

MICROMET, INC.  
Form 10-Q  
November 06, 2008

**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, 2008**

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

Large accelerated filer  Accelerated filer

Non-accelerated filer

Smaller reporting  
company

(Do not check if a smaller reporting company)

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o  
Yes  No

The number of outstanding shares of the registrant's common stock, par value \$0.00004 per share, as of November 3, 2008 was 50,686,112.

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**MICROMET, INC.**  
**FORM 10-Q — QUARTERLY REPORT**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2008**  
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**PART I — FINANCIAL INFORMATION****Item 1. Financial Statements**

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

	September 30, 2008 (unaudited)	December 31, 2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 15,936	\$ 27,066
Accounts receivable	1,939	4,689
Prepaid expenses and other current assets	1,670	2,579
Total current assets	19,545	34,334
Property and equipment, net	3,704	4,390
Goodwill	6,462	6,462
Patents, net	5,918	7,680
Other long-term assets	264	196
Restricted cash	3,169	3,190
Total assets	\$ 39,062	\$ 56,252
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,085	\$ 2,334
Accrued expenses	5,748	4,765
Common stock warrants liability	12,733	5,219
Other liabilities	433	520
Current portion of long-term debt obligations	-	2,401
Current portion of deferred revenue	5,026	3,360
Total current liabilities	25,025	18,599
Deferred revenue, net of current portion	7,842	8,366
Other non-current liabilities	2,094	2,055
Long-term debt obligations, net of current portion	2,211	2,254
Commitments	-	-
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; 41,274 and 40,778 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively	2	2
Additional paid-in capital	188,571	184,014
Accumulated other comprehensive income	5,634	5,895
Accumulated deficit	(192,317)	(164,933)
Total stockholders' equity	1,890	24,978
Total liabilities and stockholders' equity	\$ 39,062	\$ 56,252

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 September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
<b>Revenues:</b>				
Collaboration agreements	\$ 7,009	\$ 5,522	\$ 20,658	\$ 10,615
License fees and other	29	41	756	784
Total revenues	7,038	5,563	21,414	11,399
<b>Operating expenses:</b>				
Research and development	9,943	6,296	30,655	19,720
General and administrative	3,429	2,908	10,346	10,840
Total operating expenses	13,372	9,204	41,001	30,560
Loss from operations	(6,334)	(3,641)	(19,587)	(19,161)
<b>Other income (expense):</b>				
Interest expense	(45)	(146)	(189)	(580)
Interest income	183	365	649	590
Change in fair value of warrants	(6,794)	1,187	(8,503)	1,709
Other income (expense)	99	(33)	246	1,115
Net loss	\$ (12,891)	\$ (2,268)	\$ (27,384)	\$ (16,327)
<b>Basic and diluted net loss per common share</b>				
	\$ (0.31)	\$ (0.06)	\$ (0.67)	\$ (0.47)
<b>Weighted average shares used to compute basic and diluted net loss per share</b>				
	41,041	40,727	40,883	34,880

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

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

	<b>Nine months ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (27,384)	\$ (16,327)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,871	2,360
Non-cash interest on long-term debt obligations	269	282
Net gain on debt restructuring	-	(270)
Non-cash change in fair value of common stock warrants liability	8,503	(1,709)
Stock-based compensation expense	2,539	2,801
Net loss on disposal of property and equipment	-	1
Changes in operating assets and liabilities:		
Accounts receivable	2,724	(1,276)
Prepaid expenses and other current assets	833	256
Accounts payable, accrued expenses and other liabilities	(406)	(4,695)
Deferred revenue	1,373	7,524
Net cash used in operating activities	(8,678)	(11,053)
<b>Cash flows from investing activities:</b>		
Proceeds from repayment of loans to employees	-	67
Purchases of property and equipment	(377)	(598)
Restricted cash used as collateral	5	(33)
Net cash used in investing activities	(372)	(564)
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock and common stock warrants	-	23,474
Proceeds from exercise of stock options	608	25
Proceeds from exercise of warrants	421	-
Proceeds from stock subscription receivable	-	27
Principal payments on debt obligations	(2,466)	(5,511)
Principal payments on capital lease obligations	(148)	(109)
Net cash (used in) provided by financing activities	(1,585)	17,906
Effect of exchange rate changes on cash and cash equivalents	(495)	386
Net (decrease) increase in cash and cash equivalents	(11,130)	6,675
Cash and cash equivalents at beginning of period	27,066	24,301
Cash and cash equivalents at end of period	\$ 15,936	\$ 30,976
<b>Supplemental disclosure of noncash investing and financing activities:</b>		
Fair value of warrant granted as deferred equity financing cost	\$ -	\$ 6,968
Issuance of shares in connection with employee severance payment	-	250
Issuance of shares in connection with compensation for board of director services	-	14
Funding of insurance premiums through note payable	-	234
Acquisitions of equipment purchased through capital leases	219	197

Reclassification of warrant liability to additional paid-in capital	988	-
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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. Four of our antibodies are currently in clinical trials, while the remainder of our product pipeline is in preclinical development. To date, we have incurred significant research and development expenses and have not achieved any product revenues from sales of our product candidates.

### **Note 2. Basis of Presentation**

The condensed consolidated financial statements as of September 30, 2008, and for the three and nine months ended September 30, 2008 and 2007, are unaudited. In the opinion of management, these condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of results for the interim periods presented. We have condensed or omitted certain information and disclosures normally included in financial statements presented in accordance with accounting principles generally accepted in the United States, or GAAP. We believe the disclosures made are adequate to make the information presented not misleading. However, you should read these condensed consolidated financial statements in conjunction with the Micromet, Inc. audited consolidated financial statements as of and for the years ending December 31, 2007 and 2006 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission, or the SEC, on March 14, 2008.

The accompanying consolidated financial statements include the accounts of our wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

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, 2008, we had an accumulated deficit of \$192.3 million, and we expect to continue to incur substantial, and possibly increasing, operating losses for the next several years. We are continuing our efforts in research and development, preclinical studies and clinical trials of our product candidates. These efforts, and obtaining requisite regulatory approval prior to commercialization, will require substantial expenditures. Once requisite regulatory approval has been obtained, substantial additional financing will be required to manufacture, market and distribute our products in order to achieve a level of revenues adequate to support our cost structure. On September 30, 2008, we announced that we had entered into a definitive agreement to effect a private placement transaction with gross proceeds of \$40 million. The net proceeds of \$37.4 million were received on October 2, 2008, subsequent to the date of the financial statements. This financing increased our cash and cash equivalents to approximately \$53.0 million at the beginning of the fourth quarter of 2008. With this financing, management believes we have sufficient resources to fund operations into the middle of 2010 without accessing the \$25 million committed equity financing facility, or CEFF, with Kingsbridge Capital Limited, or Kingsbridge. To date we have not drawn any funds from the CEFF.

### **Note 3. Summary of Significant Accounting Policies**

#### ***Restricted Cash***

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As of each of September 30, 2008 and December 31, 2007, we had a consolidated total of \$3.2 million in certificates of deposit that are classified as restricted cash in our non-current assets.

As of September 30, 2008 and December 31, 2007, the U.S. dollar equivalent of restricted cash related to our building lease in Munich, Germany, is \$0.8 million.

As a result of the merger between CancerVax Corporation and our subsidiary Micromet AG in May 2006, we assumed three irrevocable standby letters of credit in connection with building leases. The letters of credit totaled \$2.4 million at the merger date and were secured by certificates of deposit for similar amounts that are disclosed as restricted cash. During May 2006, we entered into a lease assignment agreement related to a manufacturing facility lease that resulted in (i) the issuance of a \$1.0 million standby letter of credit, collateralized by a certificate of deposit in the same amount, to cover restoration costs that we may be obligated for in the future and (ii) the release of the landlord's security interest in \$650,000 of certificates of deposit in August 2006. In addition, during June 2006, we entered into a lease termination agreement for a warehouse facility that resulted in the release of the landlord's security interest in \$280,000 of certificates of deposit in August 2006. As of each of September 30, 2008 and December 31, 2007, a total of \$2.4 million of restricted cash was outstanding related to these leases and has been disclosed as a non-current asset on our accompanying condensed consolidated balance sheets.

***Common Stock Warrants Liability***

In June 2007, we completed a private placement of 9,216,709 shares of common stock and 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. The common stock warrants liability is recorded at fair value, which is adjusted at the end of each reporting period using the Black-Scholes option-pricing model, with changes in value included in the condensed consolidated statements of operations.

***Foreign Currency 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 \$(75,000) for the each of the three months ended September 30, 2008 and 2007, and \$(164,000) and \$71,000 for the nine months ended September 30, 2008 and 2007, 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.

***Comprehensive Income (Loss)***

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net loss	\$ (12,891)	\$ (2,268)	\$ (27,384)	\$ (16,327)
Foreign currency exchange translation adjustments	6	32	(260)	101
Comprehensive loss	\$ (12,885)	\$ (2,236)	\$ (27,644)	\$ (16,226)

***Stock-Based Compensation***

We account for stock-based awards under Statement of Financial Accounting Standards No. 123 (revised), *Business Combinations*, or SFAS 123(R), which requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. The fair value of stock options is determined using the Black-Scholes valuation model. Such value is recognized as stock-based compensation expense over the service period, net of estimated forfeitures, using the straight-line attribution method. For awards that contain a performance condition, expense is recognized using the accelerated attribution methodology. Compensation expense related to stock-based awards is allocated to research and development expense or general and administrative expense based upon the department to which the associated

employee reports. Stock-based awards issued to non-employees are recorded at their fair value in accordance with SFAS 123(R) and Emerging Issues Task Force, or 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*, and expense is recognized upon a measurement date commensurate with the determination of when service has been completed.

During the nine months ended September 30, 2008, we granted options to purchase 2,565,000 shares of our common stock. Approximately 400,000 of these stock options vest upon the attainment of specific performance targets. The measurement date of stock options containing performance-based vesting is the date the stock option grant is authorized and the specific performance goals are communicated. Compensation expense is recognized based on the probability that the performance criteria will be met. The recognition of compensation expense associated with performance-based vesting requires judgment in assessing the probability of meeting the performance goals, as well as defined criteria for assessing achievement of the performance-related goals. The continued assessment of probability may result in additional expense recognition or expense reversal depending on the level of achievement of the performance goals. No expense has been recognized for the three and nine-month periods ended September 30, 2008 and 2007 related to these performance-based options. The weighted-average grant-date fair value of options granted during the nine months ended September 30, 2008 was \$2.13.

Stock-based compensation related to our stock-based awards is classified in the condensed consolidated financial statements as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Research and development expense	\$ 344	\$ 347	\$ 1,036	\$ 1,225
General and administrative expense	492	539	1,503	1,576
Total stock-based compensation	\$ 836	\$ 886	\$ 2,539	\$ 2,801

As of September 30, 2008, total unrecognized compensation cost related to stock options was approximately \$6.5 million, and the weighted average period over which it is expected to be recognized is 2.2 years.

### ***Net Loss Per Share***

We calculate net loss per share in accordance with SFAS No. 128, *Earnings Per Share*, or SFAS 128. Basic net loss per share is calculated by dividing the net loss attributable to common stockholders by the weighted average number of common shares outstanding for the period, without consideration for common stock equivalents. Diluted net loss per share attributable to common stockholders 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. The outstanding anti-dilutive securities excluded from the diluted net loss computation consisted of options to purchase 7,920,000 and 5,886,000 shares of common stock for the three and nine months ended September 30, 2008 and 2007, respectively, and warrants to purchase 5,264,000 and 5,527,000 shares of common stock for the three and nine months ended September 30, 2008 and 2007, respectively.

### ***Recent Accounting Standards and Pronouncements***

In September 2006, the Financial Accounting Standards Board, or the FASB, issued SFAS No. 157, *Fair Value Measurements*, or SFAS 157, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure about fair value measurements. In February 2008, the FASB issued FASB Staff Position No. SFAS 157-b, *Effective Date of FASB Statement No. 157*, which provides a one-year deferral of the effective date of SFAS 157 for non-financial assets and non-financial liabilities, except those that are

recognized or disclosed in the financial statements at fair value at least annually. In accordance with this interpretation, we have adopted the provisions of SFAS 157 with respect to our financial assets and liabilities that are measured at fair value within our financial statements as of January 1, 2008—see Note 4 of our condensed consolidated financial statements. The provisions of SFAS 157 have not been applied to non-financial assets and non-financial liabilities. We are currently assessing the impact, if any, of this deferral on our condensed consolidated financial statements.

Effective January 1, 2008, we adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, or SFAS 159. Under SFAS 159, companies may elect to measure specified financial instruments and warranty and insurance contracts at fair value on a contract-by-contract basis. Any changes in fair value are to be recognized in earnings each reporting period. The election must be applied to individual instruments, is irrevocable for every instrument chosen to be measured at fair value, and must be applied to an entire instrument and not to portions of instruments. SFAS 159 permitted us to choose to measure many financial instruments and certain other items at fair value and established presentation and disclosure requirements. In adopting SFAS 159, we did not elect to measure any new assets or liabilities at their respective fair values.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51*, or SFAS 160. The objective of SFAS 160 is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. We do not believe that the adoption of SFAS 160 will have a material impact on our condensed consolidated results of operations or financial condition.

In March 2008, the FASB issued SFAS No. 161, *Disclosures About Derivative Instruments and Hedging Activities*, or SFAS 161. SFAS 161 enhances the disclosure requirements for derivative instruments and hedging activities. SFAS 161 is effective January 1, 2009. Since SFAS 161 requires only additional disclosures concerning derivatives and hedging activities, the adoption of SFAS 161 will not affect our condensed consolidated financial condition, results of operations and cash flows.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, or SFAS 162, which identifies the sources of accounting principles and provides entities with a framework for selecting the principles used in the preparation of financial statements that are presented in conformity with GAAP. The current GAAP hierarchy has been criticized because it is directed to the auditor rather than the entity, it is complex, and it ranks FASB Statements of Financial Accounting Concepts, which are subject to the same level of due process as FASB Statements of Financial Accounting Standards, below industry practices that are widely recognized as generally accepted but that are not subject to due process. The FASB believes the GAAP hierarchy should be directed to entities because it is the entity (not its auditors) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. The adoption of SFAS 162 is not expected to have a material impact on our condensed consolidated financial statements.

#### Note 4. Fair Value Measurements

We adopted the provisions of SFAS 157 as of January 1, 2008 for financial instruments. Although the adoption of SFAS 157 did not impact our financial condition, results of operations, or cash flows, we are now required to provide additional disclosures as part of our financial statements.

SFAS 157 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, 2008 (in thousands):

Description	September 30, 2008	Quoted Prices in Significant Other		Significant Unobservable Inputs (Level 3)
		Active Markets (Level 1)	Observable inputs (Level 2)	
<b>Assets:</b>				
Cash and cash equivalents	\$ 15,936	\$ 15,936	\$ —	—
Restricted cash	3,169	3,169	—	—
Total assets	\$ 19,105	\$ 19,105	\$ —	—
<b>Liabilities:</b>				
Common stock warrant liability	\$ (12,733)	\$ —	\$ —	(12,733)

The following table provides a summary of changes in the fair value of the Company's Level 3 common stock warrant liability for the three and nine months ended September 30, 2008:

	September 30, 2008	
	3 - months ended	9 - months ended
Beginning balance	\$ (6,928)	\$ (5,219)
Transfers in	—	—
Total gains of losses (realized/unrealized)		

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Included within earnings	(6,793)	(8,502)
Included within other comprehensive income	—	—
Purchases, issuances and settlement	988	988
Balance at September 30, 2008	\$ (12,733)	\$ (12,733)

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

#### Note 5. Deferred Revenue

As of September 30, 2008 and December 31, 2007, deferred revenues were derived mainly from research and development agreements with Nycomed, TRACON Pharmaceuticals, Inc. and Merck Serono as follows (dollars in thousands):

	September 30, 2008	December 31, 2007
Nycomed	\$ 9,099	\$ 7,205
TRACON	1,346	1,421
Merck Serono	1,514	2,722
Other	909	378
Subtotal	12,868	11,726
Current portion	(5,026)	(3,360)
Long term portion	\$ 7,842	\$ 8,366

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 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 continues through 2011.

#### Note 6. Other Non-Current Liabilities

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

	September 30, 2008	December 31, 2007
Facility lease exit liability, net of current portion	\$ 1,263	\$ 1,381
GEK subsidy, net of current portion	151	198
Asset retirement obligation	464	415
Capital lease obligations, net of current portion (see Note 8)	198	47
Other	18	14
	\$ 2,094	\$ 2,055

#### *Facility Lease Exit Liability and Restructuring Provision*

In May 2006, we assumed exit liabilities relating to a facility lease for our former corporate headquarters in Carlsbad, California and a former manufacturing facility that was no longer in use. During May 2006, we entered into a lease assignment agreement related to the manufacturing facility lease. As of April 2007, we have fully subleased the

former corporate headquarters. We review the adequacy of our estimated exit accruals on an ongoing basis.

We also previously recorded a lease exit liability relating to a portion of our Munich facility that was no longer in use. In June 2007, we signed a sublease agreement with Roche Diagnostics GmbH to lease a portion of this facility, and accordingly, we adjusted our lease exit liability to reflect the terms of this sublease for the remaining lease period. The adjustment of \$394,000 was recorded as a reduction to research and development expense during the second quarter of 2007. We no longer have a lease exit liability on this facility, as future sublease income is expected to cover our lease expense.

The following table summarizes the facility lease activity for these obligations for the nine months ended September 30, 2008 (in thousands):

<b>Accrued Balance as of December 31, 2007</b>	<b>Amounts Paid in Period</b>	<b>Accretion Expense</b>	<b>Accrued Balance as of September 30, 2008</b>
\$ 1,537	\$ (277)	\$ 203	\$ 1,463

Of the \$1,463,000 lease exit liability as of September 30, 2008, \$200,000 is current and \$1,263,000 is non-current.

### ***Asset Retirement Obligation***

In February 2001, we entered into a building lease agreement with GEK Grundstücksverwaltungsgesellschaft mbH & Co. Objekt Eins KG, or 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, and which increased the liability. The following table summarizes the activity for the nine months ended September 30, 2008 (in thousands):

Balance January 1, 2008	\$	415
Accretion expense		59
Currency translation adjustment		(10)
Balance September 30, 2008	\$	464

### **Note 7. Long-Term Debt**

Long-term debt obligations consist of the following (in thousands):

	September 30, 2008	December 31, 2007
TBG borrowings, repaid on July 1, 2008	\$ —	\$ 2,401
MedImmune, Inc. borrowings due June 6, 2010; unsecured with interest payable monthly at 4.5%	2,211	2,254
Total long-term debt obligations	2,211	4,655
Less: current portion	—	(2,401)
Long-term debt obligations, net of current portion	\$ 2,211	\$ 2,254

Scheduled repayment of principal for the debt agreements is as follows as of September 30, 2008 (in thousands):

2008	\$ —
2009	—
2010	2,211
Total	\$ 2,211

### ***TBG Silent Partnership Agreements***

Silent partnerships are a common form of investment in German business practice. These types of lenders were created to support the development of technology-oriented companies in the start-up phase. We entered into a silent partnership agreement with tbG Technologie-Beteiligungs-Gesellschaft mbH, or TBG, and based on the amount loaned, they became a “stiller Gesellschafter” (silent partner) in our subsidiary Micromet AG. Silent partners are not involved in our management, but significant business decisions such as changes in the articles of incorporation, mergers and acquisitions or significant contractual matters are subject to their approval.

The TBG silent partner borrowings bore interest at a rate of 7%, payable semi-annually. In addition to the stated contractual interest rate, the silent partnership agreement provided TBG (i) with profit sharing equal to 9% of our profit before income taxes in any year obtained determined in accordance with German generally accepted accounting

principles, (ii) additional amounts of interest in years 6 through 10 of the agreement if the borrowings remain outstanding, with such additional amounts due at the end of the agreement, and (iii) an amount representing approximately 35% of the original loan balance due at the end of the silent partnership agreement. We accreted the amounts included in items (ii) and (iii) over the life of the silent partnership agreements using the effective interest method. In accordance with the agreement, we notified TBG of our election to terminate the obligation six months early, and the remaining amounts due to TBG were repaid in full on July 1, 2008.

Interest expense related to the silent partnership agreements with TBG and Bayern Kapital which was repaid in 2007, amounted to \$63,000 and \$348,000 for the nine months ended September 30, 2008 and 2007, respectively.

**Note 8. Commitments and Contingencies*****Leases***

Future minimum lease payments under non-cancelable operating and capital leases as of September 30, 2008 are as follows (in thousands):

	<b>Capital Leases</b>	<b>Operating Leases</b>	<b>Expected Sublease Income</b>	<b>Net Operating Leases</b>
2008 (October 1, 2008 – December 31, 2008)	\$ 53	\$ 1,288	\$ (631)	\$ 657
2009	88	5,028	(2,545)	2,483
2010	59	5,093	(2,080)	3,013
2011	59	5,156	(1,413)	3,743
2012	58	2,566	(717)	1,849
Thereafter	105	-	-	-
Total minimum lease payments	422	19,131	\$ (7,386)	\$ 11,745
Less: amount representing imputed interest	(136)			
Present value of minimum lease payments	286			
Less: current portion	(88)			
Capital lease obligation, less current portion	\$ 198			

The sublease income is from sublease agreements related to our former headquarters and our Munich, Germany facility (see Note 6).

***License Agreements***

We have entered into various license agreements under which we are granted the right to use licensed technology in our research and development efforts. In consideration of these licenses, we are generally required to pay license fees and royalties on future product sales. In addition, many of the agreements obligate us to make contractually defined payments upon the achievement of certain development and commercial milestones.

Our fixed commitments under license agreements as of September 30, 2008 are as follows (in thousands):

2008 (October 1, 2008- December 31, 2008)	\$ 10
2009	113
2010	86
2011	86
2012	88
Thereafter	161
Total minimum payments	\$ 544

**Note 9. Private Placement of Common Stock and Warrants**

Effective as of September 29, 2008, we entered into a definitive agreement with various institutional and individual accredited investors to which we agreed to issue an aggregate of 9,411,948 shares of common stock and warrants to purchase an additional 2,823,584 shares of common stock in return for aggregate gross proceeds, before expenses, of \$40.0 million (excluding any proceeds that might be received upon exercise of the warrants). We incurred investment banking fees, legal fees, and other financing costs of approximately \$2.6 million, resulting in net proceeds of approximately \$37.4 million. The shares and warrants were issued, and the proceeds were received, on October 2, 2008. The purchase price of each share of common stock sold in the financing was \$4.21, the closing price of our common stock on the Nasdaq Global Market on September 29, 2008, and the purchase price for the warrants was approximately \$0.125 for each share of common stock underlying the warrants. The warrants are exercisable for five years from the date of issuance and have an exercise price of \$4.63 per share.

In connection with the private placement, we also agreed to file a registration statement under the Securities Act of 1933, as amended, registering for resale the shares of common stock sold in the private placement, including the shares of common stock underlying the warrants, by November 3, 2008. We filed the registration statement with the SEC on October 24, 2008. We also agreed to other customary obligations regarding registration, including matters relating to indemnification, maintenance of the registration statement and payment of expenses. We may be liable for liquidated damages to holders of the common shares if the registration statement is not declared effective by January 30, 2009 or if we do not maintain the effectiveness of the registration statement. The amount of the liquidated damages is, in aggregate, 1.0% of the purchase price of the securities per month, subject to an aggregate maximum of 6% (and in some instances 12%) of the aggregate purchase price of the securities.

## **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, 2007, 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 14, 2008.

### ***Ongoing Business Activities***

We are a biopharmaceutical company developing novel, proprietary antibodies for the treatment of cancer, inflammation and autoimmune diseases. Four of our antibodies are currently in clinical trials, while the remainder of our product pipeline is in preclinical development. Blinatumomab, also known as MT103 and MEDI-538, the most advanced antibody in our product pipeline developed using our BiTE antibody technology platform, is being evaluated in a phase 2 clinical trial for the treatment of patients with acute lymphoblastic leukemia and in a phase 1 clinical trial for the treatment of patients with non-Hodgkin's lymphoma. BiTE antibodies represent a new class of antibodies that activate a patient's own cytotoxic T cells, considered the most powerful “killer cells” of the human immune system, to eliminate cancer cells. We are developing blinatumomab in collaboration with MedImmune, Inc., a subsidiary of AstraZeneca plc. MT110, our second BiTE antibody in clinical development, is being evaluated in a phase 1 clinical trial for the treatment of patients with lung or gastrointestinal cancer. Our third clinical stage antibody is adecatumumab, also known as MT201, a human monoclonal antibody that targets epithelial cell adhesion molecule-, or EpCAM-, expressing solid tumors. We are developing adecatumumab in collaboration with Merck Serono in a phase 1b clinical trial evaluating adecatumumab in combination with docetaxel for the treatment of patients with metastatic breast cancer. Our fourth clinical stage antibody is MT293, which is licensed to TRACON, and is being developed in a phase 1 clinical trial for the treatment of patients with cancer. We have additional BiTE antibodies that are in different stages of preclinical development and that target CEA, CD33, Her2, EGFR and MCSP. In addition, we have established a collaboration with Nycomed for the development and commercialization of 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. To date, we have incurred significant research and development expenses and have not achieved any product revenues from sales of our product candidates.

Each of our programs will require many 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 United States Food and Drug Administration, or FDA, or European Medicines Agency, or EMEA, or equivalent regulatory agencies. 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, of our potential product candidates will be successfully developed or approved, nor can we predict the time and cost to complete development.

As we obtain results from preclinical studies or clinical trials, we may elect to discontinue the development for certain product candidates for safety, efficacy or commercial reasons. We may also elect to discontinue 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 our product candidates. Depending on the structure of such collaborative agreements, a third party may be granted control over the clinical trial 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 private placements of preferred stock, debt financing and government grants for research, as well as licensing fees, milestone payments and research-contribution revenues from our collaborations with pharmaceutical companies, and, more recently, through private placements of common stock and associated warrants. We intend to continue to seek funding through public or private financings in the future. If we are successful in raising additional funds through the issuance of equity securities, stockholders may experience substantial dilution, including as a result of issuing warrants in connection with the financing, or the equity securities may have rights, preferences or privileges senior to existing stockholders. If we are successful in raising 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 will be successful in raising additional capital on acceptable terms, or at all.

### ***Research and Development***

Through September 30, 2008, our research and development expenses consisted of costs associated with the clinical development of adecatumumab and blinatumomab, as well as development costs incurred for MT110 and MT203, research activities under our collaboration with MedImmune and Nycomed, and research conducted with respect to 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 compounds into more advanced stages of clinical development and increase our preclinical efforts for 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.

Under our collaboration agreement with Merck Serono, we 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 ongoing phase 1 clinical trial, as well as an additional clinical trial to be conducted by us. Merck Serono will continue to bear the development expenses associated with the collaboration in accordance with the agreed-upon budget.

Our collaboration agreement with MedImmune for blinatumomab provides for potential future milestone payments and royalty payments based on net sales of blinatumomab. A second agreement with MedImmune for the development of new BiTE antibodies provides for potential future milestone payments and royalty payments based on future sales of the BiTE antibodies currently under development pursuant to that agreement. The potential milestone payments are subject to the successful completion of development and obtaining marketing approval for one or more indications in one or more national markets.

We intend to pursue additional collaborations to provide resources for further development of our product candidates and expect to continue to 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, 2008 and 2007*

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

	<b>Three Months Ended</b>	
	<b>September 30, 2008</b>	<b>September 30, 2007</b>
<b>Collaborative R&amp;D revenue:</b>		
Nycomed	\$ 4.4	\$ 0.8
MedImmune	1.7	1.5
Merck Serono	0.7	1.1
TRACON	—	2.1
Other	0.1	—
<b>Total collaborative R&amp;D revenue</b>	<b>6.9</b>	<b>5.5</b>
<b>License and other revenue</b>	<b>0.1</b>	<b>0.1</b>
<b>Total revenues</b>	<b>\$ 7.0</b>	<b>\$ 5.6</b>

Collaborative research and development revenues from Nycomed reflect their responsibility for the full costs of the MT203 development program. Collaborative research and development revenues from MedImmune represent their share of the costs of clinical development of blinatumomab (MT103) and their full cost responsibility for the development of MT111, a BiTE antibody binding to CEA with potential applications in the treatment of solid tumors, and another BiTE antibody binding to EphA2. Collaborative research and development revenues from Merck Serono reflect their full cost responsibility for the adecatumumab program. Collaborative research and development revenues from TRACON reflect the amortization of upfront licensing fees and miscellaneous pass-through expenses.

The Nycomed collaborative R&D revenue represents the reimbursement of our clinical development activities, including reimbursement for full-time equivalents as well as the portion of the upfront payment from Nycomed that is being recognized over a 20-year period. The increase in the Nycomed revenue is the result of increases in process development and preclinical activities for our MT203 program during 2008. This collaboration with Nycomed was signed during the second quarter of 2007, but we did not commence full preclinical activities until the fourth quarter of 2007.

The increase in MedImmune collaborative R&D revenue was due to an increase in revenue of \$0.4 million under the blinatumomab program which was partially offset by decreases of \$0.2 million in the MedImmune BiTE programs. The decrease in Merck Serono collaborative R&D revenue is due to a contract amendment for the phase 1 trial of MT201 in combination with docetaxel for the treatment of metastatic breast cancer. The amendment lengthened the time over which the revenue is recognized from 2009 to 2011.

During the third quarter of 2007, we recognized one-time collaboration revenue from TRACON relating to material transfers. During the three months ended September 30, 2008 the only TRACON collaborative R&D revenue that was recognized was for the amortization of the upfront licensing fee that amounted to approximately \$25,000. Future income will consist of this amortization of upfront fees of \$25,000 per quarter, miscellaneous pass-through expenses, and milestone achievements, if any.

*Research and Development Expenses.* Research and development expense consists of costs incurred to discover and develop our 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 good manufacturing practice, or 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. We expense research and development costs as incurred.

Research and development expenses were \$9.9 million and \$6.3 million for the three months ended September 30, 2008 and 2007, respectively. The increase of \$3.6 million results from increases in our manufacturing expenses for our MT203 program of \$2.4 million (which is fully reimbursed and recognized as revenue within the accompanying statement of operations), increases in our preclinical expenses of \$0.4 million primarily for our MT203 program, increases in our clinical expenses for our MT110 program of \$0.2 million, and a \$0.3 million increase in personnel-related expenses.

*General and Administrative Expenses.* General and administrative expense consists primarily of salaries and other 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.

General and administrative expenses were \$3.4 million and \$2.9 million for the three months ended September 30, 2008 and 2007, respectively. The increase of \$0.5 million results primarily from an increase in professional fees of \$0.3 million due to the timing of expense recognition and from increased depreciation charges of \$0.1 million related to leasehold improvements made in conjunction with our Roche sublease.

*Interest Expense.* Interest expense for the three months ended September 30, 2008 and 2007 was \$45,000 and \$146,000, respectively. The decrease was due to lower outstanding debt balances during 2008.

*Interest Income.* Interest income for the three months ended September 30, 2008 and 2007 was \$183,000 and \$365,000, respectively. The decrease was primarily due to lower average cash balances in 2008 compared to 2007. The June 2007 private placement resulted in higher cash balances during the third quarter of 2007.

*Other Income (expense).* Other income for the quarter ended September 30, 2008 was \$99 thousand, as compared to other expense of \$33 thousand for the quarter ended September 30, 2007. The increase results primarily from exchange rate adjustments.

*Change in Fair Value of Common Stock Warrants Liability.* Due to certain provisions in the warrants, the common stock warrants issued in connection with the private placement in June 2007 are classified as a liability. The non-cash expense of \$6.8 million recorded in the third quarter of 2008 represents the change in fair value of the warrants as of September 30, 2008 as compared to the value on June 30, 2008. The increase in our common stock price during the third quarter of 2008 resulted in the increase in the liability.

#### *Comparison of Nine Months Ended September 30, 2008 and 2007*

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

	<b>Nine Months Ended</b>	
	<b>September 30, 2008</b>	<b>September 30, 2007</b>
<b>Collaborative R&amp;D revenue:</b>		
Nycomed	\$ 12.4	\$ 1.1
MedImmune	5.5	4.1
Merck Serono	2.3	3.3
TRACON	0.2	2.1
Other	0.2	—
<b>Total collaborative R&amp;D revenue</b>	<b>20.6</b>	<b>10.6</b>
<b>License and other revenue</b>	<b>0.8</b>	<b>0.8</b>
<b>Total revenues</b>	<b>\$ 21.4</b>	<b>\$ 11.4</b>

As described above, the Nycomed agreement was signed during the second quarter of 2007, and preclinical activities did not begin until after September 30, 2007. Therefore, the year over year increase of \$11.3 million is due to process development and preclinical activities during 2008 that were not undertaken during 2007.

The increase in MedImmune collaborative R&D revenue results from increases of \$0.9 million under the blinatumomab program, and an aggregate increase of \$0.5 million in the MT111 and EphA2 BiTE antibody programs.

The decrease in Merck Serono collaborative R&D revenue was the result of the amendment to our collaboration agreement that had the effect of lengthening the time over which revenue is recognized as discussed above.

The decrease in TRACON revenue was due to the one-time revenue of \$2.1 million recognized on material transfers during the third quarter of 2007, as described above.

*Research and Development Expenses.* Research and development expenses were \$30.7 million and \$19.7 million for the nine months ended September 30, 2008 and 2007, respectively. The \$11.0 million increase was primarily the result of a \$6.1 million increase in manufacturing expenses primarily for our MT203 program, an increase of \$1.3 million in personnel-related expenses including an increase in employees, an increase of \$1.4 million in preclinical services related to our MT203 and BiTE programs, an increase of \$0.9 million in our clinical studies expenses mainly related to our MT110 and MT103 programs, and higher consumables of \$0.9 million.

*General and Administrative Expenses.* General and administrative expenses were \$10.3 million and \$10.8 million for the nine months ended September 30, 2008 and 2007, respectively. The decrease is the result of an adjustment recorded in the aggregate amount of \$0.8 million during the second quarter of 2007 for the facility lease exit liability incurred in connection with our former corporate headquarters and from a reduction of \$0.5 million in legal expenses. These decreases were partially offset by increases in professional fees of \$0.8 million.

*Interest Expense.* Interest expense for the nine months ended September 30, 2008 and 2007 was \$0.2 million and \$0.6 million, respectively. The decrease was due to the repayment in full of our silent partnership indebtedness to TBG on July 1, 2008.

*Interest Income.* Interest income of \$0.6 million for the nine months ended September 30, 2008 was the equal to the amount recorded for the same period in 2007. Lower average cash balances during the third quarter of 2008 as compared to 2007 were offset by higher average cash balances during the first two quarters of 2008 as compared to the same periods of 2007.

*Change in Fair Value of Common Stock Warrants Liability.* The expense of \$8.5 million recorded in the nine months ended September 30, 2008 represents the non-cash change in fair value of the warrants as of September 30, 2008 as compared to the value on December 31, 2007 and was the result of an increase in the price of our common stock during this period.

*Other Income.* Other income for the nine months ended September 30, 2008 was \$0.2 million, compared to \$1.1 million for the nine months ended September 30, 2007. The decrease results primarily from the approval received from the German tax authorities for the refund of withholding tax payments of \$0.8 million and a gain on debt restructuring of \$0.3 million, each of which occurred during 2007.

## **Liquidity and Capital Resources**

We had cash and cash equivalents of \$15.9 million and \$27.1 million as of September 30, 2008 and December 31, 2007, respectively. The decrease resulted primarily from our net loss of \$27.4 million for the nine months ended September 30, 2008, partially offset by \$14.2 million in non-cash expenses and \$4.5 million in changes in working capital. As discussed in Note 7 to our consolidated financial statements included with this report, we repaid in full the silent partnership debt of \$2.6 million to TBG on July 1, 2008. As described in Note 9 to the financial statements included with this report, we received approximately \$37.4 million in net proceeds from a private placement of our common stock and warrants that was consummated on October 2, 2008 and that is not reflected in our cash balance as of September 30, 2008.

Net cash used in operating activities was \$8.7 million for the nine months ended September 30, 2008, compared to \$11.1 million used in operating activities for the nine months ended September 30, 2007. The decrease in cash used in operating activities results primarily from an increase of \$14.2 million in non-cash charges, including a net \$8.5 million increase due to the change in fair value of our common stock warrant liability. Changes in operating assets and liabilities included a net decrease of \$2.7 million of accounts receivable and \$1.3 million increase in deferred revenue during the nine months ended September 30, 2008, as compared to the increase of \$7.5 million in deferred revenue offset by payments on accounts payable and accrued liabilities of \$4.7 million and a net increase in accounts

receivable of \$1.3 million during the nine months ended September 30, 2007.

Net cash used in investing activities was \$0.4 million for the nine months ended September 30, 2008, compared to \$0.6 million for the nine months ended September 30, 2007. The decrease results primarily from decreases in expenditures for property and equipment.

Net cash used in financing activities was \$1.6 million for the nine months ended September 30, 2008, compared to \$17.9 million provided by financing activities for the nine months ended September 30, 2007. The change results from a private placement financing closed in June 2007 that provided net proceeds of \$23.5 million, which was partially offset by silent partnership debt repayments of \$5.5 million during the nine months ended September 30, 2007.

To date, we have funded our operations through proceeds from private placements of preferred stock, debt financing, government grants for research, license fees, milestone payments and research-contribution revenues from our collaborations with pharmaceutical companies, and, more recently, through private placements of common stock and associated warrants. As described in Note 9 to the financial statements included with this report, we received approximately \$37.4 million from a private placement transaction consummated on October 2, 2008 that is not reflected in the cash balance as of September 30, 2008.



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 raise additional funds to meet future working capital and capital expenditure needs. We may continue to seek funding through public or private equity or debt financings in the future or to raise additional funds through 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. As with our October 2008 and June 2007 equity financings, if we raise additional funds through the issuance of common stock, substantial dilution to our existing stockholders would likely result, including as a result of issuing warrants in connection with the financing. 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. Failure to obtain adequate financing may adversely affect our ability to operate as a going concern.

After including the net proceeds of \$37.4 million received in connection with our October 2008 private placement, we believe that we have adequate resources to fund our operations into the middle of 2010 at current spending levels, without accessing the CEFF with Kingsbridge. To date we have not drawn down any funds from the CEFF. The CEFF is currently scheduled to expire in September 2009, although we plan to seek an extension of the term of this facility. Kingsbridge may require additional consideration, such as the issuance of a warrant, in connection with any such extension.

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” herein. 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 strategic 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; 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.

We are parties to three irrevocable standby letters of credit in connection with former facilities being subleased and our current building leases in Munich, Germany and Bethesda, Maryland. As of September 30, 2008, 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.

**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, 2008 (in thousands):

18

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Contractual Obligations	Total	Payment Due by Period			
		Less Than 1 Year (1)	1-3 Years	3-5 Years	More Than 5 Years
Operating leases(2)	\$ 19,130	\$ 1,288	\$ 10,121	\$ 7,721	\$ —
Long-term debt — MedImmune	2,211	—	2,211	—	—
Contractual payments under licensing agreements (3)	544	10	199	174	161
Capital leases	422	53	147	117	105
	\$ 22,307	\$ 1,351	\$ 12,678	\$ 8,012	\$ 266

(1) Includes amounts payable from October 1, 2008 through December 31, 2008.

(2) The amounts shown in operating leases excludes expected sub-lease income (see Note 8 to our condensed consolidated financial statements included in this report).

(3) We have license 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 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 license fees and royalties and the costs associated with the prosecution and maintenance of the patents covering the licensed technology. In addition, we have entered into agreements with clinical research organizations responsible for conducting and monitoring our clinical trials, and other outside contractors who will be responsible for additional services supporting our ongoing clinical development programs. These contractual obligations are not reflected in the table above because we may terminate them on short notice without incurring additional material charges (other than charges for work completed but not paid for through the effective date of termination and other costs incurred by our contractors in closing out work in progress as of the effective date of termination). Further, we have entered into agreements with contract manufacturing organizations under which they conduct periodic production runs to manufacture our product candidates. The timing of these production runs depends on the availability of manufacturing slots at the contract manufacturing organization and the progress of the associated development programs. Given the uncertainties associated with these manufacturing activities and the resulting payment obligations, these contractual obligations are not reflected in the table above.

### 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 the efficacy, safety and intended utilization of our product candidates, the conduct and results of future clinical trials, plans regarding regulatory filings, future research and clinical trials and plans regarding partnering activities, and our goal of monitoring our internal controls for financial reporting and making modifications as necessary. 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,” “seek,” “plan,” “project,” “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, statements about 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, including the successful remediation of material weaknesses in our internal control our financial reporting; 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 have not used derivative financial instruments in our investment portfolio.

#### **Exchange Rates**

A significant majority of our cash and cash equivalents are currently denominated in U.S. dollars, as are a significant amount of the potential milestone payments and royalty payments under our collaboration agreements. However, a significant portion of our operating expenses, including our research and development expenses, are incurred in Europe pursuant to arrangements that are generally denominated in Euros.

As a result, our financial results and capital resources may be affected by changes in the U.S. dollar/Euro exchange rate. As of September 30, 2008, we had U.S. dollar-denominated cash and cash equivalents of \$11.1 million and Euro-denominated liabilities of approximately €13.8 million. The Euro-denominated liabilities as of September 30, 2008 are equivalent to approximately \$19.9 million, using the exchange rate as of that date. A decrease in the value of the U.S. dollar relative to the Euro would result in an increase in our reported operating expenses due to the translation of the Euro-denominated expenses into U.S. dollars, and such changes would negatively impact the length of time that our existing capital resources would be sufficient to finance our operations. We have not engaged in foreign currency hedging transactions to manage this exchange rate exposure.

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this Quarterly Report, management performed, with the participation of our Chief Executive Officer and our Chief Financial Officer, an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. As of September 30, 2008, based on our evaluation and the identification of the material weaknesses in our internal control over financial reporting, as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2007, our disclosure controls and procedures were not effective. During 2008, we have taken a number of steps to strengthen our internal control over financial reporting in order to address the weaknesses. The improvements include additional procedures relating to the expense accrual process for research and development and the overall review of our financial statements, including comparisons to budget and prior periods. In addition, during 2008 we have conducted regular finance staff meetings to discuss accounting issues and unusual transactions. Finally, during the third quarter of 2008, we hired a full-time Chief Financial Officer. We expect to complete the full implementation of our remediation measures during the fourth quarter of 2008.

Because of the material weaknesses identified in our evaluation of internal control over financial reporting as of September 30, 2008, we performed additional substantive procedures, similar to those previously disclosed in our

Form 10-K for the year ended December 31, 2007, to ensure that our consolidated condensed financial statements as of and for the nine-month period ended September 30, 2008 are fairly stated in all material respects in accordance with GAAP.

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

## Changes in Internal Control over Financial Reporting

Except as described above, there have been no changes in our internal control over financial reporting during the most recently completed fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings

None.

### Item 1A. Risk Factors

#### 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 the inception of Micromet through September 30, 2008, 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, Merck Serono, MedImmune, Nycomed 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 CEFF with 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 filed a shelf registration statement, declared effective by the SEC on December 9, 2004, under which we may raise up to \$80 million through the sale of our common stock. This shelf registration statement became inactive in March 2006 and will expire in December 2008. We may seek to file a new shelf registration statement, although our ability to do so will depend on our eligibility to use a shelf registration statement at such time, under applicable SEC rules. We expect to seek additional funding through public or private financings or from 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 August 2006, we entered into a CEFF with Kingsbridge. The CEFF entitles us to sell and obligates Kingsbridge to purchase, from time to time until September 2009, shares of our common stock for cash consideration up to an aggregate of \$25 million, subject to certain conditions and restrictions. Kingsbridge will not be obligated to purchase 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. As of the date of this report, we have not drawn down any funds from the CEFF, and therefore Kingsbridge could terminate the CEFF under its terms. As described above, the CEFF is scheduled to expire in September 2009. We intend to seek an extension of the term of the CEFF, but no assurance can be given that Kingsbridge will agree to any such extension. In order to extend the term of the CEFF beyond September 2009, Kingsbridge may require additional consideration, such as the issuance of a warrant to purchase our common stock, that could result in additional dilution to our stockholders. 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, and the timing and accounting treatment of payments to us, if any, under those agreements;
- 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.

***Our operating and financial flexibility, including our ability to borrow money, is limited by certain debt arrangements.***

Our loan agreements contain certain customary events of default, which generally include, among others, non-payment of principal and interest, violation of covenants, cross defaults, the occurrence of a material adverse change in our ability to satisfy our obligations under our loan agreements or with respect to one of our lenders' security interest in our assets and in the event we are involved in certain insolvency proceedings. Upon the occurrence of an event of default, our lenders may be entitled to, among other things, accelerate all of our obligations and sell our assets to satisfy our obligations under our loan agreements. In addition, in an event of default, our outstanding obligations may be subject to increased rates of interest.

In addition, we may incur additional indebtedness from time to time to finance acquisitions, investments or strategic alliances or capital expenditures or for other purposes. Our level of indebtedness could have negative consequences for us, including the following:

- our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms;
- payments on our indebtedness will reduce the funds that would otherwise be available for our operations and future business opportunities;
- we may be more highly leveraged than our competitors, which may place us at a competitive disadvantage; and
- our debt level may reduce our flexibility in responding to changing business and economic conditions.

*We have determined and further received an opinion from our independent registered public accounting firm in connection with our year-end audit for 2007 that our system of internal control over financial reporting does not meet the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. As a result, investors could lose confidence in the reliability of our internal control over financial reporting, which could have a material adverse effect on our stock price.*

As a publicly traded company, we are required to comply with the Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley, and the related rules and regulations of the SEC, including Section 404 of Sarbanes-Oxley. We are in the process of upgrading our existing, and implementing additional, procedures and controls. The process of updating the procedures and controls is requiring significant time and expense and is more time-consuming and expensive than we previously anticipated.

Our internal control system is designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements. In connection with the audit of our consolidated financial statements for the year ended December 31, 2007, our independent registered public accounting firm provided us with an unqualified opinion on our consolidated financial statements, but it identified material weaknesses in our internal control over financial reporting based on criteria established in “Internal Control — Integrated Framework,” issued by the Committee of Sponsoring Organizations, or COSO, of the Treadway Commission. These material weaknesses relate to certain of our accrual processes and an insufficient level of management review in our financial statement close and reporting process. Because of these material weaknesses in our internal control over financial reporting, there is heightened risk that a material misstatement of our annual or quarterly financial statements will not be prevented or detected.

We are in the process of expanding our internal resources and implementing additional procedures in order to remediate these material weaknesses in our internal control over financial reporting; however, we cannot guarantee that these efforts will be successful. If we do not adequately remedy these material weaknesses, and if we fail to maintain proper and effective internal control over financial reporting in future periods, our ability to provide timely and reliable financial results could suffer, and investors could lose confidence in our reported financial information, which may have a material adverse effect on our stock price.

### **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 the CEFF would be covered by a registration statement and 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, a number 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 upgrade and implement our disclosure controls and our internal control over financial reporting;
- 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;
- 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.

***If our officers and directors choose to act together, they can significantly influence our management and operations in a manner that may be in their best interests and not in the best interests of other stockholders.***

Our officers and directors, together with their affiliates, collectively own an aggregate of approximately 24% of our outstanding common stock. As a result, if they act together, they may significantly influence all matters requiring approval by our stockholders, including the election of directors and the approval of mergers or other business combination transactions. The interests of this group of stockholders may not always coincide with our interests or the interests of other stockholders, and this group may act in a manner that advances their best interests and not necessarily those of other stockholders.

***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 Merck Serono, MedImmune, Nycomed and TRACON. 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 such collaborative and licensing arrangements will depend on, among other things, such collaborator's efforts and allocation of resources.

All of our strategic collaboration and license agreements are for fixed terms and are subject to termination under various circumstances, including, in some cases, on short notice without cause. If any of our collaborative partners were to terminate its agreement with us, we may attempt to identify and enter into an agreement with a new collaborator with respect to the product candidate covered by the terminated agreement. If we are not able to do so, we may not have the funds or capability to undertake the development, manufacturing and commercialization of that product candidate, which could result in a discontinuation or delay of the development of that product candidate.

Our collaborators may develop and commercialize, either alone or with others, products 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 such changes, our collaborators decrease or fail to increase spending related to such 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 potential termination of the collaboration agreement, or we may need to reallocate financial resources that may 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.

***If the combination of adecatumumab (MT201) with cytotoxics, such as docetaxel, is not tolerable or safe, if higher serum levels of adecatumumab cannot be administered safely, or if sufficient anti-tumor activity cannot be shown, we and our collaborator Merck Serono may decide to abandon all or part of the development program, and we could experience a material adverse impact on our business prospects.***

We previously have reported that the 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 we are continuing the development of adecatumumab in a clinical trial in combination with docetaxel with escalating doses of adecatumumab to investigate the tolerability and the safety of this combination. If the combination of adecatumumab with docetaxel proves not to be tolerable or safe or if no higher serum levels of adecatumumab compared to previous clinical trials can be administered safely or if sufficient anti-tumor activity cannot be shown in this or future clinical trials, we and our collaborator Merck Serono may decide to abandon all or part of the development program of adecatumumab and as a result we may experience a material adverse impact on our business prospects.

***There can be no assurance that our current continuous infusion phase 1 clinical trial of blinatumomab (MT103) will establish a dose that is safe and tolerable.***

We are conducting a phase 1 dose finding clinical trial designed to evaluate the safety and tolerability of a continuous intravenous infusion of blinatumomab over 4-8 weeks at different dose levels in patients with relapsed non-Hodgkin's lymphoma. We have seen objective tumor responses at the 15 µg/m<sup>2</sup> and above per day dose level with the continuous infusion regimens. While this preliminary data suggest that blinatumomab has anti-tumor activity, there can be no assurance that we will not encounter unacceptable adverse events during the continued dose escalation of our ongoing, continuous-infusion phase 1 clinical trial or that the preliminary suggestion of anti-tumor activity will be confirmed during the ongoing or any future study.

### **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 antibody therapeutics. We are seeking to do so through our internal research programs and in-licensing activities, 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.***

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.

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.

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.

Because our product candidates may have different efficacy profiles in certain clinical indications, sub-indications or patient profiles, 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.

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.

***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 certain 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 other than 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 or our collaborators' 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.

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***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. 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. 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 payors 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:

- ability to provide acceptable evidence of safety and efficacy;
- convenience and ease of administration;
- prevalence and severity of adverse side effects;
- the timing and 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 distribution 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 are 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 proprietary technology, inventions and improvements by filing of 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.

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***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 taxotere, which is the combination that we are currently testing in a phase 1 study. 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 will 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.

***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.

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## **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 our business will 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.

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.

***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 Merck Serono, MedImmune, Nycomed 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.

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

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

Exhibit 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
4.1(5)	Form of Specimen Common Stock Certificate
10.1(9)	Securities Purchase Agreement dated September 29, 2008 by and among the Registrant and the Purchasers listed therein
10.2 (6)	Registration Rights Agreement, dated September 29, 2008
10.3 (7)	Form of Warrant to Purchase Common Stock
10.4 (8)	Alternate Form of Warrant to Purchase Common Stock
10.5 (10)	Executive Employment Agreement between the Registrant and Barclay A. Phillips, dated August 30, 2008
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
- (5) Incorporated by reference from the Registrant's Annual Report on Form 10-K filed with the SEC on March 14, 2008
- (6) Incorporated by reference from such document filed with the SEC as exhibit 10.4 to the Registrant's Current Report on Form 8-K filed with the SEC on October 6, 2008
- (7) Incorporated by reference from such document filed with the SEC as exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the SEC on October 6, 2008
- (8) Incorporated by reference from such document filed with the SEC as exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the SEC on October 6, 2008
- (9) Incorporated by reference from such document filed with the SEC as exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on October 6, 2008
- (10) Incorporated by reference from such document filed with the SEC as exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on September 2, 2008

\* 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 6, 2008

Micromet, Inc.

By:

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

**Exhibit List**

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