MICROMET, INC.
Form 10-Q
November 08, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

OR

o **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	**52-2243564**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6707 Democracy Boulevard, Suite 505, Bethesda, MD	**20817**
(Address of principal executive offices)	(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. þ Yes o No

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

The number of outstanding shares of the registrant s common stock, par value $0.00004 per share, as of November 5, 2007 was 40,754,730.

MICROMET, INC.
FORM 10-Q QUARTERLY REPORT
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007
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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, 2007 (unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 30,976	$ 24,301
Accounts receivable	3,495	2,319
Prepaid expenses and other current assets	2,210	2,048
Total current assets	36,681	28,668
Property and equipment, net	4,407	3,357
Loans to employees		78
Goodwill	6,917	6,917
Patents, net	7,972	8,850
Other long-term assets	437	243
Restricted cash	3,149	3,059
Total assets	$ 59,563	$ 51,172
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,706	$ 1,680
Accrued expenses	5,990	10,153
Common stock warrants liability	5,260	
Other liabilities	507	366
Short-term note	78	1,320
Current portion of long-term debt obligations	34	599
Current portion of deferred revenue	3,515	2,972
Total current liabilities	17,090	17,090
Deferred revenue, net of current portion	7,762	195
Other non-current liabilities	2,333	1,961
Long-term debt obligations, net of current portion	4,464	7,408
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; 40,739 and 31,419 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	2	1
Additional paid-in capital	183,077	163,482

Stock subscription receivables		(27)
Accumulated other comprehensive income	5,969	5,869
Accumulated deficit	(161,134)	(144,807)
Total stockholders equity	27,914	24,518
Total liabilities and stockholders equity	$ 59,563	$ 51,172

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,	
	2007	**2006**	**2007**	**2006**
Revenues:				
Collaboration agreements	$ 5,522	$ 4,466	$ 10,615	$ 12,853
License fees and other	41	170	784	923
Total revenues	5,563	4,636	11,399	13,776
Operating expenses:				
Research and development	6,296	6,835	19,720	20,866
In-process research and development				20,890
General and administrative	2,908	3,317	10,840	8,517
Total operating expenses	9,204	10,152	30,560	50,273
Loss from operations	(3,641)	(5,516)	(19,161)	(36,497)
Other income (expense):				
Interest expense	(146)	(508)	(580)	(1,532)
Interest income	365	272	590	581
Change in fair value of common stock warrants liability	1,187		1,709	
Other income (expense)	(33)	(14)	1,115	61
Net loss	$ (2,268)	$ (5,766)	$ (16,327)	$ (37,387)
Basic and diluted net loss per common share	$ (0.06)	$ (0.19)	$ (0.47)	$ (1.52)
Weighted average shares used to compute basic and diluted net loss per share	40,727	30,833	34,880	24,665

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

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

	Nine months ended September 30,	
	2007	**2006**
Cash flows from operating activities:		
Net loss	$ (16,327)	$ (37,387)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,360	2,276
In-process research and development		20,890
Non-cash interest on long-term debt obligations	282	428
Net gain on debt restructuring	(270)	(315)
Non-cash change in fair value of common stock warrants liability	(1,709)	
Stock-based compensation expense	2,801	5,050
Net loss on disposal of property and equipment	1	
Changes in operating assets and liabilities:		
Accounts receivable	(1,276)	133
Prepaid expenses and other current assets	256	(1,005)
Accounts payable, accrued expenses and other liabilities	(4,695)	(7,955)
Deferred revenue	7,524	(3,149)
Restricted cash		(70)
Net cash used in operating activities	(11,053)	(21,104)
Cash flows from investing activities:		
Proceeds from disposals of property and equipment		129
Proceeds for loans to related parties	67	226
Purchases of property and equipment	(598)	(517)
Restricted cash used as collateral	(33)	
Cash acquired in connection with merger, net of costs paid		37,401
Net cash (used in) provided by investing activities	(564)	37,239
Cash flows from financing activities:		
Proceeds from issuance of common stock and common stock warrants, net of costs paid	23,474	7,397
Proceeds from capital contributions from stockholders		4,796
Proceeds from exercise of stock options	25	84
Proceeds from stock subscription receivable	27	346
Principal payments on long-term debt obligations	(4,276)	(19,599)
Principal payments on short-term notes payable	(1,235)	
Principal payments on capital lease obligations	(109)	(50)
Net cash provided by (used in) financing activities	17,906	(7,026)
Effect of exchange rate changes on cash and cash equivalents	386	768
Net increase in cash and cash equivalents	6,675	9,877
Cash and cash equivalents at beginning of period	24,301	11,414

Cash and cash equivalents at end of period	$	30,976	$	21,291
Supplemental disclosure of noncash investing and financing activities:				
Fair value of warrant granted as deferred equity financing cost	$	6,968	$	
Issuance of warrant in connection with committed equity financing facility	$		$	472
Issuance of warrant in connection with common stock issuance	$		$	1,446
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	$	197	$	66
Conversion of 2004 convertible notes	$		$	2,764

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 cancer, inflammation and autoimmune diseases. Three of our antibodies are currently in clinical trials, while the remainder of our product pipeline is in preclinical development. MT103, also known as MEDI-538, the first 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 to eliminate cancer cells. We are developing MT103 in collaboration with MedImmune, Inc., a subsidiary of AstraZeneca plc. Our second clinical stage antibody is adecatumumab, also known as MT201, a human monoclonal antibody which targets EpCAM-expressing 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. The third clinical stage antibody is MT293 (formerly D93), also known as TRC093, a first-in-class humanized monoclonal antibody that inhibits angiogenesis and tumor cell growth by binding cleaved collagen. MT293, which is currently being tested in a phase 1 clinical trial, is licensed to TRACON Pharmaceuticals, Inc. and is being developed for the treatment of patients with cancer and age-related macular degeneration. In addition, Micromet has established a collaboration with Nycomed for the development and commercialization of MT203, Micromet s human antibody neutralizing the activity of granulocyte/macrophage colony stimulating factor (GM-CSF), which has potential applications in the treatment of various inflammatory and autoimmune diseases, such as rheumatoid arthritis, psoriasis, or multiple sclerosis. For purposes of this report, we have included in the term collaborator our licensees, such as TRACON, in addition to the counterparties to our collaboration agreements. Further, with our BiTE antibody technology platform, we believe that we have a strong proprietary technology platform that we have used and will continue to use to generate additional antibody product candidates for our own product pipeline. 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

On May 5, 2006, CancerVax Corporation (CancerVax) completed a merger with Micromet AG, a privately-held German company, pursuant to which CancerVax s wholly-owned subsidiary, Carlsbad Acquisition Corporation, merged with and into Micromet Holdings, Inc. (Micromet Holdings), a newly created parent corporation of Micromet AG. Micromet Holdings became a wholly-owned subsidiary of CancerVax and was the surviving corporation in the merger. CancerVax issued to Micromet AG stockholders and other security holders an aggregate of 19,761,688 shares of CancerVax common stock, and CancerVax assumed all of the stock options, stock warrants and restricted stock of Micromet Holdings outstanding as of May 5, 2006, such that the former Micromet AG stockholders, option holders, warrant holders and note holders owned, as of the closing, approximately 67.5% of the combined company on a fully-diluted basis and former CancerVax stockholders, option holders and warrant holders owned, as of the closing, approximately 32.5% of the combined company on a fully-diluted basis. CancerVax was renamed Micromet, Inc. and our NASDAQ Global Market ticker symbol was changed to MITI.

As former Micromet AG security holders owned approximately 67.5% of the voting stock of the combined company immediately after the merger, Micromet AG is deemed to be the acquiring company for accounting purposes and the transaction was accounted for as a reverse acquisition under the purchase method of accounting for business combinations. Accordingly, unless otherwise noted, all pre-merger financial information is that of Micromet AG, and all post-merger financial information is that of Micromet, Inc. and its wholly owned subsidiaries: Micromet AG; Micromet Holdings, Inc.; Tarcanta, Inc.; Tarcanta Limited; and Cell-Matrix, Inc. Substantially all of the post-merger operating activities are conducted through Micromet AG, a wholly-owned subsidiary of Micromet Holdings, Inc. and an indirect wholly-owned subsidiary of Micromet, Inc.

Unless specifically noted otherwise, as used throughout these consolidated financial statements, Micromet , we, us, and our refers to the business of the combined company after the merger and the business of Micromet AG prior to the merger. Unless specifically noted otherwise, as used throughout these consolidated financial statements, CancerVax refers to the business of CancerVax Corporation prior to the merger.

The condensed consolidated financial statements as of September 30, 2007, and for the three and nine months ended September 30, 2007 and 2006, 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. 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 financial statements as of December 31, 2006 and 2005 and each of the three years in the period ended December 31, 2006 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the SEC) on March 16, 2007.

The accompanying unaudited condensed 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 collectibility of accounts receivable, the valuation of goodwill, intangibles and other long-lived assets, the valuation of common stock warrants, 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.

Unless otherwise indicated, the pre-merger financial information of Micromet AG has been restated to reflect the closing of our merger and the related conversion of all Micromet AG capital stock into Micromet Holdings common stock, the conversion of each share of Micromet Holdings common stock into 15.74176 shares of Micromet, Inc. common stock, a 1-for-3 reverse stock split of our outstanding common stock that became effective upon the closing of the merger and a final par value of $0.00004 per common share.

The accompanying unaudited condensed consolidated 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, 2007, we had an accumulated deficit of $161.1 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 drug 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. Management believes we have sufficient resources to fund our required expenditures into the second quarter of 2009, without considering any potential future milestone payments which we may receive under current or future collaborations, any future capital raising transactions or draw-downs from the committed equity financing facility with Kingsbridge Capital Limited.

Note 3. Summary of Significant Accounting Policies

Foreign Currency Translation

The accompanying condensed consolidated financial statements are presented in U.S. dollars. The functional currency for all of our subsidiaries is the U.S. dollar, with the exception of Micromet AG, whose functional currency is the European Euro. The assets and liabilities of Micromet AG are translated into U.S. dollars at the exchange rate in effect at the balance sheet date. The equity accounts of Micromet AG are translated into U.S. dollars at historical exchange rates. Micromet AG s statement of operations data are translated into U.S. dollars at the average exchange rate in effect for the period. Micromet AG s operating cash flow data are translated into U.S. dollars at the average exchange rate in effect for the period, and investing and financing cash flow data are translated into U.S. dollars at the exchange rate in effect at the date of the underlying transaction. The gains and losses from currency translation of Euros to U.S. dollars on the financial statements of Micromet AG are recorded directly as a separate component of stockholders equity under the caption Accumulated Other Comprehensive Income . Transaction gains and losses are recorded in the statement of operations in other income (expense) and amounted to $(75,000) and $(39,000) for the three months ended September 30, 2007and 2006, respectively, and $71,000 and $(106,000) for the nine months ended September 30, 2007 and 2006, respectively.

Cash and Cash Equivalents

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

Restricted Cash

As of September 30, 2007, we have a total of $3.1 million of standby letters of credit collateralized by certificates of deposit that are included as restricted cash in our non-current assets, comprised of the following:

$0.7 million relates to our building lease in Munich, Germany; and

$2.4 million relates to two building leases in California assumed in the merger with CancerVax.

The Allowance for Doubtful Accounts

The allowance for doubtful accounts is based on management s assessment of the collectability of specific customer accounts. If there is a deterioration of a customer s credit worthiness or actual defaults are higher than historical experience, management s estimates of the recoverability of amounts due to us could be adversely affected. Based on management s assessment, no allowances were necessary as of September 30, 2007 and December 31, 2006.

Property and Equipment

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

Purchase Price Allocation for Business Combinations

The allocation of purchase price for business combinations requires extensive use of accounting estimates and judgments to allocate the purchase price to the identifiable tangible and intangible assets acquired, including in-process research and development, and liabilities assumed based on their respective values. In fiscal quarter ended June 30, 2006, we completed our merger with CancerVax. See Note 5 for a detailed discussion, including the purchase price allocation.

Goodwill

We have goodwill with a carrying value of $6.9 million at September 30, 2007, which resulted from our merger with CancerVax in May 2006. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, we do not amortize goodwill. Instead, we review goodwill for impairment at least annually and more frequently if events or changes in circumstances indicate a reduction in the fair value of the reporting unit to which the goodwill has been assigned. Goodwill is determined to be impaired if the fair value of the reporting unit to which the goodwill has been assigned is less than its carrying amount, including the goodwill. We have selected October 1 as our annual goodwill impairment testing date. On October 1, 2006, we conducted an assessment of the goodwill carrying value and found no indication of impairment. In March 2007, after entering into a license agreement for MT293 with TRACON, we again conducted an assessment of the goodwill carrying value and found no indication of impairment.

Patents

We hold patents for single-chain antigen binding molecule technology, which we acquired from Curis, Inc. in 2001. Patents are amortized over their estimated useful life of ten years using the straight-line method. The patents are utilized in revenue-producing activities as well as in research and development activities.

Impairment of Long-Lived and Identifiable Intangible Assets

In accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, we evaluate the carrying value of long-lived assets and identifiable intangible assets for potential impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability is determined by comparing projected undiscounted cash flows associated with such assets to the related carrying value. An impairment loss would be recognized when the estimated undiscounted future cash flow is less than the carrying amount of the asset. An impairment loss would be measured as the amount by which the carrying value of the asset exceeds the fair value of the asset. No impairment charges to our long-lived or intangible assets have been recognized through September 30, 2007.

Common Stock Warrants Liability

In June 2007, we completed a private placement of 9,216,709 shares of common stock and common stock warrants to purchase an additional 4,608,356 shares of common stock. As discussed further in Note 9, 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 each quarter using a Black-Scholes option-pricing model.

Revenue Recognition

Our revenues generally consist of licensing fees, milestone payments, and fees for research services earned from license agreements or from research and development collaboration agreements. We recognize revenue upon satisfying the following four criteria: persuasive evidence of an arrangement exists, delivery has occurred, the price is

fixed or determinable, and collectability is reasonably assured.

Revenues under collaborative research agreements are recognized as incurred over the period specified in the related agreement or as the services are performed. Milestone payments are derived from the achievement of predetermined goals under the collaboration agreements. For milestones that are subject to contingencies, the related contingent revenue is not recognized until the milestone has been reached and customer acceptance has been obtained as necessary. Fees for research and development services performed under the agreements are generally stated at a yearly fixed fee per research scientist. We recognize revenue as the services are performed. Amounts received in advance of services performed are recorded as deferred revenue until earned.

We have received initial license fees and annual renewal fees upfront each year under license agreements. Revenue is recognized when the above noted criteria are satisfied unless we have further obligations associated with the license granted.

We are entitled to receive royalty payments on the sale of products under license and collaboration agreements. Royalties are based upon the volume of products sold and are recognized as revenue upon notification of sales from the collaborator or licensee that is commercializing the product. Through September 30, 2007, we have not received or recognized any royalty payments.

For arrangements that include multiple deliverables, we identify separate units of accounting based on the consensus reached on Emerging Issues Task Force Issue (EITF) No. 00-21, *Revenue Arrangements with Multiple Deliverables*. EITF No. 00-21 provides that revenue arrangements with multiple deliverables should be divided into separate units of accounting if certain criteria are met. The consideration for the arrangement is allocated to the separated units of accounting based on their relative fair values. Applicable revenue recognition criteria are considered separately for each unit of accounting. We recognize revenue on development and collaboration agreements, including upfront payments, where they are considered combined units of accounting, over the period specified in the related agreement or as the services are performed.

Research and Development

Research and development expenditures, including direct and allocated expenses, are charged to operations as incurred.

Total Comprehensive Loss

For the three and nine months ended September 30, 2007 and 2006 comprehensive loss consists of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Net loss	$ (2,268)	$ (5,766)	$ (16,327)	$ (37,387)
Realized gain on investments				38
Foreign currency translation adjustments	32	(124)	101	(585)
Total comprehensive loss	$ (2,236)	$ (5,642)	$ (16,226)	$ (37,934)

Stock-Based Compensation

We account for stock-based awards under SFAS No. 123(R), which requires measurement of compensation cost for all stock-based awards at fair value on 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. Compensation expense related to stock-based awards are allocated to research and development or general and administrative based upon the department to which the associated employee reports. Stock-based awards issued to non-employees were recorded at their fair value in accordance with SFAS No. 123 and 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 measurement date commensurate with the determination of when service has been completed.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Research and development expense	$ 347	$ 235	$ 1,225	$ 2,323
General and administrative expense	539	801	1,576	1,728
Total stock-based compensation	$ 886	$ 1,036	$ 2,801	$ 4,051

As of September 30, 2007, total unrecognized compensation cost related to stock options was approximately $6.0 million and the weighted average period over which it is expected to be recognized is 2.4 years.

Income Taxes

We account for income taxes under SFAS No. 109, *Accounting for Income Taxes* (SFAS 109) using the liability method. Deferred income taxes are recognized at the enacted tax rates for temporary differences between the financial statement and income tax bases of assets and liabilities. Deferred tax assets are reduced by a valuation allowance if, based upon the weight of available evidence, it is more likely than not that some portion or all of the related tax asset will not be recovered.

Net Loss Per Share

We calculate net loss per share in accordance with SFAS No. 128, *Earnings Per Share.* 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. All such common stock equivalents have been excluded from our calculations of diluted net loss due to our losses for the three and nine months ended September 30, 2007 and 2006. The outstanding anti-dilutive securities excluded from the diluted net loss computation consisted of common stock options in the amount of 5,886,000 and 3,337,000 shares and common stock warrants in the amount of 5,527,000 and 84,000 shares as of September 30, 2007 and 2006, respectively.

Reclassification

Certain amounts in the previous period financial statements have been reclassified to conform to the current period presentation.

Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* . Under SFAS No. 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 No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact SFAS No. 159 will have on our results of operations and financial condition.

Note 4. Income Taxes

In July 2006, FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with SFAS No. 109, *Accounting* for *Income Taxes* . FIN 48 prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006.

We adopted the provisions of FIN 48 on January 1, 2007. There were no unrecognized tax benefits as of the date of adoption. We did not recognize an increase in the liability for unrecognized tax benefits as a result of the implementation of FIN 48. There are no unrecognized tax benefits included in the balance sheet that would, if recognized, affect the effective tax rate.

Our practice is to recognize interest and penalties related to income tax matters in income tax expense. We did not have an accrual for interest and penalties on our balance sheets at December 31, 2006 and at September 30, 2007, and we have not recognized any interest and penalties in the statement of operations for the nine months ended September 30, 2007.

We are subject to taxation in the United States, Germany and various state jurisdictions. Our tax years for 1999 and forward are subject to examination by the United States and various state tax authorities due to the carryforward of unutilized net operating losses and research and development tax credits. Our German tax returns for tax years 2004 and forward are subject to examination by the German tax authorities.

The adoption of FIN 48 did not impact our financial condition, results of operations or cash flows. At January 1, 2007, we had net deferred tax assets of $89.4 million. The deferred tax assets are primarily composed of foreign, federal and state tax net operating loss carryfowards. Due to uncertainties surrounding our ability to generate future taxable income to realize these assets, a full valuation allowance has been established to offset our net deferred tax asset.

Note 5. Merger with CancerVax

On May 5, 2006, we completed our merger with CancerVax, a biotechnology company focused on the research, development and commercialization of novel biological products for the treatment and control of cancer. The acquisition of unrestricted cash, a NASDAQ listing, and selected ongoing product development programs were the primary reasons for the merger. The primary factor in the recognition of goodwill was the acquisition of selected ongoing product development programs. Because former Micromet AG security holders owned approximately 67.5% of the voting stock of the combined company on a fully-diluted basis immediately after the merger, Micromet AG is deemed to be the acquiring company for accounting purposes, and the transaction has been accounted for as a reverse acquisition under the purchase method of accounting. Accordingly, CancerVax s assets and liabilities were recorded as of the merger closing date at their estimated fair values.

The fair value of the 9,380,457 outstanding shares of CancerVax common stock used in determining the purchase price was $41.0 million, or $4.38 per share, based on the average of the closing prices for a range of trading days

(January 5, 2006 through January 11, 2006, inclusive) around and including the announcement date of the merger transaction. The fair value of the CancerVax stock options and stock warrants assumed by Micromet was determined using the Black-Scholes option-pricing model with the following assumptions: stock price of $4.38, which is the value ascribed to the CancerVax common stock in determining the purchase price; volatility of 75%; dividend rate of zero; risk-free interest rate of 4.0%; and a weighted average expected option life of 0.88 years.

The purchase price is summarized as follows (in thousands):

Fair value of CancerVax common stock	$ 41,030
Estimated fair value of CancerVax stock options and stock warrants assumed	710
Transaction costs incurred by Micromet	2,257
Total purchase price	$ 43,997

Under the purchase method of accounting, the total purchase price is allocated to the acquired tangible and intangible assets and assumed liabilities of CancerVax based on their estimated fair values as of the merger closing date. The excess of the purchase price over the fair value of assets acquired and liabilities assumed is allocated to goodwill.

The final allocation of the total purchase price, as shown above, to the acquired tangible and intangible assets and assumed liabilities of CancerVax based on their fair values as of the merger date are as follows (in thousands):

Cash and cash equivalents	$ 39,645
Receivables under collaborations	447
Restricted cash	2,280
Other assets	569
Accounts payable	(2,639)
Accrued expenses	(5,764)
Current portion of long-term debt obligations	(16,816)
Long-term liabilities	(1,532)
Net book value of acquired assets and liabilities	16,190
In-process research and development	20,890
Goodwill	6,917
Total purchase price	$ 43,997

The acquired in-process research and development (IPR&D) projects consist of the following: MT293 (TRC093) and other denatured collagen related anti-angiogenesis programs that potentially target various solid tumors; SAI-EGF and related programs that target the epidermal growth factor receptor, or EGFR, signaling pathway that potentially target non-small cell lung cancer and various solid tumors; MT228 (MORAb-028) an antibody that appears to target tumor-associated antigens that are expressed in a variety of solid tumor cancers, which had been licensed to Eisai Co. s wholly owned subsidiary Morphotek; and certain other non-denatured collagen related humanized, monoclonal antibodies and peptides that potentially target various solid tumors.

The fair value of the IPR&D projects was determined utilizing the income approach, assuming that the rights to the IPR&D projects will be sub-licensed to third parties in exchange for certain up-front, milestone and royalty payments, and the combined company will have no further involvement in the ongoing development and commercialization of the projects. Under the income approach, the expected future net cash flows from sub-licensing for each IPR&D project are estimated, risk-adjusted to reflect the risks inherent in the development process and discounted to their net present value. Significant factors considered in the calculation of the discount rate are the weighted-average cost of capital and return on assets. Management believes that the discount rate utilized is consistent with the projects stage of development and the uncertainties in the estimates described above. Because the acquired IPR&D projects are in the early stages of the development cycle, the amount allocated to IPR&D was recorded as an expense immediately upon completion of the merger.

Pro Forma Results of Operations

The results of operations of CancerVax are included in Micromet, Inc. s consolidated financial statements from the closing date of the merger on May 5, 2006. The following table presents pro forma results of operations and gives effect to the merger transaction as if the merger had been consummated at January 1, 2006. The unaudited pro forma results of operations are not necessarily indicative of what would have occurred had the business combination been completed at January 1, 2006 or of the results that may occur in the future.

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Revenues	$ 5,563	$ 4,636	$ 11,399	$ 14,228
Net loss	$ (2,268)	$ (5,766)	$ (16,327)	$ (48,794)
Basic and diluted net loss per common share	$ (0.06)	$ (0.19)	$ (0.47)	$ (1.68)

The pro forma results for the nine months ended September 30, 2006 includes $20.9 million of nonrecurring charges for the write-off of in-process research and development.

Note 6. Other Non-Current Liabilities

Included in the September 30, 2007 other non-current liabilities balance of $2.3 million are facility lease exit liabilities related to two building leases that were assumed as a result of our merger with CancerVax.

Under the restructuring plan approved by CancerVax s board of directors in October 2005, a former manufacturing facility was closed. In January and April 2006, additional restructuring measures were approved by CancerVax s Board of Directors, including the plan to vacate the corporate headquarters. In accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* , a facility lease exit liability was recorded by CancerVax at the time of the cease-use date. The facility lease exit liability was assumed at the date of the merger with CancerVax and was included as part of our allocation of total purchase price (see Note 5).

In April 2007, we entered into an amendment to an existing sublease agreement to sublease the remaining square footage of CancerVax s former corporate headquarters. This space is now fully subleased. The term of the sublease will continue to expire on June 30, 2012. We recorded an increase in our facility lease exit liability of $759,000 during the second quarter of 2007 to reflect the cumulative effect of the change in estimated cash flows resulting from a longer period of time required to sublease the former corporate headquarters facility than originally anticipated as well as a lower monthly sublease income. The $759,000 adjustment to our facility lease exit liability was recorded in general and administrative expense during the second quarter of 2007.

As a consequence of the restructuring of our subsidiary Micromet AG s operations during 2004, we recorded a lease exit liability for certain space at our Munich facility that we no longer utilized. In June 2007, we signed a sublease agreement 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. As of September 30, 2007, future sublease income is expected to cover our lease expense for this facility, eliminating the lease exit liability on this facility.

The following table summarizes the activity for these obligations for the nine months ended September 30, 2007 (in thousands):

	Accrued Balance as of December 31, 2006	Amounts Paid in Period	Accretion Expense	Adjustment to the Liability	Currency Translation Adjustment	Accrued Balance as of September 30, 2007
Former CancerVax facilities	$ 1,470	$ (601)	$ 179	$ 759		$ 1,807
Munich, Germany facility	472	(130)	41	(394)	11	
Total	$ 1,942	$ (731)	$ 220	$ 365	$ 11	$ 1,807

Of the $1,807,000 lease exit liability as of September 30, 2007, $143,000 is current and $1,664,000 is non-current.

Note 7. Long-Term Debt

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

	September 30, 2007	**December 31, 2006**
TBG borrowings due December 31, 2008; interest payable semi-annually at rates ranging from 6% to 7%	$ 2,315	$ 2,015
Bayern Kapital borrowings due December 31, 2006; interest payable quarterly at 6.75%		586
TBFB borrowings due December 31, 2008; interest payable quarterly at 6%		3,386
MedImmune borrowings due June 6, 2010; interest payable monthly at 4.5%	2,183	2,020
Total long-term debt obligations	4,498	8,007
Less: current portion	(34)	(599)
Long-term debt obligations, net of current portion	$ 4,464	$ 7,408

Scheduled repayment of principal for the debt agreements is as follows as of September 30, 2007 (in thousands):

2007	$ 34
2008	2,281
2009	
2010	2,183
Total	$ 4,498

The silent partnership agreement with TBFB requires that 20% of the net proceeds of any financing be used for the repayment of certain components of our silent partnership debt. The private placement financing in June 2007 (see Note 9) required us to repay the remaining TBFB silent partnership debt of $3.6 million in the third quarter of 2007.

Note 8. Commitments and Contingencies

Leases

Future minimum lease payments under non-cancelable operating and capital leases as of September 30, 2007 are as follows (in thousands):

	Capital Leases	Operating Leases	Sublease Income	Net Operating Leases
2007 (October 1, 2007 - December 31, 2007)	$ 49	$ 1,102	$ (772)	$ 330
2008	171	4,420	(2,383)	2,037
2009	28	4,376	(2,422)	1,954
2010		4,410	(2,008)	2,402
2011		4,452	(1,413)	3,039
Thereafter		2,229	(717)	1,512
Total minimum lease payments	248	$ 20,989	$ (9,715)	$ 11,274
Less: amount representing imputed interest	12			
Present value of minimum lease payments	236			
Less: current portion	172			
Capital lease obligation, less current portion	$ 64			

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

License and Research and Development 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 and research and development agreements are as follows (in thousands):

2007 (October 1, 2007- December 31, 2007)	$ 1,200
2008	130
2009	30
2010	30
2011	30
Thereafter	120
Total minimum payments	$ 1,540

Other Taxes

We had accruals for contingent liabilities related to non-income tax matters as of December 31, 2006 in the amount of $1.7 million. Included in this accrual was $1.3 million related to withholding tax duty on past royalty payments made to collaborators who are domiciled outside of Germany. We paid this amount to the German tax authorities during the first quarter of 2007 in order to settle this liability. During the second quarter of 2007, we received notification of a refund of $0.8 million because the recipients of these royalty payments were exempt from withholding taxes. The $0.8 million benefit was included in other income. We continue to pursue a refund on the

remaining $0.5 million.

The December 31, 2006 accrual also consisted of $0.4 million related to a disallowed reimbursement of German Value Added Tax incurred on expenses as a result of a 2001 increase of stated capital. The German tax authorities had originally denied the deduction, and we filed an appeal against the related assessment and accrued amounts potentially owed. The appeal was pending for several years and depended on the authorities review of a model case then pending with the German supreme fiscal court in a similar matter. This matter

was resolved in our favor in the first quarter of 2007 at which time the accrual was reversed and the $0.4 million benefit was included in general and administrative expenses.

Note 9. Private Placement of Common Stock and Warrants

On June 22, 2007, we completed a private placement with various institutional and individual accredited investors to which we issued an aggregate of 9,216,709 shares of common stock and warrants to purchase an additional 4,608,356 shares of common stock in return for aggregate gross proceeds, before expenses, of $25.4 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 $1.9 million resulting in net proceeds of approximately $23.5 million. The purchase price of each share of common stock sold in the financing was $2.69, the closing price of our common stock on the Nasdaq Global Market on June 19, 2007, the date we entered into the securities purchase agreement with the investors, and the purchase price for the warrants was $0.125 for each share of common stock underlying the warrants. The warrants are exercisable beginning 180 days after issuance through December 19, 2012 and have an exercise price of $3.09 per share.

Under the terms of the warrants, if a Fundamental Transaction (as defined in the warrant) occurs, we (or the successor entity) shall purchase any unexercised warrants from the holder thereof for cash in an amount equal to its value computed using the Black-Scholes option-pricing model with prescribed guidelines.

Since the Fundamental Transaction terms provide the warrant holders with a benefit in the form of a cash payment equal to the fair value of the unexercised warrants calculated using the Black-Scholes option-pricing model formula in certain qualifying events described above, the warrants have been classified as a liability until the earlier of the date the warrants are exercised in full or expire. In accordance with EITF 00-19, *Accounting for Derivative Financial Instruments Indexed To, and Potentially Settled In, a Company s Own Stock*, the warrants were valued on the date of grant using the Black-Scholes option-pricing model and using the following assumptions: a risk-free rate of 4.78%, a volatility factor of 75.2%, a life of 5.5 years, and a dividend rate of zero. The estimated fair value of the warrants on the date of grant was approximately $6.9 million. EITF 00-19 also requires that the warrants be revalued as derivative instruments at each reporting period end. We will adjust the instruments to their current fair value using the Black-Scholes model formula at each reporting period end, with the change in value recorded as a non-cash other income/expense. Fluctuations in the market price of our common stock between measurement periods will have an impact on the revaluations, the results of which are highly unpredictable and may have a significant impact on our results of operations.

At each quarter end, the common stock warrants liability was remeasured to the then fair value, with the corresponding decreases in fair value since June 22, 2007 of $0.5 million recognized in other income for the quarter ended June 30, 2007 and an additional decrease in fair value of $1.2 million recognized in other income for the quarter ended September 30, 2007. As of September 30, 2007, the fair value of the common stock warrants liability recorded on our condensed consolidated balance sheet was $5.3 million.

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 July 19, 2007. We filed the registration statement with the SEC on July 14, 2007, and it was declared effective by the SEC on August 2, 2007. 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 we do not maintain the effectiveness of the registration statement. The amount of the liquidated damages is, in aggregate, 1.5% of the purchase price of the common stock per month, subject to an aggregate maximum of 12% of the aggregate purchase price of the shares. We are not liable for liquidated damages with respect to the warrants or the common shares issuable upon exercise of the warrants.

We account for the registration payment arrangement under the provisions of FASB Staff Position No. EITF 00-19-2, *Accounting for Registration Payment Arrangements*. As of September 30, 2007, management determined that it is not probable that we will be obligated to pay any liquidated damages in connection with the June 2007 private placement. Accordingly, no accrual for contingent obligation is required or recorded as of September 30, 2007.

Note 10. License Agreements and Collaborations

On May 24, 2007, through our wholly-owned subsidiary Micromet AG, we entered into a Collaboration and License Agreement with Nycomed A/S s wholly-owned subsidiary Nycomed GmbH under which the two companies will collaborate exclusively with each other on the development of antibodies that neutralize granulocyte macrophage colony-stimulating factor (GM-CSF) that may be useful for the treatment of inflammation and autoimmune diseases. The lead product candidate in the collaboration is our human antibody MT203. Under the terms of the agreement, we have received an upfront license fee of 5.0 million or $7.1 million at the exchange rate as of September 30, 2007, and we are eligible to receive research and development reimbursements and payments upon the achievement

of development milestones of more than 120.0 million or $171.0 million at the exchange rate of September 30, 2007 in the aggregate. We are obligated under the terms of the license agreement with Nycomed to serve on a Joint Steering Committee for a period of 20 years; accordingly, we will recognize the up-front payment of $7.1 million as revenue over this 20-year period on a straight-line basis. We are also eligible to receive royalties on worldwide sales of MT203 and other products that may be developed under the agreement. We are responsible for performing preclinical development, process development and manufacturing of MT203 for early clinical trials, and Nycomed is responsible for clinical development and commercialization of the product candidate on a worldwide basis. Nycomed will bear the cost of development activities and reimburses us for our expenses incurred in connection with the development program. The agreement expires upon the satisfaction of all payment obligations of each party under the agreement.

Note 11. Segment Reporting

We operate in only one segment, which primarily focuses on the discovery and development of antibody-based drug candidates using our proprietary technologies.

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, 2006, and the related Management s Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2007.

For periods up to May 4, 2006, the results of operations and cash flows presented in the interim financial statements contained herein reflect Micromet AG only. For periods from May 5, 2006 (the date of the closing of the merger) through September 30, 2007, the results of operations and cash flows presented in the interim financial statements contained herein reflect the combined operations of CancerVax and Micromet AG. Accordingly, the results of operations and cash flows for the nine months ended September 30, 2006 presented herein are not necessarily indicative of the results of operations and cash flows that we would experience if the operations of the two companies had been combined for the nine months ended September 30, 2006.

Overview

Merger of CancerVax Corporation and Micromet AG

On May 5, 2006, CancerVax Corporation completed a merger with Micromet AG, a privately-held German company, pursuant to which CancerVax s wholly-owned subsidiary, Carlsbad Acquisition Corporation, merged with and into Micromet Holdings, Inc., a newly created parent corporation of Micromet AG. Micromet Holdings became a wholly-owned subsidiary of CancerVax and was the surviving corporation in the merger. CancerVax issued to Micromet AG stockholders and certain other security holders shares of CancerVax common stock, and CancerVax assumed all of the stock options, stock warrants and restricted stock of Micromet Holdings outstanding as of May 5, 2006, such that the former Micromet AG stockholders, option holders, warrant holders and note holders owned, as of the closing, approximately 67.5% of the combined company on a fully-diluted basis and former CancerVax stockholders, option holders and warrant holders owned, as of the closing, approximately 32.5% of the combined company on a fully-diluted basis. In connection with the merger, CancerVax was renamed Micromet, Inc. and our NASDAQ Global Market ticker symbol was changed to MITI.

Unless specifically noted otherwise, as used throughout this report:

CancerVax Corporation or CancerVax refers to the business, operations and financial results of CancerVax Corporation prior to the closing of the merger between CancerVax Corporation and Micromet AG on May 5, 2006, at which time CancerVax s name was changed to Micromet, Inc. ;

Micromet AG refers to the business, operations and financial results of Micromet AG, a privately-held German company, prior to the closing of the merger and after the merger, as the context requires; and

Micromet, we, our, or us refers to the operations and financial results of Micromet, Inc. and Micromet AG c consolidated basis after the closing of the merger, and Micromet AG prior to the closing of the merger, as the context requires.

Ongoing Business Activities

Micromet, Inc. is a biopharmaceutical company developing novel, proprietary antibodies for cancer, inflammation and autoimmune diseases. Three of our antibodies are currently in clinical trials, while the remainder of our product pipeline is in preclinical development. MT103, also known as MEDI-538, the first 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 to eliminate cancer cells. We are developing MT103 in collaboration with MedImmune, Inc., a subsidiary of AstraZeneca plc. Our second clinical stage antibody is adecatumumab, also known as MT201, a human

monoclonal antibody which targets EpCAM-expressing 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. The third clinical stage antibody is MT293 (formerly D93), also known as TRC093, a first-in-class humanized monoclonal antibody that inhibits angiogenesis and tumor cell growth by binding cleaved collagen. MT293, which is currently being tested in a phase 1 clinical trial, is licensed to TRACON Pharmaceuticals, Inc. and is being developed for the treatment of patients with cancer and age-related macular degeneration. In addition, Micromet has established a

collaboration with Nycomed for the development and commercialization of MT203, Micromet s human antibody neutralizing the activity of granulocyte/macrophage colony stimulating factor (GM-CSF), which has potential applications in the treatment of various inflammatory and autoimmune diseases, such as rheumatoid arthritis, psoriasis, or multiple sclerosis. For purposes of this report, we have included in the term collaborator our licensees, such as TRACON, in addition to the counterparties to our collaboration agreements. Further, with our BiTE antibody technology platform, we believe that we have a strong proprietary technology platform that we have used and will continue to use to generate additional antibody product candidates for our own product pipeline. To date, we have incurred significant research and development expenses and have not achieved any product revenues from sales of our product candidates.

Our goal is to develop products for the treatment of cancer and inflammation and autoimmune diseases that address significant unmet medical needs. We believe that our novel antibody technologies, antibody product candidates and antibody product development expertise in these fields will continue to enable us to identify and develop promising new product opportunities for these critical markets. To date, we have incurred significant 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 pre-clinical and clinical trials, before applying for marketing approval from the United States Food and Drug Administration, or FDA, the European Medicines Agency, or EMEA, or other equivalent international and national regulatory agencies. The risk is very high that a program may be terminated, in part or in full, for safety reasons, or lack of adequate efficacy. In particular, we cannot predict which, if any, of our potential product candidates will be successfully developed or approved for marketing, nor can we predict the time and cost to complete development.

As we obtain results from pre-clinical studies or clinical trials, we may elect not to initiate or to discontinue clinical trials 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 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, government grants for research, license fees, milestone payments and research-contribution revenues from our collaborations with pharmaceutical companies, and, more recently, by accessing the capital resources of CancerVax through our 2006 merger with them and subsequent 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, 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. Based on our capital resources as of the date of this report, we believe that we have adequate resources to fund our operations into the second quarter of 2009 at current spending levels, without considering any potential future milestone payments that we may receive under current or future collaborations, any future capital raising transactions or any drawdowns from our committed equity financing facility, or CEFF, with Kingsbridge Capital Limited.

Research and Development and In-Process Research and Development

Through September 30, 2007, our research and development expenses consisted of costs associated with the clinical development of adecatumumab and MT103, pre-clinical development costs for a new BiTE antibody called

MT110 and a new human antibody against granulocyte/macrophage colony stimulating factor, or GM-CSF, called MT203, and research activities under our collaboration with MedImmune and relating to our BiTE antibody development platform. The costs incurred include costs associated with clinical trials and manufacturing development, 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.

In addition, as a result of our merger with CancerVax, we acquired in-process research and development (IPR&D) projects with an assigned value of $20.9 million. The fair value of the IPR&D projects was determined utilizing the income approach, assuming that the rights to the IPR&D projects will be sub-licensed to third parties in exchange for certain up-front, milestone and royalty payments, and

the combined company will have no further involvement in the ongoing development and commercialization of the projects. Under the income approach, the expected future net cash flows from sub-licensing for each IPR&D project are estimated, risk-adjusted to reflect the risks inherent in the development process and discounted to their net present value. Significant factors considered in the calculation of the discount rate are the weighted-average cost of capital and return on assets. We believe that the discount rate utilized is consistent with the projects stage of development and the uncertainties in the estimates described above. Because the acquired IPR&D projects are in the early stages of the development cycle, the amount allocated to IPR&D were recorded as an expense immediately upon completion of the merger.

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 pre-clinical 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 sales of any products commercialized pursuant to our collaborations.

Under our collaboration agreement with Merck Serono for adecatumumab, we have received $22.0 million in up-front and milestone payments from Merck Serono to date, not including reimbursements for costs and expenses incurred in connection with the development of adecatumumab. The agreement provides for potential future clinical development milestone payments of up to an additional $126.0 million. All of our development costs related to adecatumumab are fully reimbursed by Merck Serono.

Under our collaboration agreement with MedImmune for MT103, the agreement provides for potential future milestone payments and royalty payments based on net sales of MT103. A second agreement with MedImmune for the development of new BiTE product candidates provides for potential future milestone payments and royalty payments based on future sales of the BiTE product candidates 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 have received $2.2 million in up-front and milestone payments to date.

Under our collaboration agreement with TRACON for MT293, TRACON is responsible for the development and commercialization of MT293 on a worldwide basis, as well as the costs and expenses associated with such activities. TRACON is obligated to make development and sales milestone payments, and pay a royalty on worldwide net sales of MT293. External costs that we incur related to intellectual property for MT293 are reimbursed by TRACON. In addition, TRACON will make certain payments for the delivery of the materials and has an obligation to pay us a portion of sublicensing revenues. We have received $1.5 million in up-front and material delivery fees to date.

Under our collaboration agreement with Nycomed for MT203, our proprietary human antibody neutralizing the activity of GM-CSF, which has potential applications in the treatment of inflammatory and autoimmune diseases, we are responsible for performing preclinical development, process development and manufacturing of MT203 for early clinical trials, and Nycomed is responsible for the development and commercialization costs of MT203 on a worldwide basis. Under the terms of the agreement, we received an upfront license fee of 5.0 million or $7.1 million at the exchange rate of September 30, 2007, and we will be eligible to receive research and development reimbursements and payments upon the achievement of development milestones of more than 120.0 million or $171.0 million at the exchange rate of September 30, 2007 in the aggregate.

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 other 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 move 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.

Critical Accounting Policies and the Use of Estimates

Our financial statements are prepared in conformity with accounting principles generally accepted in the United States. Such statements require management to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. Actual results could differ materially from those estimates. The critical accounting policies used in the preparation of our financial statements which require significant estimates and judgments are as follows:

Revenue Recognition

Our revenues generally consist of licensing fees, milestone payments and fees for research services earned from license agreements or from research and development collaboration agreements. We recognize revenue upon satisfying the following four criteria: persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, and collectability is reasonably assured.

Revenues under collaborative research agreements are recognized as incurred over the period specified in the related agreement or as the services are performed. Milestone payments are derived from the achievement of predetermined goals under the collaboration agreements. For milestones that are subject to contingencies, the related contingent revenue is not recognized until the milestone has been reached and customer acceptance has been obtained as necessary. Fees for research and development services performed under the agreements are generally stated at a yearly fixed fee per research scientist. We recognize revenue as the services are performed. Amounts received in advance of services performed are recorded as deferred revenue until earned.

We have received initial license fees and annual renewal fees upfront each year under license agreements. Revenue is recognized when the above noted criteria are satisfied unless we have further obligations associated with the license granted.

We are entitled to receive royalty payments on the sale of products under license and collaboration agreements. Royalties are based upon the volume of products sold and are recognized as revenue upon notification of sales from the collaborator or licensee that is commercializing the product. Through September 30, 2007, we have not received or recognized any royalty payments.

For arrangements that include multiple deliverables, we identify separate units of accounting based on the consensus reached on Emerging Issues Task Force Issue (EITF) No. 00-21, *Revenue Arrangements with Multiple Deliverables*. EITF No. 00-21 provides that revenue arrangements with multiple deliverables should be divided into separate units of accounting if certain criteria are met. The consideration for the arrangement is allocated to the separated units of accounting based on their relative fair values. Applicable revenue recognition criteria are considered separately for each unit of accounting. We recognize revenue on development and collaboration agreements, including upfront payments, where they are considered combined units of accounting, over the period specified in the related agreement or as the services are performed.

Purchase Price Allocation in Business Combinations

The allocation of purchase price for business combinations requires extensive use of accounting estimates and judgments to allocate the purchase price to the identifiable tangible and intangible assets acquired, including in-process research and development, and liabilities assumed based on their respective values. In the fiscal quarter ended June 30, 2006, we completed our merger with CancerVax. See Note 5 in the footnotes to our unaudited condensed consolidated financial statements included in this report for a detailed discussion, including the purchase price allocation.

Goodwill

In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, we do not amortize goodwill. Instead, we review goodwill for impairment at least annually and whenever events or changes in circumstances indicate a reduction in the fair value of the reporting unit to which the goodwill has been assigned. Conditions that would necessitate a goodwill impairment assessment include a significant adverse change in legal factors or in the business climate, an adverse action or assessment by a regulator, unanticipated

competition, a loss of key personnel, or the presence of other indicators that would indicate a reduction in the fair value of the reporting unit to which the goodwill has been assigned. SFAS No. 142 prescribes a two-step process for impairment testing of goodwill. The first step of the impairment test is used to identify potential impairment by comparing the fair value of the reporting unit to which the goodwill has been assigned to its carrying amount, including the goodwill. Such a valuation requires

significant estimates and assumptions including but not limited to: determining the timing and expected costs to complete in-process projects, projecting regulatory approvals, estimating future cash inflows from product sales and other sources, and developing appropriate discount rates and success probability rates by project. If the carrying value of the reporting unit exceeds the fair value, the second step of the impairment test is performed in order to measure the impairment loss. As a result of our merger with CancerVax, we recorded $6.9 million of goodwill. We performed our annual goodwill impairment test as of October 1, 2006 and determined that there was no impairment. In the first quarter of 2007, after entering into a licensing agreement with TRACON, we performed an updated goodwill impairment assessment in accordance with SFAS No. 142 and determined that the carrying amount of goodwill continued to be fully recoverable. We cannot assure you that our future reviews of goodwill impairment will not result in a material charge.

Long-Lived and Intangible Assets

The evaluation for impairment of long-lived and intangible assets requires significant estimates and judgment by management. Subsequent to the initial recording of long-lived and intangible assets, we must test such assets for impairment. When we conduct our impairment tests, factors that are important in determining whether impairment might exist include assumptions regarding our underlying business and product candidates and other factors specific to each asset being evaluated. Any changes in key assumptions about our business and our prospects, or changes in market conditions or other external factors, could result in impairment. Such impairment charge, if any, could have a material adverse effect on our results of operations.

Common Stock Warrants Liability

In June 2007, we completed a private placement of 9,216,709 shares of common stock and common stock warrants to purchase an additional 4,608,356 shares of common stock. As discussed further in Note 9 to our consolidated financial statements included in this report, 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 each quarter using a Black-Scholes option-pricing model.

Stock-Based Compensation

On January 1, 2006, we adopted the provisions of SFAS No. 123(R) and SEC Staff Accounting Bulletin (SAB) No. 107, *Share-Based Payment*, or SAB 107, requiring the measurement and recognition of all share-based compensation under the fair value method. Effective January 1, 2006, we began recognizing share-based compensation, under SFAS No. 123(R), for all awards granted after January 1, 2006 based on each award s grant date fair value. Prior to adopting the provisions of SFAS No. 123(R), we recorded estimated compensation expense for employee stock-based compensation under the provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), following the minimum value method. We implemented SFAS No. 123(R) using the modified prospective transition method.

We estimate the fair value of each share-based award on the grant date using the Black-Scholes option-pricing model. We apply the provisions of SAB 107 in developing our methodologies to estimate our Black-Scholes model inputs. Option valuation models, including Black-Scholes, require the input of highly subjective assumptions, and changes in the assumptions used can materially affect the grant date fair value of an award. 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. The expected term of at-the-money options granted is derived from the average midpoint between vesting and the contractual term, as described in SAB 107. The expected term for other options granted was determined by comparison to peer companies. SFAS No. 123(R) also requires that forfeitures be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The pre-vesting forfeiture rate for the three-month and nine-month periods ended September 30, 2007 was based on historical forfeiture experience for similar levels of employees to whom the options were granted. As of September 30, 2007, total unrecognized compensation cost related to stock options was approximately $6.0 million and the weighted average

period over which it is expected to be recognized is 2.4 years.

Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* . Under SFAS No. 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 No. 159 is effective for fiscal years

beginning after November 15, 2007. We are currently evaluating the impact SFAS No. 159 will have on our results of operations and financial condition.

Results of Operations

Comparison of Three Months Ended September 30, 2007 and 2006

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

	Three Months Ended	
	September 30, 2007	September 30, 2006
Collaborative R&D revenue:		
Merck Serono	$ 1.1	$ 1.9
MedImmune	1.5	2.5
Nycomed	0.8	
TRACON	2.1	
Total collaborative R&D revenue	5.5	4.4
License and other revenue	0.1	0.2
Total revenues	$ 5.6	$ 4.6

Collaborative research and development revenues from Merck Serono reflect their full cost responsibility for the adecatumumab program. Collaborative research and development revenues from MedImmune represent their share of the costs of clinical development of 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 Nycomed reflect their full cost responsibility for the MT203 program. Collaborative research and development revenues from TRACON reflect their full cost responsibility for the MT293 program.

The decrease in Merck Serono collaborative R&D revenue was the result of an amendment to our collaboration agreement that had the effect of lengthening the time over which revenue is recognized for the phase 1 study of MT201 in combination with docetaxel for the treatment of metastatic breast cancer. The period was extended from June 2007 to June 2009. The decrease in MedImmune revenue was due primarily to a milestone payment from MedImmune of $1.7 million recorded during the third quarter of 2006 while there was no such milestone payment during the current year. Partially offsetting this decrease was an increase in revenue of $0.6 million under the MT103 program with MedImmune. The Nycomed collaboration commenced during 2007 and there was no corresponding revenue-generating activity during the prior year. The Nycomed revenue represents the reimbursement of our clinical development activities including reimbursement for full time equivalents as well as the portion of the up-front payment from Nycomed that is being recognized over a 20-year period. The TRACON revenue during 2007 represents the sale of clinical material, cell banks, and toxicology materials transferred under the terms of our agreement with TRACON, miscellaneous pass through expenses and the portion of the up-front payment received from TRACON that is being recognized over a 15-year period. This collaboration also commenced during 2007, and there was no corresponding revenue-generating activity during 2006.

Research and Development Expenses. Research and development expense consists of costs incurred to discover, research and develop product candidates. These expenses consist primarily of salaries and related expenses for personnel, outside service costs including production of clinical material, fees for services in the context of clinical trials, medicinal chemistry, consulting and sponsored research collaborations, and occupancy and depreciation charges. Process development expenses were mainly incurred for production of 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 $6.3 million and $6.8 million for the three months ended September 30, 2007 and 2006, respectively. The reduction reflects a decrease in our manufacturing and pre-clinical toxicology studies for our MT110 program that were ongoing during the third quarter of 2006. Clinical expenses for our MT103 programs also increased by $0.1 million but were offset by corresponding decreases in our MT201 program.

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 for legal and audit services.

General and administrative expenses were $2.9 million and $3.3 million for the three months ended September 30, 2007 and 2006, respectively. The decrease was a result of lower stock-based compensation costs of $0.3 million due to a stock option grant to an officer during the third quarter of 2006 and increased legal expenses of $0.4 million during 2006 in connection with our post-merger activities. These decreases were partially offset by higher personnel and travel costs of $0.3 million due to an increased number of U.S.-based personnel, sublease income received for our Munich facility, and the incremental costs of approximately $0.1 million associated with being a public company post-merger, including investor relations costs, auditing and tax fees and increased directors and officers insurance premiums.

Interest Expense. Interest expense for the three months ended September 30, 2007 and 2006 was $0.1 million and $0.5 million, respectively. The decrease was primarily due to the repayment of a $16.0 million bank loan in the third quarter of 2006, from the conversion of convertible notes during 2006, and the repayment of certain silent partnership debt during 2006 and 2007.

Change in Fair Value of Common Stock Warrants Liability. The warrants issued in connection with the private placement in June 2007 are classified as a liability. The income of $1,187,000 recorded in the third quarter of 2007 represents the non-cash change in fair value of the warrants as of September 30, 2007 as compared to the value on June 30, 2007.

Comparison of Nine Months Ended September 30, 2007 and 2006

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

	Nine Months Ended	
	September 30, 2007	**September 30, 2006**
Collaborative R&D revenue:		
Merck Serono	$ 3.3	$ 6.9
MedImmune	4.1	4.1
Nycomed	1.1	
TRACON	2.1	
Cell Therapeutics		1.9
Total collaborative R&D revenue	10.6	12.9
License and other revenue	0.8	0.9
Total revenues	$ 11.4	$ 13.8

The decrease in Merck Serono collaborative R&D revenue was the result of completing the phase 2a clinical trials during 2006 with no such activity ongoing during the nine months ended September 30, 2007. There was also a reduction in the phase 1 clinical trial of MT201 in combination with docetaxel for the metastatic breast cancer indication resulting from the contract amendment as described above. MedImmune revenue remained constant between 2006 and 2007, but the 2007 revenues reflect an increase of $1.7 million from activity in the development programs for MT103, MT111 and the EphA2 BiTE antibody, which increase was offset by a reduction in milestone revenues of $1.7 million. As described above, the Nycomed and TRACON collaborations commenced during the year of 2007 and had no revenue-generating activity in 2006. Also contributing to the overall decrease in collaborative R&D revenue was a one-time $1.9 million settlement payment from Cell Therapeutics, Inc. that we received in May 2006 relating to a previously terminated collaboration. The Cell Therapeutics settlement was recorded as collaboration revenue because the amount would have been recorded as collaboration revenue had the original contract been fulfilled.

Research and Development Expenses. Research and development expenses were $19.7 million and $20.9 million for the nine months ended September 30, 2007 and 2006, respectively. There was a decrease in stock-based

compensation expense of $1.1 million related to accelerated vesting recognized in 2006 in connection with the CancerVax merger. Clinical study expenses also decreased by $0.5 million as decreases in the adecatumumab phase 2 programs of $1.2 million were partially offset by increases to the MedImmune antibody programs. There was an increase in license fees of $0.5 million that was paid to Applied Molecular Evolution as a result of the fees earned under the terms of the license agreement with TRACON signed in March 2007.

General and Administrative Expenses. General and administrative expenses were $10.8 million and $8.5 million for the nine months ended September 30, 2007 and 2006, respectively. The $2.3 million increase in general and administrative expense results from an increased number of U.S.-based personnel for salary and travel of $1.5 million, increased facility expenses of $1.0 million due to lease exit costs of the former CancerVax headquarters, and incremental costs associated with being a public company of $1.0 million for

activites such as investor relations, directors and officers insurance premiums, and legal and audit expenses. Offsetting these increases was a reduction in stock-based compensation expense of $1.1 million related to accelerated vesting recognized in 2006 in connection with the CancerVax merger, and from sublease income on our Munich facility.

Interest Expense. Interest expense for the nine months ended September 30, 2007 and 2006 was $0.6 million and $1.5 million, respectively. The $0.9 million decrease was primarily due to the repayment of a $16.0 million bank loan in the third quarter of 2006, the conversion of convertible notes during the second quarter of 2006, and the repayment of certain silent partnership debt during 2006 and 2007.

Change in Fair Value of Common Stock Warrants Liability. The warrants issued in connection with the private placement in June 2007 are classified as a liability. The income of $1,709,000 recorded in the nine months ended September 30, 2007 represents the non-cash change in fair value of the warrants as of September 30, 2007 as compared to the value on June 22, 2007, the date of issuance.

Other Income (Expense). Other income for the nine months ended September 30, 2007 was $1.1 million compared to $0.1 million for the nine months ended September 30, 2006. The increase 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 $31.0 million and $24.3 million as of September 30, 2007 and December 31, 2006, respectively. The increase in 2007 results from the private placement financing in June 2007, which yielded net proceeds to us of $23.5 million, as well as the upfront license fee of approximately $7.1 million received from Nycomed, the upfront license fee and material transfer of $1.5 million received from TRACON, less repayments of long-term debt of $1.1 million and an increase in general operating expenses, as described above.

Net cash used in operating activities was $11.1 million for the nine months ended September 30, 2007, compared to $21.1 million used in operating activities for the nine months ended September 30, 2006. The increase in cash flows from operating activities from 2006 to 2007 was primarily due to the upfront licensing fees and materials transfer payments received from Nycomed and TRACON as described above, which aggregated approximately $9.0 million.

Net cash used in investing activities was $564,000 for the nine months ended September 30, 2007, compared to $37.2 million provided by investing activities for the nine months ended September 30, 2006. We had acquired $37.4 million in cash from our merger with CancerVax in 2006.

Net cash provided by financing activities was $17.9 million for the nine months September 30, 2007, compared to $7.0 million used in financing activities for the nine months ended September 30, 2006. The increase is a result of the $23.5 million in net proceeds from the June 2007 private placement financing as compared to $7.4 million net proceeds received during 2006 from the issuance of common stock and $4.8 million received from capital contributions from shareholders. Also contributing to the increase was $5.5 million of debt repayment during 2007 as compared to $19.6 million during 2006.

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, by accessing the capital resources of CancerVax through our 2006 merger with them and through subsequent private placements of common stock and associated warrants.

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 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. If we were to raise additional funds through the issuance of common stock, substantial dilution to our existing stockholders would likely result. If we were to raise additional funds through additional debt financing, the terms of the debt may involve significant cash payment obligations as well as covenants and specific financial ratios that may restrict our ability to operate our business. Having insufficient funds may require us to delay, scale back or eliminate some or all of our research or development programs or to relinquish greater or all rights to product candidates at an earlier stage of development or on less

favorable terms than we would otherwise choose. Failure to obtain adequate financing may adversely affect our ability to operate as a going concern. Based on our capital resources as of the date of this report, we believe that we have adequate resources to fund our operations into the second quarter of 2009 at current spending levels, without considering any potential future milestone payments that we may receive under current or future collaborations, any future

capital raising transactions or any drawdowns from our CEFF with Kingsbridge Capital Limited.

Prior to our merger with CancerVax, CancerVax was a party to three building leases for a manufacturing facility, a warehouse facility and CancerVax s corporate headquarters. During the second quarter of 2006, CancerVax entered into a lease assignment related to the manufacturing facility, a lease termination related to the warehouse facility and a sublease agreement pursuant to which 46,527 rentable square feet of the 61,618 total rentable square feet of CancerVax s former corporate headquarters was subleased. We paid termination-related fees of approximately $0.6 million in connection with the termination of the warehouse facility. Our remaining estimated lease exit liability related to the two outstanding leases amounted to $1.8 million at September 30, 2007, of which $0.1 million is included in accrued expenses and $1.7 million is included in other non-current liabilities. In April 2007, we entered into a sublease agreement for the remaining 15,091 square feet of CancerVax s former corporate headquarters.

As of September 30, 2007, we have a total of $3.1 million of standby letters of credit collateralized by certificates of deposit that are included as restricted cash in our non-current assets, comprised of the following:

$0.7 million relates to our building lease in Munich, Germany; and

$2.4 million relates to two building leases in California assumed in the merger with CancerVax described above.

On October 2, 2006, a court-proposed settlement agreement with Curis, Inc. became effective that resolved a lawsuit initiated by Curis against Micromet AG in a German court regarding the repayment of a promissory note. Curis had requested immediate repayment of the remaining balance under the note at the time of the closing of the merger between CancerVax and Micromet AG in May 2006. We had disagreed with Curis s interpretation of the repayment terms of the promissory note. In accordance with the settlement, we paid Curis 1.0 million, or $1.3 million, in October 2006, and 0.8 million, or $1.1 million, in April 2007, in full settlement of our obligations. These payments did not include any interest charges. We recorded a gain on extinguishment of this debt of $0.3 million in the second quarter of 2007.

Our future capital uses and requirements depend on numerous forward-looking factors. These factors include but are not limited to the following:

the progress of our clinical trials;

the progress of our research activities;

the number and scope of our research programs;

the progress of our preclinical development activities;

the costs involved in preparing, filing, prosecuting, maintaining, enforcing and defending patent and other intellectual property claims;

the costs related to development and manufacture of pre-clinical, clinical and validation lots for regulatory purposes and commercialization of drug supply associated with our product candidates;

our ability to enter into corporate collaborations and the terms and success of these collaborations;

the costs and timing of regulatory approvals; and

the costs of establishing manufacturing, sales and distribution capabilities.

Contractual Obligations

We have contractual obligations, some of which were assumed in our merger with CancerVax, related to our facility lease, research agreements and financing agreements, as well as a new operating lease entered into in the second quarter of 2007 related to our corporate headquarters in Bethesda, Maryland. The following table sets forth our significant contractual obligations as of September 30, 2007 (in thousands):

		Payment Due by Period			
Contractual Obligations	**Total**	**Less Than 1 Year (1)**	**1-3 Years**	**3-5 Years**	**More Than 5 Years**
Operating leases(2)	$ 20,989	$ 1,102	$ 8,796	$ 8,862	$ 2,229
Short term note to Premier Assignment Corporation	78	78			
Long-term debt MedImmune	2,183			2,183	
Silent partnership obligations	2,315	34	2,281		
Contractual payments under licensing and research and development agreements	1,540	1,200	160	60	120
Capital leases	248	49	199		
Other	108	25	50	33	
	$ 27,461	$ 2,488	$ 11,486	$ 11,138	$ 2,349

(1) Includes amounts payable from October 1, 2007

through December 31, 2007.

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

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

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 effects of the merger between CancerVax and Micromet AG, 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, estima continue, anticipate, intend, seek, plan, expect, should, or would. Among the factors that could cause ac 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 and timing of our clinical trials; difficulties or delays in development, testing, obtaining regulatory approval for producing and marketing our products; the risks associated with reliance on collaborations for the development and commercialization of our product candidates, unexpected adverse side effects or inadequate therapeutic efficacy of our products that could delay or prevent product development or commercialization, or that could result in recalls or product liability claims; the scope and validity of patent protection for our product candidates; competition from other pharmaceutical or biotechnology companies; our ability to obtain additional financing to support our operations; 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, 2007, we had U.S. dollar-denominated cash and cash equivalents of $28.6 million and Euro-denominated liabilities of approximately 14.4 million. The Euro amount as of September 30, 2007 is equivalent to approximately $20.5 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

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer (our principal executive officer) and our Chief Financial Officer (our principal financial officer), as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and we are required to apply our judgment in evaluating the cost-benefit relationship of possible controls and procedures. In addition, the design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of

changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Under the supervision and with the participation of our management, including our principal executive officer and principal

financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of September 30, 2007, the end of the period covered by this report.

Based upon our evaluation prior to the filing of our Annual Report on Form 10-K for the year ended December 31, 2006, our management concluded that our disclosure controls and procedures were ineffective as of December 31, 2006 because of material weaknesses in internal control over financial reporting, as described below.

Further, based upon our evaluation prior to the filing of this quarterly report, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were still ineffective as of September 30, 2007 to provide reasonable assurance that financial information we are required to disclose in our reports under the Exchange Act was recorded, processed, summarized and reported accurately and that such information is accumulated and communicated to our management, including our Chief Executive Officer (our principal executive officer) and Chief Financial Officer (our principal financial officer), as appropriate, to allow for timely decisions regarding required disclosure.

Notwithstanding the deficiencies cited above that existed as of September 30, 2007, there have been no changes to reported financial results as a result of these identified material weaknesses, and our management believes that (i) this Quarterly Report on Form 10-Q does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading with respect to the periods covered by this report and (ii) the financial statements, and other financial information included in this report, fairly present in all material respects our financial condition, results of operations and cash flows as of, and for, the dates and periods presented in this report.

As reported in our Annual Report on Form 10-K for the year ended December 31, 2006, filed with the Securities and Exchange Commission on March 16, 2007, as amended by a Form 10-K/A filed on May 11, 2007, in connection with our management assessment of the effectiveness of the Company s internal control over financial reporting for the year ended December 31, 2006, we identified the following material weaknesses:

Inadequate Procedures Around Estimation and Accruals. As a result of errors identified in estimates around accrued liability accounts, we have concluded that controls over our estimation and analyses processes were not effective and are indicative of a material weakness. We over-accrued certain research and development costs and we under-accrued travel, legal and certain research and development costs. The effect of these accrual errors required an audit adjustment to accruals that was material to the consolidated financial statements.

Invoicing Error in Licensee Milestone. A milestone invoice to one of our single-chain antibody licensees was prepared by our accounting staff in the wrong currency, approved and mailed to the licensee. As a result, we have concluded that the controls over the analysis and recording of revenue transactions with unusual terms were not effective, and are indicative of a material weakness in revenue accounting controls.

Inadequate Management Review. As a result of errors identified by our independent registered public accounting firm in our financial close process and disclosures and amounts in our Annual Report on Form 10-K subsequent to our financial statement review process but prior to filing of our Form 10-K, we have concluded that controls over our financial statement close and reporting process are not effective, and are indicative of a material weakness.

There were no changes to any reported financial results that have been released by us as a result of these identified weaknesses.

Management s Remediation Plan

Based on our findings that our disclosure controls and procedures were not effective and that we had several material weaknesses in internal controls over financial reporting, we have been and continue to be engaged in efforts to improve our internal controls and procedures and we expect that these efforts in 2007 will address and resolve the

weaknesses.

Following the merger between Micromet AG and CancerVax in May 2006, we have taken a number of steps to strengthen our internal control over our financial reporting. However, material weaknesses in our internal control over financial reporting process continue to exist. We intend to take the remaining actions required to remediate our existing weaknesses as part of our ongoing efforts to upgrade our control environment following the merger and integration of operations. As discussed below, we have been and continue to be engaged in efforts to improve our internal control over financial reporting. Measures we have taken or are taking to remediate our identified material weaknesses include:

hiring a chief financial officer with significant U.S. public company experience in October 2006;

implementing additional preparation, review and approval procedures over estimations and accruals;

improving our procedures for verifying and documenting contract terms and implementing a company-wide contract management system to facilitate the flow of information amongst various functional departments;

formalizing process and documentation related to financial statement closing and consolidation review, including more frequent interaction across all members of our financial staff involved in preparation of financial statements and a review of those financial statements by the entire staff as a group;

formalizing and enhancing documentation, oversight and review procedures related to accounting records of Micromet AG to ensure compliance with U.S. generally accepted accounting principles;

reviewing and making appropriate staffing adjustments at all company locations to enhance accounting expertise and additional oversight;

supplementing our accounting staff to improve the breadth and depth of experience;

engaging qualified accounting and tax consultants to aid us in the implementation of procedures and policies; and

improving training for, and integration and communication among, accounting staff.

While management believes that the foregoing actions have had a positive effect on our internal control over financial reporting, all the changes necessary to remediate the material weakness in our internal control over financial reporting were not in place by September 30, 2007. We have communicated to the Audit Committee the material weaknesses identified in our internal control over financial reporting. Management, with the oversight of the Audit Committee, is committed to effective remediation of known material weakness and other control deficiencies as quickly as possible.

Changes in Internal Control over Financial Reporting

Our principal executive officer and principal financial officer also evaluated whether any change in our internal control over financial reporting, as such term is defined under Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act, occurred during our most recent fiscal quarter covered by this report that has materially affected, or is likely to materially affect, our internal control over financial reporting. Except for the ongoing progress related to the remediation measures discussed above, there were no changes in our internal control over financial reporting during the quarter ended September 30, 2007 that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

The following information sets forth factors that could cause our actual results to differ materially from those contained in forward-looking statements we have made in this report and the information incorporated herein by reference and those we may make from time to time. Certain factors individually or in combination with others may have a material adverse effect on our business, financial condition and results of operations and you should carefully consider them.

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

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

We have incurred losses from the inception of Micromet through September 30, 2007, 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: MedImmune (a subsidiary of AstraZeneca), Merck Serono, TRACON and Nycomed. 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. Our failure to become and remain profitable may depress the market price of our common stock and could impair our ability to raise capital, expand our business, diversify our product offerings or continue our operations.

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 committed equity financing facility, or CEFF, with Kingsbridge Capital Limited, or Kingsbridge;

the costs of preparing, filing, prosecuting, maintaining, defending and enforcing patent claims and other patent-related costs, including litigation costs and technology license fees;

costs associated with litigation; and

competing technological and market developments.

We filed a shelf registration statement, declared effective by the Securities and Exchange Commission 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 we may decide to activate it by filing a post-effective amendment in the future, 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, 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. If we are unable to access funds through the CEFF, or if Kingsbridge terminates the CEFF, 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;

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; and

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 on a Black-Scholes option-pricing model, with the change in value recorded as non-cash other income or expense.

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 to respond 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 2006 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 and the related rules and regulations of the SEC, including Section 404 of the Sarbanes-Oxley Act of 2002. As a result of the merger between CancerVax Corporation and Micromet AG, and the establishment of our new corporate headaquarters in Bethesda, Maryland, we are in the process of upgrading the existing, and implementing additional, procedures and controls to incorporate the operations of Micromet AG, which had been a private German company prior to the merger. The process of updating the procedures and controls is requiring significant time and expense. The integration of the two companies finance and accounting systems, procedures and controls, and the implementation of procedures and controls at Micromet AG are 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, 2006, 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 (COSO) of the Treadway Commission. These material weaknesses relate to certain of our estimation and accrual processes, procedures relating to analysis and recording of revenue transactions with unusual terms, and an insufficient level of management review due to lack of resources. These weaknesses resulted, in part, from our inability to sufficiently upgrade our existing procedures and controls and to implement new procedures and controls to integrate the operations of Micromet AG prior to December 31, 2006. 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. 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 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 31% of our outstanding common stock, and, as a result, 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 MedImmune, Merck Serono, TRACON and Nycomed. 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.

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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 in these industries. 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 June 2007, our collaborator MedImmune was acquired by AstraZeneca plc. If MedImmune or AstraZeneca were to perform a review of their development programs and re-evaluate their priorities in the development of their product candidates, this could result in a delay in the development of and the commercialization of our product candidate MT103, MT111, or the EphA2 BiTE antibody that in each case we are developing in collaboration with MedImmune, or in a termination of one or both of the collaboration agreements we have with MedImmune for our product candidates that are the subject of strategic collaborations with MedImmune. 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 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 with MedImmune, or we may need to reallocate financial resources that may cause delays in other development programs for our other product candidates.

Similarly, in January 2007, our collaborator Serono announced that it was acquired by Merck KGaA to form Merck Serono. If Merck Serono re-evaluates its priorities in the development of its product candidates, this could result in a delay in the development and the launch of adecatumumab (if successfully developed and approved for commercial sale) or termination of the collaboration agreement with us. We may not be able to identify and enter into a collaboration agreement for adecatumumab with another pharmaceutical company, and we may not have sufficient financial resources to continue the development program on our own. As a result, we could be required to delay or abandon the development of adecatumumab following any termination of the collaboration agreement with Merck Serono.

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 results of operations.

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. We have also reported that we, in collaboration with Merck Serono, are planning to start a new phase 1 monotherapy study for the treatment of patients with solid tumors estimated to begin in 2007. 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, 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 results of operations.

We previously terminated three phase 1 trials involving short-term infusion regimens of MT103 due to adverse side effects and a lack of perceived tumor response, and there can be no assurance that our current continuous infusion phase 1 clinical trial of MT103 will produce a different outcome.

In April 2004, we initiated a phase 1, dose finding clinical trial designed to evaluate the safety and tolerability of a continuous intravenous infusion of MT103 over 4-8 weeks at different dose levels in patients with relapsed non-Hodgkin s lymphoma. We previously terminated three other phase 1 clinical trials for MT103, which involved a short-term infusion, as opposed to a continuous infusion dosing regimen of MT103, due to adverse side effects and the lack of observed tumor responses. We have redesigned the dosing regimen for our ongoing phase 1 clinical trial and, based upon the preliminary clinical data, we currently are seeing a considerably more favorable safety profile in response to the new continuous infusion dosing regimen and are continuing the dose escalation in accordance with the clinical trial protocol. We have also seen objective tumor responses at the 15 $\mu g/m^2$ per day dose level with the continuous infusion regimens. While this preliminary data suggest that MT103 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.

Changes in the laws or regulations of the United States or Cuba related to the conduct of our business with CIMAB may adversely affect our ability to sublicense or otherwise transfer our rights to SAI-EGF and our two other product candidates that we have licensed from that company.

The United States government has maintained an embargo against Cuba for more than 40 years. The embargo is administered by the Office of Foreign Assets Control, or OFAC, of the U.S. Department of Treasury. Without a license from OFAC, U.S. individuals and companies may not engage in any transaction in which Cuba or Cubans have an interest. In order to enter into and carry out our licensing agreements with CIMAB S.A., a Cuban company, we have obtained from OFAC a license authorizing us to carry out all transactions set forth in the license agreements that we have entered into with CIMAB for the development, testing, licensing and commercialization of our product candidate SAI-EGF, and with CIMAB and its affiliate YM BioSciences, Inc., a Canadian company, for our two other product candidates that target the EGF receptor signaling pathway. In the absence of such a license from OFAC, the execution of and our performance under these agreements could have exposed us to legal and criminal liability. At any time, there may occur for reasons beyond our control a change in United States or Cuban law, or in the regulatory environment in the U.S. or Cuba, or a shift in the political attitudes of either the U.S. or Cuban governments, that could result in the suspension or revocation of our OFAC license or in our inability to carry out part or all of the licensing agreements with CIMAB. There can be no assurance that the U.S. or Cuban governments will not modify existing law or establish new laws or regulations that may adversely affect our ability to develop, test, license and commercialize these product candidates. Our OFAC license may be revoked or amended at anytime in the future, or the U.S. or Cuban governments may restrict our ability to carry out all or part of our respective duties under the licensing agreements between us, CIMAB and YM BioSciences. Similarly, any such actions may restrict CIMAB s ability to carry out all or part of its licensing agreements with us. In addition, we cannot be sure that the FDA, EMEA or other regulatory authorities will accept data from the clinical trials of these product candidates that were conducted in Cuba as the basis for our applications to conduct additional clinical trials, or as part of our application to seek marketing authorizations for such product candidates.

In 1996, a significant change to the United States embargo against Cuba resulted from congressional passage of the Cuban Liberty and Democratic Solidarity Act, also known as the Helms-Burton Bill. That law authorizes private lawsuits for damages against anyone who traffics in property confiscated, without compensation, by the government of Cuba from persons who at the time were, or have since become, nationals of the United States. We do not own any property in Cuba and do not believe that any of CIMAB s properties or any of the scientific centers that are or have been involved in the development of the technology that we have licensed from CIMAB were confiscated by the government of Cuba from persons who at the time were, or who have since become, nationals of the U.S. However, there can be no assurance that our understanding in this regard is correct. We do not intend to traffic in confiscated property, and we have included provisions in our licensing agreements to preclude the use of such property in association with the performance of CIMAB s obligations under those agreements, although we cannot ensure that CIMAB or other third parties will comply with these provisions.

As part of our interactions with CIMAB, we are subject to the U.S. Commerce Department s export administration regulations that govern the transfer of technology to foreign nationals. Specifically, we or our sublicensees, if any, will

require a license from the Commerce Department s Bureau of Industry and Security, or BIS, in order to export or otherwise transfer to CIMAB any information that constitutes technology under the definitions of the Export Administration Regulations, or EAR, administered by BIS. The export licensing process may take months to be completed, and the technology transfer in question may not take place unless and until a license is granted by the Commerce Department. Due to the unique status of the Republic of Cuba, technology that might otherwise be transferable to a foreign national without a Commerce Department license requires a license for export or transfer to a Cuban national. If we or our sublicensees fail to comply with the export administration regulations, we may be subject to both civil and criminal penalties. There can be no guarantee that any license application will be approved by BIS or that a license, once issued, will not be revoked, modified, suspended or otherwise restricted for reasons beyond our control due to a change in U.S.-Cuba policy or for other reasons.

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 and at a lower cost, or 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. 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 pre-clinical 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.

Since 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 the 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 and clinical studies 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. 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, the completion of these studies or trials may be delayed, or the results may not be useable and the studies or trials may have to be repeated. Any of these events could delay or 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. Moreover, an unrelated biotech company recently observed multiple severe adverse reactions in a phase 1 trial of an antibody that stimulates T cells. This development could cause the FDA and EMEA or other regulatory authorities to require additional preclinical data or certain precautions in the designs of clinical protocols that could cause a delay in the development of our BiTE product candidates or make the development process more expensive.

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. 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.

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.

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, withdrawal of the approved products from the market, voluntary or mandatory recall, fines, suspension 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 of 2003, which became law in December 2003, 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.

If physicians and patients do not accept the product candidates that we may develop, our ability to generate product revenue in the future will be adversely affected.

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

- our ability to provide acceptable evidence of safety and efficacy;
- convenience and ease of administration;
- prevalence and severity of adverse side effects;
- availability of alternative 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; 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 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 or reduced acceptance of our product candidates in the market.

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. If an accident or contamination occurred, we would likely incur significant costs associated with civil penalties or criminal fines and in complying with environmental laws and regulations. We do not have any insurance for liabilities arising from hazardous materials. Compliance with environmental 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.

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. For example, we are aware that GlaxoSmithKline holds a European patent covering the administration of adecatumumab in combination with docetaxel, which is the combination that we are currently testing in a phase 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 GSK, which we may not be able to obtain on commercially reasonable terms, if at all.

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.

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 and royalty payment, indemnification, insurance and other obligations on us. If we or our collaborators fail to perform under these agreements or otherwise breach obligations thereunder, our licensors may terminate these agreements and we could lose licenses to intellectual property rights that are important to our business. 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.

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 MedImmune, Merck Serono, TRACON and Nycomed, 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, 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; and

our direct sales and marketing efforts may not be successful.

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

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
3.1 (2)	Amended and Restated Certificate of Incorporation of the Registrant
3.2 (3)	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Registrant
3.3 (4)	Certificate of Designations for Series A Junior Participating Preferred Stock of the Registrant
3.4 (11)	Amended and Restated Bylaws
4.1 (9)	Form of Specimen Common Stock Certificate
4.2 (1)	Warrant to Purchase Vendor Preferred Stock, Series 2, issued to Venture Lending & Leasing III, LLC, dated September 6, 2002
4.3 (4)	Rights Agreement, by and between the Registrant and Mellon Investor Services LLC, which includes the form of Certificate of Designations of the Series A Junior Participating

Exhibit Number	Description
	Preferred Stock of the Registrant as Exhibit A, the form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Shares as Exhibit C, dated as of November 3, 2004
4.4 (5)	First Amendment to Rights Agreement, by and between the Registrant and Mellon Investor Services LLC, dated as of March 17, 2006
4.5 (7)	Second Amended and Restated Note, in favor of MedImmune Ventures, Inc., dated as of December 27, 2006
4.6 (8)	Registration Rights Agreement, by and between the Registrant and Kingsbridge Capital Limited, dated as of August 30, 2006
4.7 (8)	Warrant to purchase 285,000 shares of Common Stock, issued to Kingsbridge Capital Limited, dated August 30, 2006
4.8 (9)	Form of Warrant to Purchase Common Stock, dated May 5, 2006
4.9 (6)	Form of Warrants to purchase an aggregate of 555,556 shares of Common Stock, in favor of funds affiliated with NGN Capital, LLC, dated July 24, 2006
4.10 (9) &	Silent Partnership Participation Agreement (Beteiligungsvertrag) with tbg Technologie Beteiligungsgesellschaft mbH, dated March 2, 1999
4.11 (9) &	Silent Partnership Participation Agreement (Beteiligungsvertrag) with tbg Technologie Beteiligungsgesellschaft mbH, dated March 2, 1999
4.12 (9) &	Amendment to Silent Partnership Participation Agreements with tbg Technologie Beteiligungsgesellschaft mbH, dated February 6, 2006
4.13 (9) &	Silent Partnership Participation Agreement (Beteiligungsvertrag) with Technologie Beteiligungsfond Bayern GmbH, dated January 17, 2000
4.14 (9) &	Amendment to Silent Partnership Participation Agreement with Technologie Beteiligungsfond Bayern GmbH, dated February 6, 2006
4.15 (10)	Registration Rights Agreement, dated June 19, 2007
4.16 (10)	Form of Warrant, dated June 19, 2007
4.17 (10)	Alternate Form of Warrant, dated June 19, 2007
10.1	Employment Agreement with Mark L. Reisenauer dated September 9, 2007
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

(1) Incorporated by reference to the Registrant s Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 24, 2003.

(2) Incorporated by reference to the Registrant s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on December 11, 2003.

(3) Incorporated by reference to the Registrant s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 10, 2006.

(4) Incorporated by reference to the Registrant s Current Report on Form 8-K filed with the Securities and Exchange

Commission on November 8, 2004.

(5) Incorporated by reference to the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 20, 2006.

(6) Incorporated by reference to the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 26, 2006.

(7) Incorporated by reference to the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 4, 2007.

(8) Incorporated by reference to the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 31, 2006.

(9) Incorporated by reference to the

Registrant s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2007.

(10) Incorporated by reference to the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on June 21, 2007.

(11) Incorporated by reference to the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 8, 2007.

& Indicates that the exhibit is an English translation of a foreign language document.

** These certifications are being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934 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 8, 2007

Micromet, Inc.

By: /s/ Christopher P. Schnittker
Christopher P. Schnittker
Senior Vice President and Chief Financial Officer
(Duly authorized officer and Principal Financial Officer)

Exhibit List

Exhibit Number	Description
3.1 (2)	Amended and Restated Certificate of Incorporation of the Registrant
3.2 (3)	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Registrant
3.3 (4)	Certificate of Designations for Series A Junior Participating Preferred Stock of the Registrant
3.4 (11)	Amended and Restated Bylaws
4.1 (9)	Form of Specimen Common Stock Certificate
4.2 (1)	Warrant to Purchase Vendor Preferred Stock, Series 2, issued to Venture Lending & Leasing III, LLC, dated September 6, 2002
4.3 (4)	Rights Agreement, by and between the Registrant and Mellon Investor Services LLC, which includes the form of Certificate of Designations of the Series A Junior Participating Preferred Stock of the Registrant as Exhibit A, the form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Shares as Exhibit C, dated as of November 3, 2004
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