronouncement.

In July 2009, the FASB issued ASC Topic 105 (formerly Statement of Financial Standards (SFAS) No. 168, The Hierarchy of Generally Accepted Accounting Principles). ASC Topic 105 contains guidance which reduces the U.S. GAAP hierarchy to two levels, one that is authoritative and one that is not. This pronouncement is effective September 15, 2009. The adoption of this pronouncement did not have an effect on our consolidated financial statements.

We adopted the provisions of ASC Topic 820-10, Fair Value Measurements and Disclosures (formerly SFAS No. 157, Fair Value Measurements), with respect to non-financial assets and liabilities effective January 1, 2009. This pronouncement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The adoption of ASC Topic 820-10 did not have an impact on our consolidated financial statements.

#### Cautionary Note Regarding Forward-Looking Statements

Any statements 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 available cash resources, 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 ability to draw down under the CEFF and the availability of financing, 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,” “intend,” “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 loss of key scientific, management or commercial personnel; the size and growth potential of the potential 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.

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

#### Interest Rates

Our financial instruments consist primarily of cash and cash equivalents. These financial instruments, 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

Our financial results and capital resources are affected by changes in the U.S. dollar/Euro exchange rate. As of September 30, 2009, we had U.S. dollar-denominated cash and cash equivalents of approximately \$88.0 million and Euro-denominated cash and investments of approximately €18.1 million, or approximately \$26.3 million using the exchange rate as of that date. As of September 30, 2009, we had Euro-denominated liabilities of approximately €13.3 million, or approximately \$19.5 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:

| Change in Euro/\$ U.S. Exchange Rate                                                                | 10%      | 15%      | 20%      |
|-----------------------------------------------------------------------------------------------------|----------|----------|----------|
| Increase in reported net operating loss for the nine months ended September 30, 2009 (in thousands) | \$ 1,755 | \$ 2,633 | \$ 3,511 |

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports 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 (our principal executive officer) and our Chief Financial Officer (our principal financial officer), as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and we apply judgment in evaluating the cost-benefit relationship of possible controls and procedures. In addition, the design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a control system, misstatements due to error or fraud may occur and not be detected.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act, as of September 30, 2009, the end of the period covered by this report. Based on the evaluation of our disclosure controls and procedures as of September 30, 2009, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

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

Our principal executive officer and principal financial officer also evaluated whether any change in our internal control over financial reporting, as such term is defined under Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act, occurred during our most recent fiscal quarter covered by this report that has materially affected, or is likely to materially affect, our internal control over financial reporting. There were no changes in our internal control over financial reporting during the quarter ended September 30, 2009 that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

#### Item 1. Legal Proceedings

On August 24, 2009, Curis, Inc. filed an arbitration demand and statement of claims with the American Arbitration Association, relating to a June 2001 Agreement for the Purchase and Sale of Single Chain Peptide Business between Curis and our wholly owned subsidiary Micromet AG under which we acquired from Curis certain intellectual property assets relating to single chain antibodies, including patents and license agreements. In its demand for arbitration, Curis seeks monetary damages in excess of \$15 million for amounts that it alleges to be payable under the 2001 agreement. We believe that Curis's claims are without merit and that no amounts are owed to Curis at this

time. We intend to vigorously defend ourselves in the arbitration proceedings.

#### 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. 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 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 from our inception through September 30, 2009, and we expect to incur substantial losses for the foreseeable future. We have no current sources of material ongoing revenue, other than the reimbursement of development expenses and potential future milestone payments from our current collaborators or licensees, including sanofi-aventis, Nycomed, Merck Serono, MedImmune and TRACON. We have not commercialized any products to date, either alone or with a third party collaborator. If we are not able to commercialize any products, whether alone or with a collaborator, we may not 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 factors, many of which are outside our control, that may affect our future capital requirements and accelerate our need for additional financing. Among the factors that may affect our future capital requirements and accelerate our need for additional financing are:

- 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, research or development 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 sales revenues and associated royalties to us, if any, from our product candidates in the market;
- our ability to sell shares of our common stock under our December 2008 committed equity financing facility, or CEFF, with Kingsbridge Capital Limited, or Kingsbridge;
- the costs of preparing, filing, prosecuting, maintaining, defending and enforcing patent claims and other patent-related costs, including litigation costs and technology license fees;
- costs associated with litigation; and
- competing technological and market developments.

We expect to seek funding through public or private financings or from existing or new collaborators with whom we enter into research or development 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 greater or all 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 may experience substantial dilution, 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 financings, these financings 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. Kingsbridge is also able to terminate the CEFF at any time that we have not drawn down at least \$1.25 million in funds over a consecutive 12-month period. If we are unable to access funds through the CEFF, or if Kingsbridge terminates the CEFF or it otherwise expires, we may be unable to access capital from other sources on favorable terms, or at all.

We are entitled, in certain circumstances, to deliver a blackout notice to Kingsbridge to suspend the use of the resale registration statement and prohibit Kingsbridge from selling shares under the resale registration statement for a certain period of time. If we deliver a blackout notice during the fifteen 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 resale registration statement or related prospectus 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 or prospectus 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 resale registration statement or related prospectus 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 will 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 will 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 will 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.

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, if any, and results of operations for any given period, will be 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 moving forward 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, repayments of outstanding amounts under loan 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;

• the change in fair value of the common stock warrants issued to investors in connection with our 2007 private placement financing, remeasured at each balance sheet date using a Black-Scholes option-pricing model, with the change in value 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, accounting for stock options and in-process research and development costs are subject periodically to further review, interpretation and guidance from relevant accounting authorities, including the SEC. Changes to, or interpretations of, accounting methods or policies in the future 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 may 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 compensation plans and our employee stock purchase plan. In addition, any shares issued under our CEFF with Kingsbridge will be eligible for resale in the public market. These shares generally can be freely sold in the public market upon issuance. If our stockholders sell substantial amounts of our common stock, the market price of our common stock may decline, which might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. We are unable to predict the effect that sales of our common stock may have on the prevailing market price of our common stock.

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. Among the factors that could cause material fluctuations in the market price for our common stock are:

- 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 category as our product candidates;

- events affecting our collaborators;

- fluctuations in stock market prices and trading volumes of similar companies;

announcements of new products or technologies, clinical trial results, commercial relationships or other events by us, our collaborators or our competitors;

our ability to successfully complete strategic collaboration arrangements with respect to our product candidates, BiTE antibodies or our BiTE antibody platform;

- 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 blocks 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 adversely affect the market price of our common stock and the voting and other rights of the holders 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 and our insurance coverage may not be sufficient to cover all costs and damages.

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 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 form and maintain productive strategic collaborations and license arrangements. We currently have strategic collaborations or license arrangements with sanofi-aventis, Nycomed, Merck Serono, MedImmune and TRACON. In addition, we have an option, collaboration and license agreement with Bayer Schering Pharma, under which Bayer Schering may elect to commence a development collaboration for a BiTE antibody targeting a solid tumor until January 2010. 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:

- 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.

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Our collaborators may develop and commercialize, either alone or with others, products and services that are similar to or competitive with the product candidates and services 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 the 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 incur delays in the development for 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 our efforts to establish a collaboration, the terms of the agreement may not 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.

Our clinical stage product candidates adecatumumab, blinatumomab and MT110 have not yet been proven to be safe or to be effective at the currently tested dose levels. If we discontinue the development of any of our clinical stage product candidates due to adverse events or lack of efficacy, our business could suffer and the value of our company may be adversely affected.

We previously have reported that two phase 2 clinical trials of adecatumumab did not reach their respective primary endpoint in patients with metastatic breast cancer (clinical benefit rate at week 24) and in patients with prostate cancer (mean change in prostate specific antigen, compared to placebo control). We have also reported that the treatment with blinatumomab was discontinued permanently in some patients due to adverse events that included infections, central nervous system events, and liver enzyme increases. MT110 is in a phase 1 dose-escalation clinical trial, and we may reach the maximum tolerated dose without reaching a dose level at which MT110 shows a clinically meaningful anti-tumor effect. We are continuing the development of these product candidates in phase 1 and/or phase 2 clinical trials, but there can be no assurance that we will not encounter unacceptable adverse events or that any preliminary suggestion of anti-tumor activity of these product candidates will be confirmed during the ongoing or any future clinical trials.

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

In November 2009, we and MedImmune entered into a termination and license agreement pursuant to which we terminated our collaboration and license agreement with MedImmune relating to blinatumomab in North America. As a result of this agreement, we now control the rights to develop and commercialize blinatumomab in the United States. However, we will need to hire personnel in order to prepare and execute the clinical development plan and obtain the necessary regulatory approvals from the FDA or other regulatory authorities for the development and marketing of blinatumomab. If we are not able to hire the 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 be received at all. There can be no assurances that we will be able to successfully develop blinatumomab following the termination of our collaboration and license agreement with MedImmune, that such development will not be delayed as a result of financial constraints, or 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 North America 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.



## 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. For example, research in the fields of antibody-based therapeutics for the treatment of cancer, and autoimmune and inflammatory diseases, is highly competitive. A number of entities are seeking to identify and patent antibodies, potentially active proteins and other potentially active compounds without specific knowledge of their therapeutic functions. Our competitors may discover, characterize and develop important inducing molecules or genes 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, which 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 suitable potential product candidates, develop additional delivery technologies through internal research programs or in-license suitable product candidates or delivery technologies on acceptable business terms, our business prospects will suffer.

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.

All 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. The 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, EMEA 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 study participants may result in increased costs, delays in the development of the product candidate, or both.

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 EMEA, 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, the participating subjects are being exposed to unacceptable health risks, or if additional information may be required for the regulatory authority to assess the 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 study participants.

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, EMEA 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 preclinical studies and clinical trials of our product candidates.

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 after marketing approvals have been 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, EMEA or other regulatory authorities prior to marketing and selling such 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, EMEA and other regulatory authorities, and of obtaining the required regulatory approvals from these regulatory authorities, is lengthy and expensive, and may require two years or more. This process is further complicated because some of our product candidates use non-traditional or novel materials in non-traditional or novel ways, and the regulatory officials have little precedent to follow.

Any marketing approval by the FDA, EMEA or other regulatory authorities may be subject to limitations on the indicated uses for which we or our collaborators may 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 begin or complete clinical trials and 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.

We and our collaborators are subject to governmental regulations in addition to those imposed by the FDA and EMEA, and we or our collaborators 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, EMEA and other health regulatory authorities, we and our collaborators are subject to regulation under the Occupational Safety and Health Act, the Environmental Protection Act, the Toxic Substances Control Act, 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 their counterparts 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' business, 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, EMEA or other regulatory authorities. Our success depends on the 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 and operating results. 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.

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

If our third-party manufacturers 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 and must rely on third parties to provide manufacturing services for us. Product candidates used in clinical trials or sold after marketing approval has been obtained must be manufactured in accordance with current good manufacturing practices regulations. There are a limited number of manufacturers that operate under these regulations, including the FDA's and EMEA'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, the EMEA, and other regulatory agencies or authorities, to ensure strict compliance with current good manufacturing practices and other governmental regulations and standards. A failure of third-party manufacturers to follow current good manufacturing practices 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, it may require additional clinical trials and the revalidation of the manufacturing process and procedures in accordance with applicable current good manufacturing practices and may require FDA or EMEA approval. This revalidation may be costly and time-consuming. 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.

Even if regulatory authorities approve our product candidates, we may fail to comply with ongoing regulatory requirements or experience unanticipated problems with our product candidates, and these product candidates could be subject to restrictions or withdrawal from the market following approval.

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 continual review and periodic inspections by the FDA, EMEA 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 with any approved products, including unanticipated adverse events or adverse events of unanticipated severity or frequency, difficulties with a manufacturer or manufacturing processes, 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.

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 may differ from that required to obtain FDA and EMEA approval. The various regulatory approval processes may include all of the risks associated with obtaining FDA and EMEA approval. We may not 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 and the EMEA in the European Union, generally 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 for any approved products by third-party payers, 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 health care 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. Given recent federal and state government initiatives directed at lowering the total cost of healthcare in the United States, the U.S. Congress and state legislatures will likely continue to focus on healthcare reform, the cost of prescription

pharmaceuticals and on the reform of the Medicare and Medicaid systems. 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 six to 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 were 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.

Another development that may affect the pricing of drugs in the United States is regulatory action regarding drug reimportation into the United States. The Medicare Prescription Drug, Improvement and Modernization Act requires the Secretary of the U.S. Department of Health and Human Services to promulgate regulations allowing drug reimportation from Canada into the United States under certain circumstances. These provisions will become effective only if the Secretary certifies that such imports will pose no additional risk to the public's health and safety and result in significant cost savings to consumers. Proponents of drug reimportation may also attempt to pass legislation that would remove the requirement for the Secretary's certification or allow reimportation under circumstances beyond those anticipated under current law. If legislation is enacted, or regulations issued, allowing the reimportation of drugs, it could decrease the reimbursement we would receive for any product candidates that we may commercialize, or require us to lower the price of our product candidates then on the market that face competition from lower-priced supplies of that product from other countries. These factors would negatively affect our projected and actual revenues and our prospects for profitability.

We are unable to predict what additional legislation or regulation, if any, relating to the healthcare industry 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 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 physicians and patients do not accept the product candidates that we may develop, our ability to generate product revenue in the future will be adversely affected.

Our product candidates, if successfully developed and approved by the 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 market entry relative to competitive treatments;
- cost effectiveness;
- effectiveness of our marketing and pricing strategy for any product candidates that we may develop;
- 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 related devices. 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 will 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, our liability could exceed our total assets.

Our operations involve hazardous materials and we must 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 store certain low-level radioactive waste at our facility until the materials are no longer considered radioactive. We cannot 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 which 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.

Our value will be significantly enhanced if we are able to obtain adequate patents and other intellectual property rights to 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 U.S., Europe and other jurisdictions. 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 be issued 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 which is of minor value for a particular product candidate. Patents, if issued, may be challenged and sought to be invalidated by third parties in litigation. In addition, U.S. patents and patent applications may also be subject to interference proceedings, and U.S. patents may be subject to reexamination proceedings in the U.S. Patent and Trademark Office. European patents may be subject to opposition proceedings in the European Patent Office. Patents might be invalidated in national jurisdictions. Similar proceedings may be available in countries outside of Europe or the U.S. These 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 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. If issued, they may not provide us with 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. Products or technology could also be copied by competitors after expiration of the patent life. Furthermore, claims of employees or former employees of Micromet related to their inventorship or compensation pursuant to the German Act on Employees' Inventions may lead to legal disputes.

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

We may incur substantial costs enforcing our patents against third parties. If we are unable to protect our intellectual property rights, our competitors may develop and 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 on 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. 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 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 that are used in their products or the methods they use 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, results of operations and financial condition.

If we are not able to protect and control our unpatented trade secrets, know-how and other technological innovation, 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. 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, that these agreements 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 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 our development and commercialization of our product candidates after 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. Competitors or 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 in the United States by 35 U.S.C. § 271(e) 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 several areas in which we are developing product candidates. Some of these patent applications have already resulted in patents and some are still pending. The pending patent applications may also result in patents being issued. In addition, the publication of patent applications occurs with a certain delay after the date of filing, so 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. For example, we are aware that GlaxoSmithKline holds a European patent covering the administration of adecatumumab in combination with docetaxel, which is the combination that we are currently testing in a phase 1b clinical trial. We have filed an opposition proceeding against this patent with the European Patent Office seeking to have the patent invalidated. We may not be successful in this proceeding, and if it is not resolved in our favor, we could be required to obtain a license under this patent from GlaxoSmithKline, which we may not be able to obtain on commercially reasonable terms, if at all.

We and our collaborators may not have rights under some patents that may 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 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 or at all. Third parties who own or control these patents could bring claims based on patent infringement against us or our collaborators and seek monetary damages and to enjoin further clinical testing, manufacturing and marketing of the affected product candidates or products. There has been, and we believe that there will continue to be, significant litigation in the pharmaceutical industry regarding patent and other intellectual property rights. If a third party sues us for patent infringement, it could consume significant financial and management resources, regardless of the merit of the claims or the outcome of the litigation.

If a third party brings a patent infringement suit against us and we do not settle the patent infringement suit and are not successful in defending against the patent infringement claims, we could be required to pay substantial damages or we or our collaborators could be forced 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 nonexclusive, which would give our competitors access to the same intellectual property. Ultimately, we could be prevented from commercializing a product candidate, or forced to cease some aspect of our business operations as a result of patent infringement claims, which could 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 otherwise breach obligations thereunder, our licensors may terminate these agreements, we could lose licenses to intellectual property rights that are important to our business and we 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, which could have a material adverse impact on our results of operations.

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 these requirements, we generally retain the right to terminate the agreement and to bring a legal action in court or in arbitration. In the event of breach, we may need to 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.

An arbitration proceeding commenced by Curis, Inc. against us could result in a payment that could materially and adversely impact our cash reserves and could shorten the time period in which our current capital resources will be sufficient to fund our operations.

On August 24, 2009, Curis, Inc. filed an arbitration request and a statement of claims with the American Arbitration Association claiming that we have underpaid royalties in excess of \$15 million allegedly due to Curis pursuant to a 2001 patent acquisition agreement. The claim is based on Curis's interpretation of certain terms of the patent acquisition agreement based on which we are required to pay to Curis a royalty on license revenues received from or on account of licenses granted by us under the patents acquired from Curis. Although we believe that Curis's claim is without merit and we intend to defend ourselves vigorously against the claims, arbitration can be expensive, lengthy

and disruptive to normal business operations, and we may nevertheless experience an adverse outcome in this matter. In addition, due to the uncertainty surrounding the outcome of the arbitration, the parties may choose to settle the dispute under mutually agreeable terms. Any agreement reached with Curis to resolve the dispute or an award in favor of Curis could result in payments that may materially reduce the capital resources available to us to fund our operations through the periods stated in this report and the length of time that our existing cash resources would be sufficient to fund our operations.

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, 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 these 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 of Products

We depend on our collaborators and third-party manufacturers to produce most, if not all, of 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. The manufacture of our product candidates may be complex, difficult to accomplish and difficult to scale-up when large-scale production is required. Manufacture may be subject to delays, inefficiencies and poor or low yields of quality products. The cost of manufacturing our product candidates may make them prohibitively expensive. If supplies of any of our product candidates or related materials become unavailable on a timely basis or at all or are contaminated or otherwise lost, clinical trials by us and our collaborators could be seriously delayed. This is due to the fact that such materials are time-consuming to manufacture and cannot be readily obtained from third-party sources.

Product candidates used in clinical trials or sold after marketing approval has been obtained must be manufactured in accordance with current good manufacturing practices regulations. There are a limited number of manufacturers that operate under these regulations, including the FDA's and EMEA'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, the EMEA, and other regulatory agencies or authorities, to ensure strict compliance with current good manufacturing practices and other governmental regulations and standards. A failure of third-party manufacturers to follow current good manufacturing practices or other regulatory requirements and 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.

To the extent that we or our collaborators seek to enter into manufacturing arrangements with third parties, we and such collaborators will depend upon these third parties to perform their obligations in a timely and effective manner and in accordance with government regulations. 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. If third-party manufacturers fail to perform their obligations, our competitive position and ability to generate revenue may be adversely affected in a number of ways, including:

- we and our collaborators may not be able to initiate or continue clinical trials of product candidates that are under development;
- we and our collaborators may be delayed in submitting applications for regulatory approvals for our product candidates; and

- We and our collaborators may not be able to meet commercial demands for any approved products.

If we were required to change manufacturers, it may require additional clinical trials and the revalidation of the manufacturing process and procedures in accordance with applicable current good manufacturing practices and may require FDA or EMEA approval. This revalidation may be costly and time-consuming. 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 to us or our contract manufacturer may not be successful, which may result in a shortage of clinical trial materials and a delay in the development of blinatumomab.

As a result of the termination of the collaboration and license agreement with MedImmune relating to blinatumomab, we have assumed the responsibility for the manufacture of blinatumomab for clinical trials. There can be no assurance that we will find a new contract manufacturer in a timely fashion, or that we will be able to implement the manufacturing process transferred from MedImmune in a manner that results in clinical trial materials with specifications comparable to the clinical trial materials produced by MedImmune. Any of these or similar or other events could result in a delay of the development and potential regulatory approval of blinatumomab, which would have an adverse effect on the commercial potential of this product candidate.

We have no sales, marketing or distribution experience and will depend significantly on third parties who may not 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 agreements with 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. These third parties could sell competing products and may devote insufficient sales efforts to our product candidates following 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. If we determine to perform sales, marketing and distribution functions ourselves, then we could face a number of additional risks, including:

- 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. Submission of Matters to a Vote of Security Holders

None.

#### Item 5. Other Information

None.

Item 6. Exhibits

| Exhibit<br>Number | Description                                                                                                                                                                            |
|-------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1(1)            | Amended and Restated Certificate of Incorporation of the Registrant                                                                                                                    |
| 3.2(2)            | Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Registrant                                                                                    |
| 3.3(3)            | Certificate of Designations for Series A Junior Participating Preferred Stock of the Registrant                                                                                        |
| 3.4(4)            | Amended and Restated Bylaws effective October 3, 2007                                                                                                                                  |
| 10.1              | Separation Agreement, by and between the Registrant and Carsten Reinhardt, dated July 6, 2009                                                                                          |
| 10.2              | Consulting Agreement, by and between the Registrant and Carsten Reinhardt, effective as of October 1, 2009                                                                             |
| 31.1              | Certification of Principal Executive Officer pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934                                                 |
| 31.2              | Certification of Principal Financial Officer pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934                                                 |
| 32(*)             | Certifications of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

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- (1) Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q filed with the SEC on December 11, 2003
- (2) Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q filed with the SEC on May 10, 2006
- (3) Incorporated by reference from the Registrant's Current Report on Form 8-K filed with the SEC on November 8, 2004
- (4) Incorporated by reference from the Registrant's Current Report on Form 8-K filed with the SEC on October 9, 2007

\* These certifications are being furnished solely to accompany this annual 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 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: November 5, 2009

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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