MICROMET, INC.
Form 10-Q
May 10, 2006

Table of Contents

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 March 31, 2006

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.)
2110 Rutherford Road, Carlsbad, CA	**92008**
(Address of principal executive offices)	(Zip Code)

(760) 494-4200

(Registrant s telephone number, including area code)

CANCERVAX CORPORATION

(Former Name)

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 May 8, 2006 was 29,164,241.

MICROMET, INC.
(FORMERLY CANCERVAX CORPORATION)
FORM 10-Q QUARTERLY REPORT
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2006
TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Micromet, Inc. (formerly CancerVax Corporation)
Condensed Consolidated Balance Sheets
(In thousands, except par value)

	March 31, 2006 (Unaudited)	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 42,851	$ 38,932
Securities available-for-sale	658	12,263
Receivables under collaborative agreement	434	1,695
Property and equipment held for sale	967	
Other current assets	762	969
Total current assets	45,672	53,859
Property and equipment, net	96	1,805
Goodwill	5,381	5,381
Patents, net	840	842
Restricted cash	1,280	1,280
Other assets	114	130
Total assets	$ 53,383	$ 63,297
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 9,624	$ 11,415
Current portion of long-term debt	17,146	18,125
Total current liabilities	26,770	29,540
Other liabilities	421	1,046
Commitments		
Stockholders equity:		
Common stock, $0.00004 par value; 75,000 shares authorized; 28,130 and 27,924 shares issued and outstanding at March 31, 2006 and December 31, 2005, respectively	1	1
Additional paid-in capital	258,601	257,347
Accumulated other comprehensive loss		(10)
Deferred compensation		(230)
Accumulated deficit	(232,410)	(224,397)
Total stockholders equity	26,192	32,711
Total liabilities and stockholders equity	$ 53,383	$ 63,297

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended March 31,	
	2006	**2005**
Revenues:		
License fee	$	$ 1,899
Collaborative research and development	452	4,727
Total revenues	452	6,626
Operating expenses:		
Research and development	2,416	10,084
General and administrative	3,099	3,518
Restructuring charges	2,733	
Impairment of long-lived assets	358	
Total operating expenses	8,606	13,602
Interest income, net	141	363
Net loss	$ (8,013)	$ (6,613)
Basic and diluted net loss per share	$ (0.29)	$ (0.24)
Weighted average shares used to compute basic and diluted net loss per share	27,960	27,797

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended March 31,	
	2006	**2005**
Cash flows from operating activities:		
Net loss	$ (8,013)	$ (6,613)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Non-cash stock-based compensation	946	349
Investment income from securities available-for-sale	65	92
Depreciation	72	662
Amortization of patents and other intangible assets	18	14
Deferred rent	(525)	44
Impairment of long-lived assets	358	
Changes in operating assets and liabilities:		
Receivables under collaborative agreement	1,261	21,483
Other assets	207	28
Accounts payable and accrued liabilities	(1,390)	387
Deferred revenue		(1,899)
Net cash (used in) provided by operating activities	(7,001)	14,547
Cash flows from investing activities:		
Purchases of property and equipment, net	(18)	(6,387)
Proceeds from sale of property and equipment	331	
Purchases of securities available-for-sale		(4,849)
Maturities of securities available-for-sale	11,550	12,897
Increase in patents	(17)	(102)
Net cash provided by investing activities	11,846	1,559
Cash flows from financing activities:		
Payments on long-term debt	(979)	(261)
Proceeds from long-term debt		3,615
Proceeds from equity compensation plans, net	53	24
Net cash (used in) provided by financing activities	(926)	3,378
Increase in cash and cash equivalents	3,919	19,484
Cash and cash equivalents at beginning of period	38,932	40,588
Cash and cash equivalents at end of period	$ 42,851	$ 60,072

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Micromet, Inc. (CancerVax Corporation)
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation

The condensed consolidated financial statements as of March 31, 2006, and for the three months ended March 31, 2006 are unaudited. 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 consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2005.

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 on-going basis, we evaluate our estimates, including those related to revenue recognition and the valuation of goodwill, intangibles and other long-lived assets. 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. Interim results are not necessarily indicative of results for a full year or for any subsequent interim period.

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.

Certain stock-based compensation amounts in the 2005 condensed consolidated financial statements have been reclassified to conform to the current period presentation.

In October 2005, we announced the discontinuation of our Phase 3 clinical trial of our leading product candidate, Canvaxin, in patients with Stage III melanoma, based on the recommendation of the independent Data and Safety Monitoring Board, or DSMB. In April 2005, we announced the discontinuation of our Phase 3 clinical trial of Canvaxin in patients with Stage IV melanoma based upon a similar recommendation of the independent DSMB. As a result of the discontinuation of the Canvaxin Phase 3 clinical trials, in October 2005 we announced the discontinuation of all further development and manufacturing activities with respect to Canvaxin and a restructuring plan. As of March 31, 2006, as a result of our proposed merger with Micromet AG or Micromet (Note 4), we had discontinued substantially all research and development activity and had either disposed of, or were in the process of disposing of, assets that were not anticipated to be acquired by Micromet. See Notes 2-4 for further discussion of these events.

Unless otherwise indicated, the share and per share amounts included herein do not reflect the closing of the merger with Micromet AG or the 1-for-3 reverse stock split that became effective upon the closing of our merger with Micromet.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123R, *Share Based Payment.* This statement is a revision to SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees,* and amends SFAS No. 95, *Statement of Cash Flows.* This statement requires a public entity to expense the cost of employee services received in exchange for an award of equity instruments. This statement also provides guidance on valuing and expensing these awards, as well as disclosure requirements of these equity arrangements. On April 14, 2005, the U. S. Securities and Exchange Commission (SEC) adopted a new rule amending the effective dates for SFAS No. 123R. In accordance with the new rule, the accounting provisions of SFAS No. 123R are effective for us beginning in the quarter ended March 31, 2006.

Table of Contents

Under SFAS No. 123R, stock-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the employee s requisite service period. We have no outstanding awards with market or performance conditions. We adopted the provisions of SFAS No. 123R on January 1, 2006, the first day of our fiscal year 2006, using a modified prospective application, which provides for certain changes to the method for valuing stock-based compensation. Under the modified prospective application, prior periods are not revised for comparative purposes. The valuation provisions of SFAS No. 123R apply to new awards and to awards that are outstanding on the effective date and subsequently modified or cancelled. Estimated compensation expense for awards outstanding at the effective date will be recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes under SFAS No. 123.

Stock-Based Compensation under SFAS 123R

As permitted by SFAS No. 123R, we utilized the Black-Scholes option-pricing model (Black-Scholes model) as our method of valuation for share-based awards granted. The Black-Scholes model was previously utilized for our pro forma information required under SFAS No. 123. The determination of the fair value of our share-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, our expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because our employee stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management s opinion, the existing valuation models may not provide an accurate measure of the fair value of our employee stock options. Although the fair value of employee stock options is determined in accordance with SFAS No. 123R using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

The weighted-average estimated fair value of employee stock options granted during the three month period ended March 31, 2006 and March 31, 2005 was $1.00 and $4.44, per share respectively, using the Black-Scholes option-pricing model with the following assumptions (annualized percentages):

	Three Months Ended, March 31	
	2006	**2005**
Expected volatility	75.0%	70.0%
Risk-free interest rate	4.75%	3.95%
Dividend yield	0.0%	0.0%
Expected term	1.1 years	4.84 years

Expected volatility is based on the Company s historical volatility and the historical volatilities of the common stock of comparable publicly traded companies. The risk-free interest rate is based on the U.S. Treasury rates in effect at the time of grant for periods within the expected term of the award. The expected term of options granted is derived from the average midpoint between vesting and the contractual term, as described in SEC s Staff Accounting Bulletin No. 107, *Share-Based Payment.* As stock-based compensation expense recognized in the Statement of Operations for the first quarter of fiscal 2006 is based on awards ultimately expected to vest, it should be reduced for estimated forfeitures. SFAS No. 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Pre-vesting forfeitures were estimated to be 0% in the first quarter of fiscal 2006. If pre-vesting forfeitures occur in the future, we will record the benefit related to such forfeitures as the forfeitures occur. In the pro forma information required under SFAS No. 123 for the periods prior to fiscal 2006, we accounted for forfeitures as they occurred.

In conjunction with the adoption of SFAS No. 123R, we changed our method of attributing the value of stock-based compensation to expense from the accelerated multiple-option approach to the straight-line single option method. Compensation expense for all share-based payment awards granted on or prior to December 31, 2005 will

continue to be recognized using the accelerated multiple-option approach while compensation expense for all share-based payment awards granted subsequent to December 31, 2005 is recognized using the straight-line single-option 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.

Table of Contents

Reported share-based compensation is classified, in the condensed consolidated interim financial statements, as follows (in thousands, except per share data):

	Three months ended March 31, 2006
Research and development	$ 298
General and administrative	632
Employee stock-based compensation expense	$ 930
Employee stock-based compensation expense, per common share, basic and diluted:	$ (0.03)

Pro Forma Information under SFAS 123 for Periods Prior to Fiscal 2006

Prior to adopting the provisions of SFAS No. 123R, we recorded estimated compensation expense for employee stock-based compensation under the provisions of APB Opinion 25, *Accounting for Stock Issued to Employees*, and provided the required pro forma disclosures of SFAS No. 123. Accordingly, stock-based compensation expense related to employee stock awards was recorded if, on the date of grant, the fair value of the underlying stock exceeded the exercise price of the award. Deferred stock-based compensation was recognized for the difference between the exercise price of stock options granted and the estimated fair value of our common stock on the date of grant. Deferred compensation was amortized to compensation expense on an accelerated basis in accordance with Financial Accounting Standards Board Interpretation (FIN) No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*, over the vesting period of the related options, generally four years.

Options or stock awards issued to non-employees were recorded at their fair value in accordance with SFAS No. 123 and Emerging Issues Task Force (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 were periodically revalued as the options vested and were recognized as expense over the related service period.

As required under SFAS No. 123, the pro forma effects of employee stock-based compensation on net loss were estimated at the date of grant using the Black-Scholes option valuation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management s opinion, the existing models do not necessarily provide a reliable single measure of the fair value of our employee stock options.

The following table illustrates our pro forma information (in thousands, except per share data):

	Three months ended March 31, 2005
Net loss as reported	$ (6,613)
Add: Stock-based employee compensation expense included in reported net loss	334
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards	(1,861)
Pro forma net loss	$ (8,140)
Pro forma net loss per share	$ (0.29)

2. Restructuring Activities

Under the restructuring plan approved by our board of directors in October 2005, we reduced our workforce from 183 to 52 employees as of December 31, 2005 and closed our biologics manufacturing facility and our warehouse facility. In January 2006, we implemented additional restructuring measures, which resulted in further reduction of our workforce to 6 employees at the closing of our merger with Micromet (see Note 4) and will ultimately result in the termination of substantially all of our employees and the sublease or closure of all our facilities.

Table of Contents

In accordance with SFAS No. 146, *Accounting for the Costs of Exit or Disposal Activities*, we recorded non-recurring charges in 2005 and the first quarter of 2006 associated with our restructuring activities. The charges consist of employee severance costs, leased facility exit costs and contract termination costs. The liability for employee severance costs primarily represents the estimated future severance payments to be made to employees terminated as a result of our restructuring plan. The liability for leased facility exit costs represents the estimated future costs, net of sublease rentals, to be incurred under the operating leases for our biologics manufacturing facility, our warehouse facility and the portion of our corporate headquarters and research and development facility we have ceased using. The liability for contract termination costs represents the estimated future costs to be incurred under contracts that were terminated in 2005 in accordance with the contract terms. All such restructuring liabilities are included in accrued liabilities in the accompanying March 31, 2006 condensed consolidated balance sheet.

Restructuring charges incurred are as follows (in thousands):

	Three months ended March 31, 2006	Cumulative charges as of March 31, 2006
Employee severance costs	$ 1,556	$ 5,053
Net adjustment to leased facility exit costs	1,720	3,623
Write-off of deferred rent	(543)	(1,025)
Contract termination costs		218
	$ 2,733	$ 7,869

A reconciliation of restructuring liabilities from December 31, 2005 to March 31, 2006 is as follows (in thousands):

	Employee severance costs	Leased facility exit costs	Contract termination costs	Total
Balance at December 31, 2005	$ 348	$ 1,903	$ 218	$ 2,469
Costs incurred during period	1,556	1,589		3,145
Adjustments during the period		131		131
Costs paid during the period	(1,145)	(511)	(120)	(1,776)
Balance at March 31, 2006	$ 759	$ 3,112	$ 98	$ 3,969

In the second quarter of 2006, we expect to incur approximately $0.7 million of additional employee severance costs. We also anticipate incurring additional leased facility exit costs in 2006, primarily related to our corporate headquarters facility. At this time, we are unable to reasonably estimate the expected amount of such additional leased facility exit costs, although we are obligated to make future operating lease payments of approximately $2.6 million related to the portion of our corporate headquarters we still occupy as of March 31, 2006. We anticipate that our restructuring efforts will be substantially completed by the end of the second quarter of 2006.

3. Impairment of Long-Lived Assets and Property and Equipment Held for Sale

In 2005, we performed a recoverability test of our long-lived assets, including property and equipment and patents, in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, as a result of our decision to discontinue all further development and manufacturing activities with respect to Canvaxin and our proposed merger with Micromet (Note 4). Based on the recoverability analysis performed, management did not believe that the estimated undiscounted future cash flows expected to result from the disposition of certain of our long-lived assets were sufficient to recover the carrying value of these assets. Accordingly, in 2005 we recorded a non-recurring, non-cash charge for the impairment of long-lived assets of $25.4 million to write-down the carrying value of these assets to their estimated fair value, of which $25.2 million related to property and equipment and $0.2 million related to patents.

During the three months ended March 31, 2006, we began to actively market the property and equipment which had a carrying value of $1.8 million. Management also determined that the plan of sale criteria in SFAS No. 144, *Accounting for Impairment or Disposal of Long-lived Assets*, had been met. Accordingly, management reevaluated its estimate of fair value less the cost to sell the assets and determined that an additional impairment should be recognized for the property and equipment. Current markets and third party interest for the property and

Table of Contents

equipment indicate that we will not be able to recover the carrying value through the sales process. Therefore, we wrote down the carrying value of the property and equipment to their fair value, less costs to sell, of $1.0 million and we recorded a non-recurring, non-cash charge for the impairment of property and equipment of $0.4 million, which is included in accumulated depreciation and amortization as of March 31, 2006. The carrying value of the property and equipment as of March 31, 2006 has been reclassified to property and equipment held for sale in the accompanying balance sheet and the impairment reserve is reduced as impaired assets are disposed. Although we believe the current carrying value represents the fair value of the property and equipment, it is possible the actual results of a sale could materially differ from amounts estimated.

4. Merger

On May 5, 2006, we completed our merger with Micromet AG based on the Agreement and Plan of Merger and Reorganization with Micromet AG, dated January 6, 2006, and amended as of March 17, 2006, that contains the terms and conditions of our merger with that company. Per the terms of the merger agreement, our wholly owned subsidiary, Carlsbad Acquisition Corporation, merged with and into Micromet Holdings, Inc. (formerly known as Micromet, Inc.), or Micromet Parent, a newly created parent corporation of Micromet. Micromet Parent became a wholly-owned subsidiary of ours and will be the surviving corporation of the merger. Pursuant to the terms of the merger agreement, we issued to Micromet stockholders 19,761,687 shares of our common stock (subsequent to a 1-for-3 reverse stock split of our common stock effective upon the closing of the merger) and assumed all of the stock options, stock warrants and restricted stock of Micromet outstanding as of May 5, 2006, such that the former Micromet AG stockholders, option holders, warrant holders and note holders own approximately 67.5% of the combined company on a fully-diluted basis and the stockholders, option holders and warrant holders of CancerVax prior to the merger own approximately 32.5% of the combined company on a fully-diluted basis.

Because former Micromet AG stockholders own approximately 67.5% of the voting stock of the combined company after the merger, Micromet is deemed to be the acquiring company for accounting purposes and the transaction will be accounted for as a reverse acquisition under the purchase method of accounting for business combinations in accordance with accounting principles generally accepted in the United States. Accordingly, our assets and liabilities will be recorded as of the merger closing date at their estimated fair values.

5. Net Loss Per Share

We calculate net loss per share in accordance with SFAS No. 128, *Earnings Per Share*. Accordingly, basic and diluted net loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding for the period, reduced by the weighted average unvested common shares subject to repurchase, without consideration for common stock equivalents.

	Three Months Ended March 31,	
	2006	2005
	(In thousands, except per share amounts)	
Numerator:		
Net loss, as reported	$ (8,013)	$ (6,613)
Denominator:		
Weighted average common shares outstanding	27,960	27,812
Weighted average unvested common shares subject to repurchase		(15)
Weighted average common shares used to calculate basic and diluted loss per share	27,960	27,797
Basic and diluted net loss per share	$ (0.29)	$ (0.24)

The following common stock equivalents were excluded from the calculation of actual and diluted net loss per share as their effect would be antidilutive (in thousands):

	Three Months Ended March 31,	
	2006	**2005**
Common stock subject to repurchase		12
Stock options	4,488	5,039
Restricted shares		231
Stock warrants	86	86
	4,574	5,368

Table of Contents

6. Comprehensive Loss

For the three months ended March 31, 2006 and 2005, comprehensive loss consists of the following (in thousands):

	Three Months Ended March 31,	
	2006	**2005**
Net loss	$ (8,013)	$ (6,613)
Unrealized gain on securities available-for-sale	10	31
Total comprehensive loss	$ (8,003)	$ (6,582)

7. Segment Information

We operate in one segment, which is the research, development and commercialization of novel biological products for the treatment and control of cancer. The chief operating decision-makers review our operating results on an aggregate basis and we manage our operations as a single operating segment.

8. Related Party Transactions

We were founded in 1998 by Donald L. Morton, M.D., who is currently Medical Director and Surgeon-in-Chief and a member of the board of directors of the John Wayne Cancer Institute, or JWCI, a cancer research institute located in Santa Monica, California. Prior to the closing of the merger with Micromet, Dr. Morton was a member of our board of directors and a significant stockholder of CancerVax. Since our inception in 1998, we have entered into various transactions with Dr. Morton and entities affiliated with Dr. Morton, including JWCI.

JWCI provided us with certain services related to our Canvaxin Phase 3 clinical trials under a clinical trial services agreement and was a participating site in the clinical trials. As a result of our decision to discontinue the Phase 3 clinical trials of Canvaxin in patients with Stage III and Stage IV melanoma, as well as all further development and manufacturing activities with respect to Canvaxin, our agreements with JWCI were terminated in December 2005. During the three months ended March 31, 2006 and 2005, we paid to JWCI $27,000, and $47,000, respectively, for services provided under the clinical trial services agreement, participation in the clinical trials and certain other services.

We had a consulting and non-compete agreement with Dr. Morton that expired in September 2005. Under the terms of the agreement, as amended, we paid Dr. Morton $12,500 per month to provide consulting services related to the development and commercialization of Canvaxin and our other product candidates as well as consult on medical and technical matters as requested.

Under an agreement we entered into in 2000 with OncoVac, Inc., an entity owned by Dr. Morton, we agreed to pay an aggregate of $1,250,000 to JWCI, of which $500,000 was paid upfront and the remainder is due in annual installments of $125,000 through June 2006. Of the total amount, $125,000 remains unpaid as of March 31, 2006.

9. Guarantees

In the ordinary course of our business, we enter into agreements with third parties, including corporate collaborators, contractors and clinical sites, which contain standard indemnification provisions. Under these provisions, we generally indemnify and hold harmless the indemnified party for losses suffered or incurred by the indemnified party as a result of our activities. Although the maximum potential amount of future payments we could be required to make under these indemnification provisions is unlimited, to date we have not incurred material costs to defend lawsuits or settle claims related to these indemnification provisions. Additionally, we have insurance policies that, in most cases, would limit our exposure and enable us to recover a portion of any amounts paid. Therefore, we believe the estimated fair value of these agreements is minimal and accordingly, we have not accrued any liabilities for these agreements as of March 31, 2006.

Table of Contents

10. Debt Obligations and Lease Commitments

In December 2004, we entered into an $18.0 million loan and security agreement with a financing institution. As of December 31, 2005, we had borrowed the full $18.0 million available under the credit facility, of which $17.0 million remains unpaid as of March 31, 2006.

The loan and security agreement contains certain customary events of default, including, among other things, non-payment of principal and interest, violation of covenants, the occurrence of a material adverse change in our ability to satisfy our obligations under the loan agreement or with respect to the lender s security interest in our assets and in the event we are involved in certain insolvency proceedings. Upon the occurrence of an event of default, the lender may be entitled to, among other things, accelerate all of our obligations and sell our assets to satisfy our obligations under the loan agreement. In addition, in an event of default, our outstanding obligations may be subject to increased rates of interest. The terms of the loan and security agreement also require that it be repaid in full upon the occurrence of a change in control event, such as the consummation of our merger with Micromet, however the financing institution consented to the merger without requiring that the combined company immediately pay down any portion of the note. We are currently in negotiations with the financing institution which will culminate in the proposal by the financing institution of alternative payment plans that could include paying down all, part or none of the outstanding obligation. Since we cannot anticipate the outcome of such negotiations, we have classified the outstanding borrowings as a current liability as of March 31, 2006.

On May 5, 2006, we increased our irrevocable standby letter of credit, and related pledged certificates of deposit, by $1.0 million as required under the terms of the operating lease for our corporate headquarters and research and development facility as our outstanding cash and investment balance fell below $50.0 million as of March 31, 2006.

11. Stockholders Equity

Equity Incentive Plan

On June 10, 2004, our stockholders approved the Amended and Restated 2003 Incentive Award Plan or 2003 Plan, which effectively terminated the Third Amended and Restated 2000 Stock Incentive Plan. Under the 2003 Plan, options may be granted to employees and outside directors to purchase a fixed number of shares of our common stock at prices not less than 100% of the fair market value at the date of grant. Options generally become exercisable one-fourth annually beginning one year after the grant date with monthly vesting thereafter and expire ten years from the grant date. Options granted during the first three months of 2006, except for those granted to the President and Chief Executive Officer, allow for vesting in full upon the termination of the recipient s employment or service with the Company. At March 31, 2006, approximately 2.1 million shares were available for future grants under the 2003 Plan.

The following is a summary of stock option activity under the 2003 Plan through March 31, 2006 (shares in thousands):

	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1, 2006	5,599	$ 5.02
Granted	465	2.89
Exercised	(43)	1.52
Cancelled	(1,533)	5.63
Outstanding at March 31, 2006	4,488	$ 4.63

Table of Contents

The following is a further breakdown of the options outstanding as of March 31, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options Outstanding (thousands)	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable (thousands)	Weighted Average Exercise Price
$1.08-1.08	337	4.74	$ 1.08	337	$ 1.08
1.48-1.48	797	9.59	1.48	255	1.48
2.16-2.81	41	6.57	2.36	41	2.36
2.82-2.82	644	9.03	2.82	612	2.82
2.87-2.90	465	9.99	2.89		
3.30-3.30	767	6.71	3.30	761	3.30
3.97-7.84	294	8.78	7.03	94	6.97
7.93-7.93	474	8.86	7.93	82	7.93
8.12-12.87	669	7.95	11.37	445	11.14
$1.08-12.87	4,488	8.29	$ 4.63	2,627	$ 4.33

For the three months ended March 31, 2006, share-based compensation expense related to stock options was $0.9 million. As of March 31, 2006, there was $2.9 million of unamortized compensation cost related to unvested stock option awards, which is expected to be recognized over a remaining weighted-average vesting period of 1.9 years. The aggregate intrinsic value of options exercised during the period ended March 31, 2006 and outstanding and exercisable at March 31, 2006 was approximately $0.1 million, $1.7 million and $1.0 million, respectively.

Employee Stock Purchase Plan

As of March 31, 2006, there are no participants in the Employee Stock Purchase Plan.

12. Subsequent Events