MICROMET, INC.
Form 10-Q
August 05, 2011

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 June 30, 2011

OR

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

For the transition period from to

Commission File Number: 0-50440

MICROMET, INC.
(Exact name of registrant as specified in its charter)

Delaware	52-2243564
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
9201 Corporate Boulevard, Suite 400, Rockville, MD	20850
(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 ¨ No

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

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

Large accelerated filer ¨ Accelerated filer þ Non-accelerated filer ¨ Smaller reporting company ¨
(Do not check if a smaller reporting company)

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

The number of outstanding shares of the registrant's common stock, par value $0.00004 per share, as of the close of business on July 29, 2011 was 92,046,415.

MICROMET, INC.
FORM 10-Q — QUARTERLY REPORT
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2011
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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2011 (unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$50,689	$ 97,509
Short-term investments	136,587	123,458
Accounts receivable	1,629	1,047
Prepaid expenses and other current assets	6,071	3,850
Total current assets	194,976	225,864
Property and equipment, net	7,489	5,577
Goodwill	6,462	6,462
Patents, net	161	300
Long-term investments	1,000	1,705
Restricted cash	1,107	2,396
Total assets	$211,195	$ 242,304
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$2,515	$ 5,150
Accrued expenses	13,423	11,314
Common stock warrants liability	13,572	23,858
Current portion of deferred revenue	4,471	5,695
Total current liabilities	33,981	46,017
Deferred revenue, net of current portion	19,389	20,538
Other non-current liabilities	1,180	1,160
Stockholders' equity:		
Preferred stock, $0.00004 par value; 10,000 shares authorized; no shares issued and outstanding	-	-
Common stock, $0.00004 par value; 150,000 shares authorized; 91,942 shares issued and outstanding at June 30, 2011 and 91,160 shares issued and outstanding at December 31, 2010	4	4
Additional paid-in capital	477,798	470,368
Accumulated other comprehensive income	8,675	8,569
Accumulated deficit	(329,832)	(304,352)
Total stockholders' equity	156,645	174,589
Total liabilities and stockholders' equity	$211,195	$ 242,304

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

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Revenues:				
Collaboration agreements	$6,791	$6,523	$12,174	$12,563
License fees and other	271	26	435	296
Total revenues	7,062	6,549	12,609	12,859
Operating expenses:				
Research and development	19,587	12,013	38,220	24,216
General and administrative	7,536	5,388	14,204	10,608
Total operating expenses	27,123	17,401	52,424	34,824
Loss from operations	(20,061)	(10,852)	(39,815)	(21,965)
Other income (expense):				
Interest expense	(20)	(61)	(42)	(148)
Interest income	197	115	375	230
Change in fair value of warrants	(48)	7,878	10,094	2,271
Other (expense) income	2,638	(1,142)	3,908	(2,754)
Net loss	$(17,294)	$(4,062)	$(25,480)	$(22,366)
Basic and diluted net loss per common share	$(0.19)	$(0.05)	$(0.28)	$(0.29)
Weighted average shares used to compute basic and diluted net loss per share	91,544	80,857	91,381	75,954

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

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

	Six months ended June 30,	
	2011	2010
Cash flows from operating activities:		
Net loss	(25,480)	$(22,366)
Adjustments to reconcile net loss to net cash used in operating activities:		
Non-cash impact of foreign currency transactions	(3,960)	3,066
Depreciation and amortization	1,086	1,165
Accretion on lease liability	399	159
Amortization of premium on investments	993	22
Non-cash change in fair value of common stock warrants liability	(10,094)	(2,271)
Stock-based compensation expense	5,340	3,563
Changes in operating assets and liabilities:		
Accounts receivable	(422)	(2,818)
Prepaid expenses and other assets	(754)	1,035
Accounts payable, accrued expenses and other liabilities	(1,916)	(5,709)
Deferred revenue	(4,421)	11,786
Net cash used in operating activities	(39,229)	(12,368)
Cash flows from investing activities:		
Purchases of investments	(97,065)	(73,329)
Proceeds from the maturity of investments	87,856	15,254
Purchases of property and equipment	(2,369)	(1,104)
Net cash used in investing activities	(11,578)	(59,179)
Cash flows from financing activities:		
Proceeds from the issuance of common stock, net	3	75,382
Proceeds from exercise of stock options	1,782	675
Proceeds from exercise of warrants	112	327
Principal payments on capital lease obligations	(125)	(96)
Net cash provided by financing activities	1,772	76,288
Effect of exchange rate changes on cash and cash equivalents	2,214	(5,442)
Net decrease in cash and cash equivalents	(46,820)	(701)
Cash and cash equivalents at beginning of period	97,509	113,435
Cash and cash equivalents at end of period	50,689	$112,734
Supplemental disclosure of cash flow information:		
Cash paid for interest	$22	$165
Supplemental disclosure of noncash investing and financing activities:		
Acquisitions of equipment purchased through capital leases	—	$28

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

Note 1. Business Overview

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

Note 2. Basis of Presentation

The accompanying unaudited consolidated financial statements of Micromet, Inc. have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. In the opinion of management, the consolidated financial statements reflect all adjustments necessary to present fairly our results of operations for the three and six months ended June 30, 2011 and 2010, our financial position at June 30, 2011 and our cash flows for the six months ended June 30, 2011 and 2010. These adjustments are of a normal recurring nature.

Certain notes and other information have been condensed or omitted from the interim consolidated financial statements presented in this Quarterly Report on Form 10-Q. Therefore, these financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2010, as amended. The results of operations for the three and six months ended June 30, 2011 are not necessarily indicative of our future financial results.

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

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

Note 3. Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Restricted Cash

We have issued irrevocable standby letters of credit in connection with property that we currently sublease, as well as our current property leases in Munich, Germany and Rockville and Bethesda, Maryland. As of June 30, 2011 and December 31, 2010, we had a total of $2.5 million and $3.4 million, respectively, in certificates of deposit relating to these letters of credit. As of June 30, 2011, $1.4 million is classified as prepaid expenses and other current assets and $1.1 million is classified as non-current restricted cash. As of December 31, 2010, $1.0 million of restricted cash is classified as prepaid expenses and other current assets and the remaining balance of $2.4 million is classified as non-current restricted cash. During the three months ended June 30, 2011, we paid $1.0 million that was previously held as restricted cash under our obligation related to a previous lease. As of June 30, 2011, we have no further obligations under that lease.

Investments

The amortized cost, net unrealized gain or loss attributed to market pricing changes and estimated fair value of investments by security type of our available-for-sale securities were as follows at June 30, 2011 and December 31, 2010 (in thousands):

Securities at June 30, 2011:	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Foreign government bonds	$ 77,059	$ —	$ (64)	$ 76,995
U.S. Government agencies	1,000	—	—	1,000
Commercial paper	25,481	17	—	25,498
U.S. corporate bonds	30,057	—	(13)	30,044
Municipal bonds*	4,050	—	—	4,050
Total	$ 137,647	$ 17	$ (77)	$ 137,587

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

* Issued by a state level entity

As of June 30, 2011, we held securities in an unrealized loss position whose fair value approximated at $102.9 million. All of these securities with an unrealized loss have been in a continuous unrealized loss position for less than one year. We have determined that the decline in fair value of these investments is temporary. We do not intend to sell these securities and it is not more likely than not we will be required to sell the securities before the recovery of their amortized cost basis.

The following table summarizes the contractual maturities of marketable investments at June 30, 2011 and December 31, 2010 (in thousands):

Securities at June 30, 2011:	Amortized Cost	Fair Value

Due in less than one year	$	136,647	$	136,587
Due in one to two years		1,000		1,000
Due after two years		—		—
Total	$	137,647	$	137,587

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

Fair Value Measurements

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

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

Accounts Receivable

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

Property and Equipment

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

Goodwill

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

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

Patents

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

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

Impairment of Long-Lived and Identifiable Intangible Assets

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

Common Stock Warrants Liability

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

Foreign Currency Transactions and Translation

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-measured into the functional currency at the exchange rate in effect at the balance sheet date. Transaction gains (losses) are recorded in the consolidated statements of operations in other income (expense) and amounted to $2.7 million and $(1.2) million for the three-month periods ended June 30, 2011 and 2010, respectively, and $3.9 million and $(2.8) million for the six-month periods ended June 30, 2011 and 2010, respectively.

The accompanying consolidated financial statements are presented in U.S. dollars. The translation of assets and liabilities to U.S. dollars is made at the exchange rate in effect at the balance sheet date, while equity accounts are translated at historical rates. The translation of statement of operations data is made at the average exchange rate in effect for the period. The translation of operating cash flow data is made at the average exchange rate in effect for the period, and investing and financing cash flow data is translated at the exchange rate in effect at the date of the underlying transaction. Translation gains and losses are recognized as a component of accumulated other comprehensive income in the accompanying consolidated balance sheets. The foreign currency translation adjustment balance included in accumulated other comprehensive income was $5.4 million and $7.4 million at June 30, 2011 and December 31, 2010, respectively.

Revenue Recognition

Our revenues consist of licensing fees, milestone payments and fees for research services earned from license agreements or from research and development collaboration agreements. We recognize revenue in accordance with the Securities and Exchange Commission's (SEC) Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition, upon the satisfaction of the following four criteria: persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, and collectibility is reasonably assured.

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

Under certain license agreements, we may receive initial license fees and annual renewal fees, which are recognized as revenue when the SAB 104 criteria have been satisfied, unless we have further obligations associated with the license granted. We recognize revenue from payments received at the time of entering into an agreement on a straight-line basis over the term of our obligations under the agreement.

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

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

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

For multiple element arrangements entered into or materially modified on or subsequent to January 1, 2011, the total consideration for an arrangement is allocated among the separate elements in the arrangement based on a selling price hierarchy. The selling price hierarchy for a deliverable is based on (i) vendor specific objective evidence (VSOE), if available; (ii) third party evidence of selling price if VSOE is not available; or (iii) an estimated selling price, if neither VSOE nor third party evidence is available. Since we did not enter into or materially modify any multiple-element arrangements during the six months ended June 30, 2011, the adoption of this new accounting guidance did not have a material impact on our consolidated financial statements as of and for the three- and six-month periods ended June 30, 2011. We do anticipate that when we enter into new multiple-element arrangements or materially modify existing multiple-element arrangements, including the collaboration and license agreement with Amgen described in Note 8 below, this new guidance will change the revenue recognition methodology for these arrangements, as compared to past practice.

Research and Development

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

Comprehensive Income (Loss)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net loss	$(17,294)	$(4,062)	$(25,480)	$(22,366)
Realized foreign currency transactions	1,915	(1,060)	2,138	(847)
Unrealized foreign currency transactions	(2,837)	(2,109)	97	(3,813)
Foreign currency translation adjustments	(686)	1,976	(2,101)	3,134
Unrealized gain (loss) on available-for-sale investments	6	(20)	(28)	(10)
Comprehensive loss	$(18,896)	$(5,275)	$(25,374)	$(23,902)

Stock-Based Compensation

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

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

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

Income Taxes

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

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

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Net Loss Per Share

Basic net loss per share is calculated by dividing the net loss by the weighted average number of common shares outstanding for the period, without consideration for common stock equivalents. Diluted net loss per share is computed by dividing the net loss by the weighted average number of common stock equivalents outstanding for the period determined using the treasury-stock method. For purposes of this calculation, stock options, and warrants are considered to be common stock equivalents and are only included in the calculation of diluted net loss per share when their effect is dilutive. The following options and warrants to purchase additional shares were excluded from the weighted average share calculation for the three- and six-month periods ended June 30, 2011 and 2010, respectively, as their effect would be anti-dilutive (share amounts in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Options outstanding	13,339	12,119	13,339	12,119
Warrants outstanding	8,023	8,070	8,023	8,070
Total shares excluded from calculation	21,362	20,189	21,362	20,189

During the six months ended June 30, 2011, 745,000 shares of our common stock were issued upon the exercise of stock options in exchange for cash proceeds of $1,782,000 and 36,331 shares of our common stock were issued upon the exercise of warrants in exchange for cash proceeds of $112,000.

Note 4. Fair Value Measurements

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

ASC Topic 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

For Level 2 financial investments, our investment advisor provides us with monthly account statements documenting the value of each investment based on prices received from an independent third-party valuation service provider. This third party evaluates the types of securities in our investment portfolio to determine their proper classification in the fair value hierarchy based on trading activity and the observability of market inputs. Our Level 2 instruments are valued using a multi-dimensional pricing model that includes a variety of inputs, including quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks and default rates that are observable at commonly quoted intervals. As we are ultimately responsible for the determination of the fair value of these instruments, we perform quarterly analyses using prices obtained from another independent third-party provider of financial instrument valuations, to establish that the prices we have used are reasonable estimates of fair value.

We do not hold auction rate securities, loans held for sale, mortgage-backed securities backed by sub-prime or Alt-A collateral or any other investments which require us to determine fair value using a discounted cash flow approach. Therefore, we do not adjust our analysis or change our assumptions specifically to factor illiquidity in the markets into our Level 2 fair value measurements.

The following table presents information about our assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2011 (in thousands):

Description	June 30, 2011	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Cash and cash equivalents	$ 50,689	$ 50,689	$ —	$ —
Restricted cash	1,350	1,350	—	—
Short-term investments:				
Foreign government bonds	76,995	—	76,995	—
U.S. Government agencies	—	—	—	—
Commercial paper	25,498	—	25,498	—
U.S. corporate bonds	30,044	—	30,044	—
Municipal bonds	4,050	—	4,050	—
Restricted cash, long-term	1,107	1,107	—	—
Long-term investments:				
U.S. Government agencies	1,000	—	1,000	—
Total assets	$ 190,733	$ 53,146	$ 137,587	$ —
Liabilities:				
Common stock warrant liability	$ (13,572))	$ —	$ —	$ (13,572)

There were no transfers of financial assets or liabilities between Level 1 and Level 2 during the six months ended June 30, 2011. The following table presents information about our common stock warrant liability, which was our only financial instrument measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC Topic 820 during the three and six months ended June 30, 2011 and 2010 (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Beginning balance	$ (13,524)	$ (25,851)	$ (23,858)	$ (20,244)
Transfers to (from) Level 3	—	—	—	—
Realized gains/(losses) included in earnings	(48)	7,878	10,094	2,271
Purchases	—	—	—	—
Issuances	—	—	—	—
Settlements	—	—	192	—
Ending balance	$ (13,572)	$ (17,973)	$ (13,572)	$ (17,973)

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

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Note 5. Deferred Revenue

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

	June 30, 2011	December 31, 2010
Nycomed	$ 5,696	$ 6,310
Sanofi	5,745	5,640
Bayer Schering Pharma	5,222	5,155
Boehringer Ingelheim	6,775	6,405
Merck Serono	—	1,368
TRACON	—	1,121
Other	422	234
Subtotal	23,860	26,233
Current portion	(4,471)	(5,695)
Long-term portion	$ 19,389	$ 20,538

The deferred revenue from agreements with Boehringer Ingelheim, Nycomed, sanofi and Bayer Schering consists mainly of the upfront license fees that are being recognized over the periods that we are required to participate on joint steering committees, which are 20 years, 20 years, 6 years and 4.5 years, respectively. The remaining balance of deferred revenue under the Merck Serono agreement has been recognized during the second quarter of 2011. TRACON provided notice of termination to the license and collaboration agreement during the second quarter of 2011, and we recognized the remaining deferred revenue under that agreement at that time as we had no further performance obligations under the terms of the arrangement.

Note 6. Other Liabilities

Other liabilities consist of the following (in thousands):

	June 30, 2011	December 31, 2010
Facility lease exit liability	$ 497	$ 1,504
Asset retirement obligation	970	620
Capital lease obligations	438	521
Other	88	89
Subtotal	1,993	2,734
Less current portion included in accrued expenses	(813)	(1,574)
Other non-current liabilities	$ 1,180	$ 1,160

During the second quarter of 2011, we made additional modifications to our leased space in Munich, Germany and also extended the lease for another 5 years. This resulted in an increase in the asset retirement obligation of approximately $279,000.

Facility Lease Exit Liability and Restructuring Provision

We review the adequacy of our estimated exit accruals on an ongoing basis. The following table summarizes the facility lease activity for these obligations for the three and six month periods ended June 30, 2011 and 2010 (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Beginning balance	$ 1,460	$ 1,228	$1,504	$1,276
Increase to reserve	68	—	68	—
Amounts paid in period	(1,118)	(104)	(1,229)	(208)
Accretion expense	87	55	154	111
Ending balance	$ 497	$ 1,179	$497	$1,179

The accretion expense is included in general and administrative expenses. During the second quarter of 2011, we relocated our U.S. corporate headquarters. The increase to the reserve was equal to the remaining lease obligation on the prior headquarters. The full amount of the lease exit liability is a current liability as of June 30, 2011.

Note 7. Committed Equity Financing Facility

In December 2008, we entered into a Committed Equity Financing Facility (CEFF) with Kingsbridge Capital Limited (Kingsbridge) which entitles us to sell, and obligates Kingsbridge to purchase, shares of our common stock from time to time through December 2011 for up to $75.0 million, subject to certain conditions and restrictions. As of June 30, 2011, Kingsbridge's remaining commitment under the CEFF is equal to the lesser of $69.7 million or 8,684,351 shares (which shares would be priced at a discount ranging from 6% to 14% of the average market price during any future draw down), subject to certain conditions and restrictions.

Note 8. Milestone Revenue

In 2007, we entered into an agreement with TRACON Pharmaceuticals, Inc., or TRACON, under which we granted TRACON an exclusive, worldwide license to develop and commercialize the conventional antibody candidate MT293. Under the terms of the agreement, TRACON was responsible for the development and commercialization of MT293 on a worldwide basis, as well as the costs and expenses associated with such activities.

We recognized revenues of approximately $0.8 million related to the achievement of a milestone under this agreement during the three months ended June 30, 2011. Based on our revenue recognition policy related to milestone payments, we considered the milestone to be significant, specifically concluding that the milestone payment was non-refundable, achievement of the milestone was not reasonably assured at the inception of the agreement, there was substantive effort to achieve the milestone, and the milestone payment was considered reasonable in relation to the efforts expended.

Also during the three months ended June 30, 2011, TRACON sent us a notice of termination of the license agreement. The termination became effective in the third quarter, and we intend to discontinue the development of MT293.

Note 9. Subsequent Event

On July 11, 2011, we entered into a Collaboration and License Agreement with Amgen Inc. under which the two companies will collaborate on the research of BiTE antibodies against three undisclosed solid tumor targets and the

subsequent development and commercialization of BiTE antibodies against up to two of these targets, to be selected by Amgen. We received an up-front payment of €10 million, or $14.5 million using the exchange rate as of the payment date, of which €4 million (approximately $5.8 million using the exchange rate as of the payment date) was an advanced payment to us for research and development expenses to be incurred. We will be primarily responsible for the generation and pre-clinical research of the BiTE antibodies, and Amgen will lead the clinical development, manufacturing, and commercialization of any products resulting from the collaboration. We are eligible to receive up to €342 million in clinical and commercial milestone payments and up to double-digit royalties on worldwide net sales. If Amgen elects to develop a BiTE antibody against a second target, we will be eligible to receive an additional cash payment upon initiation of the program, as well as milestones, royalties and development funding comparable to the first program.

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

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

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

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

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

Overview

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

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Our lead product candidate is the BiTE antibody blinatumomab, also known as MT103. Blinatumomab targets the human protein molecule CD19, which is expressed on the surface of tumor cells of certain cancers. In a phase 2 clinical trial evaluating blinatumomab as a treatment for patients with acute lymphoblastic leukemia, or ALL, 16 of 20 evaluable patients experienced elimination of cancerous cells in their bone marrow, which was the primary endpoint of the trial. We have initiated a pivotal, multi-center, single-arm study — referred to as BLAST (Blinatumomab Adult ALL MRD Study of T cell engagement) — which, if successful, has the potential to support the filing of a marketing authorization application in Europe. We have initiated a phase 2 trial in adult patients with relapsed or refractory B-precursor ALL; interim results from this trial showed that 9 of 12 patients achieved a complete remission or remission with partial recovery of blood counts following treatment with blinatumomab. All nine responding patients also achieved a complete molecular response, meaning that they had no evidence of remaining leukemic cells in their bone marrow, a key prognostic factor for patient survival. We are also evaluating blinatumomab in an ongoing phase 1 clinical trial for the treatment of patients with non-Hodgkin's lymphoma, or NHL.

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

Our conventional monoclonal antibody MT203, a human antibody neutralizing the activity of granulocyte/macrophage colony stimulating factor, or GM-CSF, which has potential applications in the treatment of various inflammatory and autoimmune diseases, such as rheumatoid arthritis, psoriasis, or multiple sclerosis, is under development in a phase 1 clinical trial being conducted by our collaboration partner Nycomed. Our other conventional antibodies include adecatumumab, also known as MT201, which binds to EpCAM and is the subject of a collaboration with Merck Serono, and MT228, which is licensed to Morphotek, Inc. and is the subject of an ongoing phase 1 clinical trial in patients with advanced melanoma. The development of the conventional antibody candidate MT293, which was formerly licensed to TRACON Pharmaceuticals, Inc., will be discontinued following the termination of our license agreement with TRACON during the second quarter of 2011.