

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 2008

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-33133

**METABOLIX, INC.**

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**21 Erie Street**  
**Cambridge, MA**  
(Address of principal executive offices)

**04-3158289**  
(I.R.S. Employer  
Identification No.)

**02139**  
(Zip Code)

**(617) 583-1700**

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

(Do not check if a smaller reporting company)

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

The number of shares outstanding of the registrant's common stock as of August 5, 2008 was 22,901,801.

**Metabolix, Inc.**  
**Form 10-Q**  
**For the Quarter Ended June 30, 2008**

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**PART I. FINANCIAL INFORMATION**

**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**METABOLIX, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**UNAUDITED**  
**(in thousands, except share and per share data)**

	June 30, 2008	December 31, 2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 22,101	\$ 22,686
Short-term investments	78,980	86,640
Accounts receivable	121	133
Due from related parties	244	1,216
Unbilled receivable	120	198
Prepaid expenses and other current assets	448	673
Total current assets	102,014	111,546
Restricted cash	494	498
Property and equipment, net	5,750	6,890
Other assets	98	70
Total assets	\$ 108,356	\$ 119,004
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 544	\$ 299
Accrued liabilities	3,335	4,195
Current portion of deferred rent	165	165
Deferred revenue	50	—
Total current liabilities	4,094	4,659
Deferred rent and other long term liabilities	883	963
Long-term deferred revenue	28,579	24,180
Total liabilities	33,556	29,802
Commitments and contingencies (Note 11)		
Stockholders' Equity:		
Common stock (\$0.01 par value per share); 100,000,000 shares authorized at June 30, 2008 and December 31, 2007; 22,887,214 and 22,576,111 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	229	226
Additional paid-in capital	186,012	182,852
Accumulated other comprehensive income	44	236
Accumulated deficit	(111,485)	(94,112)
Total stockholders' equity	74,800	89,202
Total liabilities and stockholders' equity	\$ 108,356	\$ 119,004

*The accompanying notes are an integral part of these consolidated financial statements*

**METABOLIX, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**UNAUDITED**  
(in thousands, except share and per share data)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
<b>Revenue:</b>				
Research and development revenue	\$ 11	\$ —	\$ 79	\$ —
License fee and royalty revenue from related parties	35	32	70	107
Grant revenue	355	155	656	508
Total revenue	<u>401</u>	<u>187</u>	<u>805</u>	<u>615</u>
<b>Operating expenses:</b>				
Research and development expenses, including cost of revenue	6,008	5,026	11,942	8,833
Selling, general, and administrative expenses	4,048	4,351	8,145	7,199
Total operating expenses	<u>10,056</u>	<u>9,377</u>	<u>20,087</u>	<u>16,032</u>
Loss from operations	<u>(9,655)</u>	<u>(9,190)</u>	<u>(19,282)</u>	<u>(15,417)</u>
<b>Other income:</b>				
Interest income, net	730	1,524	1,909	3,062
Net loss	<u>\$ (8,925)</u>	<u>\$ (7,666)</u>	<u>\$ (17,373)</u>	<u>\$ (12,355)</u>
<b>Net loss per share:</b>				
Basic and Diluted	\$ (0.39)	\$ (0.35)	\$ (0.76)	\$ (0.57)
<b>Number of shares used in per share calculations:</b>				
Basic and Diluted	22,787,087	21,730,859	22,717,913	21,581,359

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

**METABOLIX, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**UNAUDITED**  
(in thousands)

	Six Months Ended June 30,	
	2008	2007
<b>Cash flows from operating activities</b>		
Net loss	\$ (17,373)	\$ (12,355)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	1,814	518
Stock-based compensation	2,192	1,635
Charge for 401(k) company common stock match	212	—
Changes in operating assets and liabilities:		
Receivables (billed and unbilled)	90	(102)
Due from related party	119	521
Prepaid expenses, other assets, and restricted cash	212	4
Accounts payable	245	(1,100)
Accrued liabilities	(996)	2,065
Deferred rent and other long term liabilities	(80)	(80)
Deferred revenue	5,302	2,572
Net cash used in operating activities	<u>(8,263)</u>	<u>(6,322)</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(483)	(2,019)
Purchase of short-term investments	(62,188)	(105,149)
Proceeds from sale and maturity of short-term investments	69,685	95,650
Net cash provided by (used in) investing activities	<u>7,014</u>	<u>(11,518)</u>
<b>Cash flows from financing activities</b>		
Proceeds from exercise of options and warrants	664	1,692
Net cash provided by financing activities	<u>664</u>	<u>1,692</u>
Net decrease in cash and cash equivalents	(585)	(16,148)
Cash and cash equivalents at beginning of period	22,686	25,182

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

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**METABOLIX, INC.**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**UNAUDITED**

*(All dollar amounts are stated in thousands.)*

### 1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements are unaudited and have been prepared by Metabolix, Inc. (“the Company”) in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in the Company’s annual consolidated financial statements have been condensed or omitted. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. The condensed consolidated financial statements, in the opinion of management, reflect all adjustments (consisting only of normal recurring accruals) necessary for a fair statement of the financial position and results of operations for the interim periods ended June 30, 2008 and 2007.

The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for any future period or the entire fiscal year. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2007, which are contained in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission.

### 2. ACCOUNTING POLICIES

Except as indicated below, there have been no material changes in accounting policies since the end of the fiscal year ended December 31, 2007, as described in Note 3 to the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2007.

#### Fair Value Measurements

The Company adopted the provisions of Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standard (“SFAS”) No. 157, *Fair Value Measurements* (“SFAS 157”) on January 1, 2008. As permitted by FASB Staff Position (“FSP”) No. SFAS 157-2, *Effective Date of FASB Statement No. 157* (“FSP SFAS 157-2”), the Company elected to defer the adoption of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, until January 1, 2009. SFAS 157 establishes a framework for measuring fair value and expands financial statement disclosures about fair value measurements. There was no cumulative effect of adoption related to SFAS 157 and the adoption did not have an impact on our financial position, results of operations, or cash flows. The Company is studying SFAS 157 with respect to nonfinancial assets and nonfinancial liabilities falling under the scope of FSP SFAS 157-2 and has not yet determined the expected impact on the financial position, results of operations, or cash flows. See Note 12 for a discussion of the Company’s adoption of SFAS 157.

The Company adopted the provisions of SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115* (“SFAS 159”) on January 1, 2008. SFAS 159 permits entities to choose, at specified election dates, to measure eligible items at fair value (the “fair value option”). Under this pronouncement, a business entity must report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting period. The Company has not elected the fair value option for any items on its balance sheet.

### 3. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (“SFAS 141(R)”), which replaces SFAS No. 141. This revised standard requires assets, liabilities and non-controlling interests acquired to be measured at fair value and requires that costs incurred to effect the acquisition be recognized separately from the business combination. In addition, this statement expands the scope to include all transactions and other events in which one entity obtains control over one or more business. This statement is effective for all business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is in the process of evaluating whether the adoption of this standard will have a material effect on its financial position, results of operations or cash flows.

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In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51* (“SFAS 160”). This statement establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement is effective for fiscal years beginning on or after December 15, 2008. The Company is in the process of evaluating whether the adoption of this standard will have a material effect on its financial position, results of operations or cash flows.

In December 2007, the Emerging Issues Task Force (“EITF”) reached a consensus on EITF Issue 07-01, *Accounting for Collaborative Arrangements Related to the Development and Commercialization of Intellectual Property* (“EITF 07-01”). EITF 07-01 prescribes the accounting for collaborations. It requires certain transactions between collaborators to be recorded in the income statement on either a gross or net basis when certain characteristics exist in the collaboration relationship. EITF 07-01 is effective for all of the Company’s collaborations existing after January 1, 2009. The Company is in the process of evaluating whether the adoption of this standard will have a material effect on its financial position, results of operations or cash flows.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (“SFAS 162”). SFAS 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selected accounting principles to be used in preparing financial statements that are presented in conformity with GAAP for nongovernmental entities. The statement establishes that the GAAP hierarchy should be directed to entities because it is the entity (not its auditor) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. This statement is effective 60 days following the U.S. Securities and Exchange Commission’s approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. The Company is in the process of evaluating whether the adoption of this standard will have a material effect on its financial position, results of operations or cash flows.

In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (“FSP EITF 03-6-1”) FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method as described in SFAS No. 128, *Earnings per Share*. Under the guidance in FSP EITF 03-6-1, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued in fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period earnings per share data presented shall be adjusted retrospectively. Early application is not permitted. The Company is in the process of evaluating whether the adoption of this standard will have a material effect on its financial position, results of operations or cash flows.

#### 4. COMPREHENSIVE LOSS

Comprehensive loss is comprised of net loss and net unrealized gains on marketable securities. Total comprehensive loss for the three and six months ended June 30, 2008 and 2007 is as follows:

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Net loss	\$ (8,925)	\$ (7,666)	\$ (17,373)	\$ (12,355)
Other comprehensive income:				
Change in unrealized gain on investments	(353)	66	(192)	65
Total other comprehensive income	(353)	66	(192)	65
Comprehensive loss	\$ (9,278)	\$ (7,600)	\$ (17,565)	\$ (12,290)

#### 5. BASIC AND DILUTED NET LOSS PER SHARE

Basic net loss per share is computed by dividing net loss by the weighted-average number of shares of common stock outstanding and warrants outstanding that were previously issued for little or no consideration, excluding the dilutive effects of common stock equivalents. Common stock equivalents include stock options and certain warrants. Diluted net income per share includes the dilutive effect of common stock equivalents under the treasury stock method.

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The number of shares of potentially dilutive common stock related to options and warrants that were excluded from the calculation of dilutive shares since the inclusion of such shares would be anti-dilutive for the three and six months ended June 30, 2008 and 2007, respectively, are shown below:

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Options	2,385,352	2,404,038	2,385,352	2,404,038
Warrants	4,086	83,648	4,086	83,648
Total	2,389,438	2,487,686	2,389,438	2,487,686

#### 6. STOCK-BASED COMPENSATION

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* (“SFAS 123(R)”). Under the provisions of SFAS 123(R), compensation cost recognized for the three and six months ended June 30, 2008 and 2007 included compensation cost for all stock options granted to employees subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R) and will be recognized over the vesting period of the applicable award on a straight-line basis. The effect of SFAS 123(R) for the three and six months ended June 30, 2008 was an expense of \$1,108 and \$2,334, respectively. The increase in basic and diluted net loss per share for the three and six months ended June 30, 2008 was \$0.05 and \$0.10, respectively. For the three and six months ended June 30, 2007 the effect of SFAS 123(R) was an increase in net loss of \$806 and \$1,205, respectively. The increase in basic and diluted net loss per share for the three and six months ended June 30, 2007 was \$0.05 and \$0.08, respectively. There is no expense recorded for options which were granted prior to January 1, 2006 under the minimum value method if the exercise price was equal to the fair value of common stock and the measurement date was fixed at the time of grant. The Company granted options to an officer of the Company prior to January 1, 2006 that contained performance based vesting conditions which were met during the year ended December 31, 2006. The resulting deferred compensation was recorded ratably over the remaining service period, \$10 and \$36 was recorded during the three and six months ended June 30, 2007, respectively.

A summary of option activity for the six months ended June 30, 2008 and 2007 is as follows:

	Six months ended June 30,			
	2008		2007	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price

Outstanding at beginning of period	2,151,784	\$	10.70	2,717,244	\$	4.60
Granted	720,700		12.52	426,151		22.76
Exercised	(291,053)		2.32	(625,572)		2.55
Canceled	(196,079)		14.39	(113,785)		3.23
Outstanding at end of period	<u>2,385,352</u>		11.97	<u>2,404,038</u>		8.41
Options exercisable as of June 30,	1,118,881			1,123,151		
Weighted average grant date fair value of options granted during the period		\$	7.40		\$	14.01

### Non-employee Stock Option Awards

The compensation expense related to non-employee stock options is generally recognized over a period of four years. The grants generally vest quarterly and such vesting is contingent upon future services provided by the consultants to the Company. The Company recorded consultant related stock-based compensation expense of \$3 for the three months ended June 30, 2008 and recorded a benefit of \$142 for the six months ended June 30, 2008. For the three and six months ended June 30, 2007 the Company recorded stock-based compensation expense of \$301 and \$394, respectively. Options remaining unvested for non-employees are subject to remeasurement each reporting period prior to vesting in full. Since the fair

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market value of the options issued to non-employees are subject to changes in the future, the compensation expense recognized in each quarter may not be indicative of future compensation charges.

## 7. SIGNIFICANT COLLABORATIONS

### ADM Agreement

On November 3, 2004, the Company signed an agreement with ADM Polymer Corporation (“ADM”), a subsidiary of Archer Daniels Midland Company, to establish an alliance whereby the Company would provide technology and licenses thereto and research and development services, and ADM would provide manufacturing services and capital necessary to produce Mirel™ biobased plastic on a commercial scale basis. This agreement was amended by the parties on September 8, 2005 to define certain cost sharing activities related to pilot manufacturing, to change certain milestones and to make other minor modifications.

On July 12, 2006, ADM exercised an option (the “Option”) to enter into a commercial alliance for further research, development, manufacture, use and sale of Mirel on the terms and conditions set forth in the Commercial Alliance Agreement.

### Commercial Alliance Agreement

The Commercial Alliance Agreement specifies the terms and structure of the relationship between the Company and ADM. The primary function of this agreement is to establish the activities and obligations of the Company and ADM by which the parties will commercialize Mirel biobased plastic. These activities include: the establishment of a joint sales company, which has been named Telles, to market and sell Mirel, the construction of a manufacturing facility capable of producing 110 million pounds of material annually (the “Commercial Manufacturing Facility”), the licensing of technology to Telles and to ADM, and the conducting of various research, development, manufacturing, sales and marketing, compounding and administrative services by the parties.

Telles is a limited liability company, formed and equally owned by the Company and ADM, and is intended to: (i) serve as the commercial entity to establish and develop the commercial market for Mirel, and conduct the marketing and sales in accordance with the goals of the commercial alliance, (ii) assist in the coordination and integration of the manufacturing, compounding and marketing activities, and (iii) administer and account for financial matters on behalf of the parties. The Company and ADM each have 50% ownership and voting interest in Telles.

A summary of the key activities under this agreement is as follows: (i) ADM will arrange for, finance the construction of, and own, a facility in which it will manufacture Mirel biobased plastic under contract to Telles; (ii) the Company will either arrange for and finance the acquisition or construction of a facility in which it will compound Mirel biobased plastic or it will arrange for third parties to compound Mirel biobased plastic; (iii) the Company, acting in the name and on behalf of Telles, will establish the initial market for Mirel. The Company will also continue its research and development efforts to further advance the technology and expand and enhance the commercial potential of Mirel. Subject to certain limitations, ADM will finance the working capital requirements of Telles.

Telles will make up to twelve payments of \$1,575 per calendar quarter to the Company to support these activities during the construction of the Commercial Manufacturing Facility. In the event construction is completed and sale of commercial product commences prior to Telles making all twelve such payments, the quarterly payments will cease and Telles will pay the Company a lump sum equal to the number of remaining unpaid payments multiplied by \$250. Through June 30, 2008, support payments totaling \$15,750 have been received by the Company and recorded as deferred revenue.

During the construction period of the Commercial Manufacturing Facility all pre-commercial material production expenses incurred by ADM and the Company are shared equally. Accordingly, from the execution of this agreement in July 2006 through June 30, 2008, ADM has reimbursed the Company \$6,380. At June 30, 2008, net reimbursements of \$241 were due from ADM. All amounts due or received from ADM relating to this agreement are recorded as deferred revenue.

Upon the commencement of commercial sales, Telles will pay the Company royalties on sales as well as reimburse it for the cost of services provided pursuant to the Commercial Alliance Agreement.

While Telles is a fifty-fifty joint venture, ADM will be advancing a disproportionate share of the financial capital needed to construct the manufacturing plant and to fund its activities. Therefore, a preferential distribution of cash flow will be used, whereby all profits (after payment of all royalties,

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reimbursements and fees) from Telles will be distributed to ADM until ADM's disproportionate investment in the alliance has been returned in full. Once ADM has recouped such amounts, the profits of Telles will be distributed in equal amounts to the parties.

The Commercial Alliance Agreement provides for expansion of the operations of Telles beyond the initial license of 110 million pounds annual production through an equally-owned joint venture. While certain principles of the joint venture have been agreed to, the detailed terms and conditions will not be determined until a later date.

Revenue recognition for amounts deferred through June 30, 2008 is expected to commence approximately at the time of the first commercial sale of Mirel and the amounts will be recognized proportionately over the period that the final services are provided over the estimated remaining term of the Commercial Alliance Agreement.

The Commercial Alliance Agreement and related agreements include detailed provisions setting out the rights and obligations of the parties in the event of a termination of the Commercial Alliance Agreement. These provisions include the right for either party to terminate the Commercial Alliance Agreement upon a material default of a material obligation by the other party after a notice and cure period has expired. The parties are also permitted to terminate the Commercial Alliance Agreement if a change in circumstances that is not reasonably within the control of a party makes the anticipated financial return from the project inadequate or too uncertain. Finally, the parties have specific obligations to fulfill in the event of termination or if they file for bankruptcy protection.

## 8. INCOME TAXES

The Company adopted the provisions of FASB Interpretation No. 48 ("FIN 48") *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* ("SFAS 109") on January 1, 2007. As a result of the implementation of FIN 48, the Company recorded no adjustment for unrecognized income tax benefits. At the date of adoption of January 1, 2007, and also at June 30, 2008, the Company had no unrecognized tax benefits. The Company does not expect the total amount of unrecognized tax benefits to significantly increase in the next twelve months.

The tax years 2004 through 2007 remain open to examination by major taxing jurisdictions to which the Company is subject, which are primarily in the US.

The Company's policy is to record estimated interest and penalties related to uncertain tax positions in income tax expense. As of June 30, 2008, the Company had no accrued interest or penalties recorded related to uncertain tax positions.

At December 31, 2007 the Company had net operating loss carryforwards for federal and state income tax purposes of \$33,620 and \$23,822, respectively. The Company's federal and state net operating loss carryforwards will begin to expire in 2008. The Company also had available research and development credits for federal and state income tax purposes of \$2,082 and \$1,662 respectively. The federal and state research and development credits will begin to expire in 2012 and 2015, respectively. As of December 31, 2007 the Company also had available investment tax credits for state income tax purposes of \$124 which began to expire in 2008. Management of the Company has evaluated the positive and negative evidence bearing upon the realizability of its deferred tax assets, which are comprised principally of net operating loss carryforwards and research and development credits. Under the applicable accounting standards, management has considered the Company's history of losses and concluded that it is more likely than not that the Company will not recognize the benefits of federal and state deferred tax assets. Accordingly, a full valuation allowance has been established against the deferred tax assets.

Utilization of Net Operating Loss ("NOL") and Research & Development, ("R&D") credit carryforwards may be subject to a substantial annual limitation due to ownership change limitations that have occurred previously or that could occur in the future as provided by Section 382 and 383 of the Internal Revenue Code of 1986, as well as similar state provisions. These ownership changes may limit the amount of NOL and R&D credit carryforwards that can be utilized annually to offset future taxable income and tax, respectively. In general, an ownership change, as defined by Section 382, results from transactions increasing the ownership of certain shareholders or public groups in the stock of a corporation by more than 50 percentage points over a three year period. Since the Company's formation, the Company has raised capital through the issuance of capital stock which, combined with the purchasing shareholders' subsequent disposition of those shares, may have resulted in a change of control, as defined by Section 382, or could

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result in a change of control in the future upon subsequent disposition. The Company has not currently completed a study to assess whether there have been multiple changes of control since the Company's formation due to the significant complexity and cost associated with such study. If the Company has experienced a change in control at any time since the Company's formation, utilization of the Company's NOL or R&D credit carryforwards would be subject to an annual limitation under Section 382 and 383. Any limitation may result in expiration of a portion of the NOL or R&D credit carryforwards before utilization. Until a study is completed and any limitation known, no amounts are being presented as uncertain tax positions under FIN 48.

## 9. ACCRUED LIABILITIES

Accrued liabilities consisted of the following at:

	June 30, 2008	December 31, 2007
Employee compensation and benefits	\$ 1,410	\$ 1,985
Other	949	1,035
Pre-commercial manufacturing costs	514	443

Professional services	289	407
Contracted research and development	173	325
Total accrued expenses	\$ 3,335	\$ 4,195

## 10. SEGMENT INFORMATION

The Company operates in one segment. There have been no changes in the segment information since the fiscal year ended December 31, 2007, as described in Note 3 to the financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

## 11. COMMITMENTS AND CONTINGENCIES

### Legal Proceedings

From time to time, the Company may be subject to legal proceedings and claims in the ordinary course of business. The Company is not currently aware of any such proceedings or claims that it believes will have, individually or in the aggregate, a material adverse effect on the business, financial condition or results of operations.

### License Agreement with Massachusetts Institute of Technology ("MIT")

The Company's exclusive license agreement with MIT requires the Company to pay annual license fees of \$25 and additional potential royalty payments to MIT based on a percentage of net sales of products or services covered by patents that are subject to the license. As of June 30, 2008, and December 31, 2007, the Company had accrued \$2 for license fees and royalties attributable to this agreement.

### Joint Research Agreement with The Cooperative Research Centre for Sugar Industry Innovation through Biotechnology

The Company entered a joint research arrangement, known as the Cooperative Research Centre for Sugar Industry Innovation through Biotechnology, with the Commonwealth of Australia and various other parties for the purpose of developing and gaining access to certain intellectual property. The Commonwealth of Australia established the program to enhance the transfer of research outputs into commercial or other outcomes of economic, environmental or social benefit to Australia. The terms of the contract stipulate that the contract commenced on January 1, 2007, and the Company's funding obligation continues until July 1, 2010. In connection with this agreement Metabolix is obligated to provide funding in the form of cash and in kind exchange. As of June 30, 2008 the cash portion of our obligation is \$442 and the total amount of in kind contribution the company is committed to is \$1,286. The in kind contribution consists of salaries and overhead attributable to research associated with the joint research agreement. The cash and in kind contributions are recorded as research and development expense as incurred, in the consolidated statement of operations.

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## 12. FAIR VALUE MEASUREMENTS

On January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, ("SFAS 157") for financial assets and liabilities. In accordance with the provisions of FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, the Company elected to defer the adoption of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis until January 1, 2009. SFAS 157 provides a framework for measuring fair value under GAAP and requires expanded disclosures regarding fair value measurements. SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs, where available, and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table sets forth the financial assets (cash equivalents and short-term investments) that were measured at fair value on a recurring basis as of June 30, 2008 by level within the fair value hierarchy. The Company did not have any financial liabilities, nonfinancial assets, or nonfinancial liabilities that were measured or disclosed at fair value on a recurring basis as of June 30, 2008. As required by SFAS 157, assets measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Description	Fair Value Measurements at Reporting Date Using			Balance as of 6/30/08
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Cash equivalents:</b>				
Treasuries	—	\$ 16,823	—	\$ 16,823
Commercial paper	—	1,995	—	1,995
<b>Short-term investments:</b>				
Treasuries	—	21,658	—	21,658
Commercial paper	—	33,125	—	33,125
Credit card backed securities	—	4,045	—	4,045
Government-sponsored enterprises	—	17,083	—	17,083



Corporate bonds	—	3,069	—	3,069
Total	—	<u>\$ 97,798</u>	—	<u>\$ 97,798</u>

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### 13. CHANGE IN ACCOUNTING ESTIMATE

In the first quarter of 2008, it was determined that the Company will extend the use of its pre-commercial manufacturing plant. In connection with this management determined that the useful lives of the leasehold improvements connected to this facility should be extended. The effect of the change in estimate on the financial statements for the three and six months ended June 30, 2008 is a decrease in loss from operations and net loss of \$363 and \$711, respectively. Loss per share decreased by \$0.02 and \$0.03 for the three and six months ended June 30, 2008. This change in accounting estimate was adopted prospectively from January 1, 2008.

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(All dollar amounts are stated in thousands)

#### Forward Looking Statements

This quarterly report on Form 10-Q contains "forward-looking statements" within the meaning of 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In particular, statements contained in the Form 10-Q, including but not limited to, statements regarding our future results of operations and financial position, business strategy and plan prospects, projected revenue or costs and objectives of management for future research, development or operations, are forward-looking statements. These statements relate to our future plans, objectives, expectations and intentions and may be identified by words such as "may," "will," "should," "expects," "plans," "anticipate," "intends," "target," "projects," "contemplates," "believe," "estimates," "predicts," "potential," and "continue," or similar words.

Although we believe that our expectations are based on reasonable assumptions within the bounds of our knowledge of our business and operations, the forward-looking statements contained in this document are neither promises nor guarantees. Our business is subject to significant risk and uncertainties and there can be no assurance that our actual results will not differ materially from our expectations. These forward looking statements include, but are not limited to, statements concerning: future financial performance and position, management's strategy, plans and objectives for future operations, plans and objectives for product development and commercialization, plans and objectives for present and future research and development and results of such research and development, plans and objectives for manufacturing, the commercialization of environmentally sustainable, economically attractive alternatives to petroleum-based plastics, chemicals and energy, the commercialization of Mirel™ biobased plastic through our alliance with Archer Daniels Midland Company, or ADM, sales of Mirel as an alternative to petroleum-based plastics, the construction of the Commercial Manufacturing Facility, the production of Mirel at the Commercial Manufacturing Facility, the commercial success of Mirel, the feasibility of extracting biobased plastic from plant crops, the commercial viability of plant-produced plastics, recognition of revenue, and management's plans and expectations for revenue from government grants, research and development revenue, research and development expenses and capital and working capital requirements. Such forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those anticipated including, without limitation, the following risks: (1) we may not be successful at manufacturing biobased plastics on a commercial scale in a timely and economical manner, (2) we may not be successful in the development of our products, including Mirel, (3) we depend on ADM for the construction of the Commercial Manufacturing Facility, (4) if ADM does not build the Commercial Manufacturing Facility on time and on budget, our revenues and the distribution of profits, if any, to us will be delayed, (5) we may not be able to develop manufacturing capacity sufficient to meet demand in an economical manner or at all, (6) we may not achieve market acceptance of our products, (7) we have limited marketing and sales experience and capabilities, which may make the commercialization of our products difficult, (8) we rely heavily on ADM and will rely heavily on future collaborative partners, (9) our success will be influenced by the price of petroleum, the primary ingredient in conventional petroleum-based plastics, relative to corn sugar, the primary ingredient in Mirel, (10) our future profitability is uncertain, and we have a limited operating history on which you can base your evaluation of our business, (11) we may need to secure additional funding and may be unable to raise additional capital on favorable terms or at all, (12) if we lose key personnel or are unable to attract and

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retain necessary talent, we may be unable to develop or commercialize our products under development, (13) confidentiality agreements with employees and others may not adequately prevent disclosure of our trade secrets and other proprietary information and may not adequately protect our intellectual property, which could limit our ability to compete, (14) patent protection for our products is important and uncertain, (15) a substantial portion of the technology used in our business is owned by or subject to retained rights of third parties, (16) third parties may claim we infringe their intellectual property, and we could suffer significant litigation or licensing expense as a result, (17) if we are unable to manage our growth effectively, our business could be adversely affected, (18) we may not be successful in identifying market needs for new technologies and developing new products to meet those needs, (19) Mirel is made using genetically modified products and may be, or may be perceived as being, harmful to human health or the environment, (20) we face and will face substantial competition in several different markets that may adversely affect our results of operations, (21) we are subject to significant foreign and domestic government regulations, including environmental and health and safety regulations, and compliance or failure to comply with these regulations could harm our business, (22) our government grants may subject us to government audits, which could materially harm our business and results of operations, (23) we face risks associated with our international business, (24) our pre-commercial manufacturing recovery operations are currently conducted at a single location which makes us susceptible to disasters, and (25) we may be subject to product liability claims based on products sold by us, our customers and/or our licensees.

The forward-looking statements and risks factors presented in this document are made only as of the date hereof and we do not intend to update any of these risk factors or to publicly announce the results of any revisions to any of our forward-looking statements other than as required under the federal securities laws.

#### Overview

We are a bioscience company that develops and plans to commercialize environmentally sustainable, economically attractive alternatives to petroleum-based plastics, chemicals and energy. Our strategy is to develop technology platforms that integrate advanced biotechnology with current industrial practice and to commercialize these platforms with industry leading strategic partners.

Our first platform, which we are commercializing through Telles, a joint venture with Archer Daniels Midland Company, or ADM, is a proprietary, large-scale microbial fermentation system for producing a versatile family of polymers known as polyhydroxyalkanoates, which we have branded under the name Mirel™. Through Telles, we intend to sell these bioplastics as environmentally friendly, but functionally equivalent, alternatives to petroleum-based plastics in a wide range of commercial applications, including packaging, compostable bags, consumer products including cosmetics and gift cards, business equipment, products used in agriculture and horticulture, and marine and water applications. Mirel will be produced in a 110 million pound annual capacity commercial scale plant, or Commercial Manufacturing Facility, which is presently under construction by ADM in Clinton, Iowa. We expect that commercial quantities of Mirel from the Commercial Manufacturing Facility will be available for customers in the second quarter of 2009. The Commercial Manufacturing Facility will produce biobased, sustainable and biodegradable Mirel plastic out of corn sugar, an agriculturally-produced renewable resource. We are currently producing pre-commercial quantities of Mirel jointly with ADM at a small scale pre-commercial manufacturing facility.

Our second technology platform, which is in an early stage, is a biomass biorefinery system using plant crops to co-produce both bioplastics and bioenergy. For this system, we intend to extract polymer from the engineered plant crop, so that the remaining plant material can be used as a biomass feedstock for the production of bioenergy products including electricity and biofuel. We are engineering switchgrass to produce bioplastics in the leaf and stem of the plant. We have also collaborated with the Australian Cooperative Research Centre to do the same in sugarcane, and we have recently established a strategic research collaboration with the Donald Danforth Plant Science Center to develop an advanced industrial oilseed crop for co-production of bioplastics along with vegetable oil, biodiesel fuel, or oleochemicals. Switchgrass is a commercially and ecologically attractive non-food energy crop that is indigenous to North America. It is generally considered to be a leading candidate for cellulose-derived production of ethanol and other biofuels. Sugarcane is an established energy crop that is well suited for tropical regions of the world. We believe that using these crops to co-produce bioplastics with bioenergy products can offer superior economic value and productivity as compared to single product systems that produce them individually. We have been working on our biomass biorefinery platform using switchgrass for several years, and we believe that we are a scientific leader in this field. Our goal for this program is to have

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commercially viable plant varieties in pre-commercial field trials in three to four years. We may also seek to establish alliances with partners to commercially exploit this platform.

As demonstrated by our first two technology platforms, we take an integrated systems approach to our technology development. We are focused on developing entire production systems from gene to end product as opposed to developing specific technologies (for example, gene sequencing, shuffling or directed evolution) or singular aspects of a product's production (for example, providing a key enzyme, catalyst or ingredient). We believe this systems approach optimizes manufacturing productivity and, when commercialized, will enable us to capture more economic value from any platform we pursue. We have core capabilities in microbial genetics, fermentation process engineering, chemical engineering, polymer science, plant genetics and botanical science. We have assembled these capabilities in a way that has allowed us to integrate biotechnology with chemical engineering and industrial practice. We believe that our approach can be applied to chemicals and other products to help establish and grow environmentally sustainable plastics, chemicals and energy industries.

We intend to apply our core capabilities in microbial engineering and plant transformation to develop biological routes to other chemicals and chemical intermediates. In September 2007 the U.S. Department of Commerce's National Institute of Standards and Technology approved a \$2 million award for us to develop a commercially viable process for producing biobased chemicals from renewable agricultural products. This award is funding our integrated bio-engineered chemicals program, which is beginning development of sustainable solutions for widely used four-carbon industrial chemicals.

To exploit our first technology platform, we are working with ADM to build the Commercial Manufacturing Facility in Clinton, Iowa. The bioplastics this facility will produce are highly versatile and range in properties from hard and strong to soft and flexible. These properties allow for a wide variety of commercial applications, offering an environmentally-friendly alternative to petroleum-derived synthetic materials which are not biodegradable. Through Telles we intend to initially position Mirel as a premium priced specialty material catering to customers who want to match the functionality of petroleum-based plastic, but add the dimension of environmental responsibility to their products and brands.

As of June 30, 2008, we had an accumulated deficit of \$111,485 and total stockholders' equity was \$74,800.

## **Collaborative Arrangements**

Our strategy for collaborative arrangements is to retain substantial participation in the future economic value of our technology while receiving current cash payments to offset research and development costs and working capital needs. By their nature, these agreements are complex and have multiple elements that cover a variety of present and future activities. In addition, certain elements of these agreements are intrinsically difficult to separate and treat as separate units for accounting purposes. Consequently, we expect to defer recognizing most, if not all, of the payments we receive from partners as revenue until future years.

We entered into our alliance with ADM in 2004. As of June 30, 2008, all payments received from ADM have been recorded as deferred revenue on our balance sheet. We expect that future payments from ADM, through at least the construction phase of the Commercial Alliance Agreement, including quarterly operating payments of \$1,575 made on behalf of Telles and other payments, will be classified as deferred revenue as well. We expect to begin recognizing revenue at the time of the first commercial sale of Mirel biobased plastic. All amounts will be recognized proportionally over the period in which our commercial obligations are fulfilled in accordance with the terms of the Commercial Alliance Agreement.

We received the following payments from these arrangements to offset operating cash needs:

- upfront payment of \$3,000 from ADM in November 2004;

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- milestone payments of \$2,000 from ADM in May 2006;
- support payments of \$15,750 from ADM, on behalf of Telles, through June 30 2008; and
- cumulative cost sharing payments from ADM for pre-commercial manufacturing plant construction and operations of \$7,588.

During the commercial alliance phase, ADM will construct, finance, own and operate the Commercial Manufacturing Facility through a manufacturing agreement with Telles and we will provide or procure compounding services to convert the output from the Commercial Manufacturing Facility into forms that are suitable for various commercial applications.

Telles is a limited liability company, formed and equally owned by us and ADM, and is intended to: (i) serve as the commercial entity to establish and develop the commercial market for Mirel, and conduct the marketing and sales in accordance with the goals of the commercial alliance, (ii) assist in the coordination and integration of the manufacturing, compounding and marketing activities, and (iii) administer and account for financial matters on behalf of the parties. The Company and ADM each have 50% equity and voting interest in Telles.

Even though Telles is a separate legal entity owned equally by us and ADM, ADM will disproportionately fund the activities of the joint venture. Specifically, the cost of the Commercial Manufacturing Facility, the working capital requirements of the joint venture and the support payments to us will exceed the investments made by us to establish compounding operations for the joint venture. In order to rebalance the respective investments made by the parties, a preferential distribution of cash flow will be used, whereby all profits, after payment of all royalties, reimbursements and fees, from the joint venture, will be distributed to ADM until ADM's disproportionate investment in the joint venture, and the costs of constructing the Commercial Manufacturing Facility, have been returned to ADM. Once ADM has recouped such amounts, the profits of the joint venture will be distributed in equal amounts to the parties. In order to track the disproportionate investments ADM has made, a Ledger Account has been established to record the respective investments made by the parties. As of June 30, 2008, the balance of the ADM Ledger Account was \$183,739 and this balance is expected to increase as the construction of the Commercial Manufacturing Facility progresses and Telles becomes operational.

### United States Government Contracts and Grants

As of June 30, 2008, expected gross proceeds of \$1,980 remain to be received under our various government contracts and grants, which include amounts for reimbursement to our subcontractors, as well as reimbursement for our employees' time, benefits and other expenses related to future performance under the various contracts.

The status of our United States government contracts and grants is as follows:

<u>Program Title</u>	<u>Funding Agency</u>	<u>Total government funds</u>	<u>Total received through June 30, 2008</u>	<u>Remaining amount available under various government contracts as of June 30, 2008</u>	<u>Contract/Grant Expiration</u>
PHA Bioplastic Packaging Materials	SERDP (1)(2)	\$ 1,005	\$ 630	\$ 375	Aug. 2008
Blow Molded Bioproducts from Natural Plastic	Department of Agriculture	80	68	12	Dec. 2007
Integrated Bio-Engineered Chemicals	Department of Commerce	2,000	407	1,593	Sept. 2009
Total		<u>\$ 3,085</u>	<u>\$ 1,105</u>	<u>\$ 1,980</u>	

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- (1) Strategic Environmental Research and Development Program.
- (2) Funding of these government contracts and grants beyond the United States government's current fiscal year is subject to annual congressional appropriations.

### Critical Accounting Estimates and Judgments

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition and stock-based compensation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The significant accounting policies used in preparation of these condensed consolidated financial statements for the three and six months ended June 30, 2008 are consistent with those discussed in Note 3 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2007. The critical accounting policies and the significant judgments and estimates used in the preparation of our condensed consolidated financial statements for the three and six months ended June 30, 2008 are consistent with those discussed in our Annual Report on Form 10-K for the year ended December 31, 2007 in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates and Judgments."

## Results of Operations

### Comparison of the Three Months Ended June 30, 2008 and 2007

#### Revenue

	Three Months ended June 30,		Change
	2008	2007	
Research and development revenue	\$ 11	\$ —	\$ 11
License fee and royalty revenue from related parties	35	32	3
Grant revenue	355	155	200
Total revenue	<u>\$ 401</u>	<u>\$ 187</u>	<u>\$ 214</u>

Total revenues were \$401 and \$187 for the three months ended June 30, 2008 and 2007, respectively. During the three months ended June 30, 2008 we recognized revenue from research and development services and delivery of sample product produced from research services. Grant revenue increased mainly as a result of an increase of activity relating to the Department of Commerce and Strategic Environmental Research Development Program grants. We expect revenues from government grants to fluctuate due to the availability of funding from the government.

#### Expenses

	Three Months ended June 30,		Change
	2008	2007	
Research and development expenses, including cost of revenue	\$ 6,008	\$ 5,026	\$ 982
Selling, general, and administrative expenses	4,048	4,351	(303)
Total operating expenses	<u>\$ 10,056</u>	<u>\$ 9,377</u>	<u>\$ 679</u>

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#### **Research and development expenses**

Research and development expenses were \$6,008 and \$5,026 for the three months ended June 30, 2008 and 2007, respectively. The increase of \$982 was primarily due to the expansion of product development activities associated with developing new product grades and formulations for prospective customers, increased pre-commercial manufacturing of Mirel to support market development activities, and increases in research and development personnel for polymer science to support our collaborative agreement with ADM. Employee payroll and benefits related expenses for the three months ended June 30, 2008 were \$2,215 as compared to \$1,903 for the respective period in 2007. Expenses relating to product development services were \$411 and \$115 for the three months ended June 30, 2008 and 2007, respectively. The increase in product development services is to support the preparation of Mirel for commercial applications. Depreciation expense increased to \$607 for the three months ended June 30, 2008 as compared to \$227 for the respective period in 2007. The increase in depreciation is primarily due to increased leasehold improvements in our pre-commercial manufacturing facility and increases in equipment to support our microbial and plant research.

We expect to incur higher research and development expenses in future periods for pre-commercial manufacturing and product development activities as we continue to develop, test and refine product to meet the specification requirements of our customers. We expect that our personnel related costs will increase to support our microbial and plant research programs.

#### **Selling, general, and administrative expenses**

Selling, general, and administrative expenses were \$4,048 and \$4,351 for the three months ended June 30, 2008 and 2007, respectively. The decrease of \$303 was primarily due to a decrease in employee payroll and benefits related expenses. Payroll and benefits related expenses decreased to \$2,190 from \$2,768 for the three months ended June 30, 2008 and 2007, respectively. During the three months ended June 30, 2007 we recorded a charge of \$187 relating to the departure of an executive officer. The decrease in employee payroll and benefits related expense was offset by increased expenses relating to the expansion of our sales and marketing infrastructure.

We expect that selling, general, and administrative expenses will increase due to increasing payroll and expanding infrastructure to support sales and marketing effort for commercializing Mirel.

#### **Other Income (Net)**

	Three Months ended June 30,		Change
	2008	2007	
Total other income (net)	<u>\$ 730</u>	<u>\$ 1,524</u>	<u>\$ (794)</u>

Other income (net) consists of investment income of \$730 and \$1,524 for the three months ended June 30, 2008 and 2007, respectively. The decrease of \$794 was due to a decrease in interest rates during the quarter, a shift towards more conservative investments with lower interest rates and a decrease in cash and short-term investments held during the comparative three month periods.

## Results of Operations

### Comparison of the Six Months Ended June 30, 2008 and 2007

#### Revenue

Six Months ended

	June 30,		Change
	2008	2007	
Research and development revenue	\$ 79	\$ —	\$ 79
License fee and royalty revenue from related parties	70	107	(37)
Grant revenue	656	508	148
Total revenue	<u>\$ 805</u>	<u>\$ 615</u>	<u>\$ 190</u>

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Total revenues were \$805 and \$615 for the six months ended June 30, 2008 and 2007, respectively. During the six months ended June 30, 2008 we recognized revenue from research and development services and delivery of sample product produced from research services. License fee and royalty revenue from related parties decreased as a result of a receipt of \$50 milestone payment during the six months ended June 30, 2007, partially offset by an increase of \$13 in royalty revenue from related parties during the first six months of 2008. Grant revenue increased mainly as a result of an increase of activity relating to the Department of Commerce and Strategic Environmental Research Development Program grants. This was partially offset by the completion of the Department of Energy program in the second quarter of 2007.

We expect revenues from government grants to fluctuate due to the availability of funding from the government.

**Expenses**

	Six Months ended June 30,		Change
	2008	2007	
Research and development expenses, including cost of revenue	\$ 11,942	\$ 8,833	\$ 3,109
Selling, general, and administrative expenses	8,145	7,199	946
Total operating expenses	<u>\$ 20,087</u>	<u>\$ 16,032</u>	<u>\$ 4,055</u>

**Research and development expenses**

Research and development expenses were \$11,942 and \$8,833 for the six months ended June 30, 2008 and 2007, respectively. The increase of \$3,109 was primarily due to the expansion of product development activities associated with developing new product grades and formulations for prospective customers, increased pre-commercial manufacturing of Mirel to support market development activities, and increases in research and development personnel for polymer science to support our collaborative agreement with ADM. Employee payroll and benefits related expenses for the six months ended June 30, 2008 were \$4,390 as compared to \$3,292 for the respective period in 2007. Expenses relating to product development services were \$740 and \$269 for the six months ended June 30, 2008 and 2007, respectively. The expenses related to pre-commercial manufacturing increased to \$3,645 for the six months ended June 30, 2008 as compared to \$2,953 for the respective period in 2007. Depreciation expense increased to \$1,179 for the six months ended June 30, 2008 as compared to \$435 for the respective period in 2007. The increase in depreciation is primarily attributable to increased leasehold improvements in our pre-commercial manufacturing facility and increases in equipment to support our microbial and plant research.

We expect to incur increasing research and development expenses in future periods for pre-commercial manufacturing and product development activities as we continue to develop, test and refine product to meet the specification requirements of our customers. We expect that our personnel related costs will increase to support our microbial and plant research programs.

**Selling, general, and administrative expenses**

Selling, general, and administrative expenses were \$8,145 and \$7,199 for the six months ended June 30, 2008 and 2007, respectively. The increase of \$946 was primarily due to increased sales and marketing costs associated with building our sales and marketing infrastructure for the commercialization of Mirel. Employee payroll and benefits related expenses increased to \$4,423 for the six months ended June 30, 2008 as compared to \$3,964 for the respective period in 2007. Included in payroll and benefits is stock-based compensation expense, which increased to \$1,707 for the six months ended June 30, 2008 as compared to \$1,330 during the respective period in 2007.

We expect that selling, general, and administrative expenses will continue to increase due to increasing payroll and expanding infrastructure.

**Other Income (Net)**

	Six Months ended June 30,		Change
	2008	2007	
Total other income (net)	<u>\$ 1,909</u>	<u>\$ 3,062</u>	<u>\$ (1,153)</u>

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Other income (net) consists of investment income of \$1,909 and \$3,062 for the six months ended June 30, 2008 and 2007, respectively. The decrease of \$1,153 was due to a decrease in interest rates during the six months ended June 30, 2008, a shift towards more conservative investments with lower interest rates and a decrease in cash and short-term investments held during the comparative six month periods.

**Liquidity and Capital Resources**

Currently, we require cash to fund our working capital needs, to purchase capital assets and to pay our operating lease obligations.

We fund our cash requirements primarily through the following methods:

- our strategic alliance with ADM;
- government grants;
- equity financing; and
- interest earned on cash and short-term investments.

Currently our products are in the pre-commercial stage of development and large-scale commercial sales have not begun. In addition, we have incurred significant expenses relating to our research and development efforts. As a result, we have incurred net losses since our inception. As of June 30, 2008, we had an accumulated deficit of \$111,485. Our total unrestricted cash, cash equivalents and short-term investments as of June 30, 2008 were \$101,081 as compared to \$109,326 at December 31, 2007. As of June 30, 2008, we had no outstanding debt.

Our cash and cash equivalents at June 30, 2008 were held for working capital purposes. We do not enter into investments for trading or speculative purposes. The primary objective of our investment activities is to preserve our capital. Restricted cash of \$494 was held at June 30, 2008 in connection with the lease agreement for one of our facilities in Cambridge, Massachusetts. Short-term investments are made in accordance with our corporate investment policy, as approved by our Board of Directors. Investments are limited to high quality corporate debt, U.S. Treasury bills and notes, bank debt obligations, municipal debt obligations and asset-backed securities. The policy establishes maturity limits, concentration limits, and liquidity requirements. At June 30, 2008, we were in compliance with this policy.

We believe that our cash, cash equivalents and short-term securities, the interest we earn on these balances, as well as cash expected from government grants and our ADM alliance will be sufficient to meet our anticipated cash requirements, including cash requirements with respect to the commercial launch of Mirel, for at least the next 24 months. If our available cash, cash equivalents, and short-term marketable securities are insufficient to satisfy our liquidity requirements, or if we develop additional products, we may need to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity and debt securities may result in additional dilution to our stockholders. If we raise additional funds through the issuance of debt securities or preferred stock, these securities could have rights senior to those of our common stock and could contain covenants that would restrict our operations. We may require additional capital beyond our currently forecasted amounts. Any such required additional capital may not be available on reasonable terms, if at all. If we are unable to obtain additional financing, we may be required to reduce the scope of, delay, or eliminate some or all of our planned research, development and commercialization activities, which could harm our business.

Net cash used in operating activities was \$8,263 and \$6,322 for the six months ended June 30, 2008 and 2007, respectively. The net cash used during the first six months of 2008 primarily reflects the net loss for the period offset by an increase in deferred revenue of \$5,302, and non-cash expenses including stock-based compensation expense of \$2,192, 401(k) company common stock matching expense of \$212 and depreciation expense of \$1,814. The increase in deferred revenue was due to an increase in pre-commercial plant construction and operations that are subject to our cost sharing collaborative arrangement with ADM and continued support payments from ADM, made on behalf of Telles.

Net cash of \$7,014 was provided by investing activities during the six months ended June 30, 2008, compared to net cash of \$11,518 used in investing activities for the respective period in 2007. Cash

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provided by investing activities in 2008 represents net cash of \$7,497 provided from the sale, maturity and purchase of investments offset by a cash outflow of \$483 used for the purchase of property and equipment. Property and equipment purchases for 2008 mainly consisted of equipment for research and development purposes. Net cash flows from investing activities may fluctuate from period to period due to the timing of our capital expenditures and other investments.

Net cash provided by financing activities was \$664 and \$1,692 for the six months ended June 30, 2008 and 2007 respectively. The cash provided by financing activities in 2008 was solely attributable to the proceeds from the exercise of stock options and warrants.

## Contractual Obligations

The following table summarizes our contractual obligations at June 30, 2008 and the effects such obligations are expected to have on our liquidity and cash flows in our future periods:

	Payment Due by Period				
	Total	Less Than 1 year	2-3 Years	4-5 Years	More Than 5 years
Operating lease obligations	\$ 6,796	\$ 1,342	\$ 2,466	\$ 2,165	\$ 823
Purchase obligations	712	286	351	50	25
Total	<u>\$ 7,508</u>	<u>\$ 1,628</u>	<u>\$ 2,817</u>	<u>\$ 2,215</u>	<u>\$ 848</u>

On April 30, 2008 the Company signed a rental agreement to sublease additional office space. The term of the sublease commenced on May 1, 2008 and will expire February 28, 2010. The monthly rent payments of \$15 are included in the operating lease obligations.

We entered into a joint research agreement, known as the Cooperative Research Centre for Sugar Industry Innovation through Biotechnology, with the Commonwealth of Australia and various other parties for the purpose of developing and gaining access to certain intellectual property. The Commonwealth of Australia established the program to enhance the transfer of research outputs into commercial or other outcomes of economic, environmental or social benefit to Australia. The terms of the contract stipulate that the contract commenced on January 1, 2007, and our funding commitment continues until July 1, 2010. In connection with this agreement we are obligated to provide funding in the form of cash and in kind contribution. As of June 30, 2008, the cash portion of our obligation is \$442 and the total amount of in kind contribution we are committed to is \$1,286. The in kind contribution consists of salaries and overhead attributable to research associated with the joint research agreement.

## Off-Balance Sheet Arrangements

As of June 30, 2008, we had no off-balance sheet arrangements as defined in Item 303(a) (4) of the Securities and Exchange Commission's Regulation S-K.

## Related Party Transactions

We recorded \$35 and \$70 of license and royalty revenue from Tepha, Inc., a related party, during the three and six months ended June 30, 2008, respectively. During the three and six months ended June 30, 2007 we recorded license and royalty revenue from Tepha, Inc. of \$32 and \$107, respectively. We had an outstanding receivable balance due from Tepha of \$3 and \$122 as of June 30, 2008 and December 31, 2007, respectively. We also had various transactions with our alliance partner ADM, a related party, during the six months ended June 30, 2008 and 2007. We had an outstanding receivable balance of \$241 and \$1,093 due from ADM at June 30, 2008 and December 31, 2007 respectively. For more information on our related party transactions, please see Note 10 to our audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007.

## Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141(R), *Business Combinations* ("SFAS 141(R)"), which replaces SFAS No. 141. This revised standard requires assets, liabilities and non-controlling interests acquired to be measured at fair value and requires that costs incurred to effect the acquisition be recognized separately from the business combination. In addition, this statement expands the scope to include all

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transactions and other events in which one entity obtains control over one or more businesses. This statement is effective for all business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We are in the process of evaluating whether the adoption of this standard will have a material effect on our financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51* ("SFAS 160"). This statement establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement is effective for fiscal years beginning on or after December 15, 2008. We are in the process of evaluating whether the adoption of this standard will have a material effect on our financial position, results of operations or cash flows.

In December 2007, the Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue 07-01, *Accounting for Collaborative Arrangements Related to the Development and Commercialization of Intellectual Property* ("EITF 07-01"). EITF 07-01 prescribes the accounting for collaborations. It requires certain transactions between collaborators to be recorded in the income statement on either a gross or net basis when certain characteristics exist in the collaboration relationship. EITF 07-01 is effective for all of the Company's collaborations existing after January 1, 2009. We are in the process of evaluating whether the adoption of this standard will have a material effect on our financial position, results of operations or cash flows.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ("SFAS 162"). SFAS 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selected accounting principles to be used in preparing financial statements that are presented in conformity with GAAP for nongovernmental entities. The statement establishes that the GAAP hierarchy should be directed to entities because it is the entity (not its auditor) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. This statement is effective 60 days following the U.S. Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. We are in the process of evaluating whether the adoption of this standard will have a material effect on our financial position, results of operations or cash flows.

In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ("FSP EITF 03-6-1") FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method as described in SFAS No. 128, *Earnings per Share*. Under the guidance in FSP EITF 03-6-1, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued in fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period earnings per share data presented shall be adjusted retrospectively. Early application is not permitted. We are in the process of evaluating whether the adoption of this standard will have a material effect on our financial position, results of operations or cash flows.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in information regarding our exposure to market risk, as described in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2007.

## ITEM 4. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

Our management (with the participation of our Chief Executive Officer and Chief Financial Officer) evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of June 30, 2008. Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and communicated to

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management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures are effective and designed to ensure that the information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the requisite time periods.

### Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

From time to time, we may be subject to legal proceedings and claims in the ordinary course of business. We are not currently aware of any such proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on the business, financial condition or the results of operations.

### ITEM 1A. RISK FACTORS

Except as indicated in Part II, Item 1A of our Quarterly Report for the three months ended March 31, 2008 on Form 10-Q there have been no material changes in information regarding our risk factors as described in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2007.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

#### Recent Sales of Unregistered Securities

On April 10, 2008, the Company issued 12,984 shares of common stock to participants in its Metabolix, Inc. 401(k) Plan as a matching contribution. The issuance of these securities is exempt from registration pursuant to Section 3(a)(2) of the Securities Act of 1933 as exempted securities.

#### Use of Proceeds from Registered Securities

There has been no material change in the planned use of proceeds from our initial public offering as described in our Annual Report on Form 10-K for the year ended December 31, 2007.

#### Issuer Purchases of Equity Securities

During the three months ended June 30, 2008, there were no repurchases made by us or on our behalf, or by any “affiliated purchasers,” of shares of our common stock.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company’s annual meeting of stockholders was held on May 30, 2008.

The stockholders elected Jay Kouba and Oliver P. Peoples to serve on the Board of Directors until the annual meeting of stockholders to be held in 2011. The tabulation of votes with respect to the election of such directors is as follows:

	Number of Shares		
	For	Withheld	Abstain
Jay Kouba	17,871,083	284,672	0
Oliver P. Peoples	17,884,661	271,094	0

Following the meeting, the Company’s Board of Directors consists of Jay Kouba (Chairman), Richard P. Eno, Edward M. Giles, Peter N. Kellogg, Edward M. Muller, Oliver P. Peoples, Anthony J. Sinskey, Matthew Strobeck, Robert L. Van Nostrand.

### ITEM 5. OTHER INFORMATION

Our policy governing transactions in our securities by our directors, officers, and employees permit our officers, directors, employees, and entities affiliated with our directors to enter into trading plans complying with Rule 10b5-1 under the Exchange Act, as amended. We have been advised that during the quarter ended June 30, 2008, Anthony J. Sinskey, a Director of the Company, and Oliver P. Peoples, our Chief Scientific Officer and Vice President, Research and Development, entered into trading plans in accordance with Rule 10b5-1 and our policy governing transactions in our securities. We undertake no obligation to update or revise the information provided herein, including for revision or termination of an established trading plan.



**ITEM 6. EXHIBITS**

- 31.1 Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934 of the Principal Executive Officer (furnished herewith).
- 31.2 Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934 of the Principal Financial Officer (furnished herewith).
- 32.1 Section 1350 Certification (furnished herewith).

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

METABOLIX, INC.

August 11, 2008

By: /s/ RICHARD P. ENO  
Richard P. Eno  
*President and Chief Executive Officer*  
*(Principal Executive Officer)*

August 11, 2008

By: /s/ JOSEPH D. HILL  
Joseph D. Hill  
*Vice President and Chief Financial Officer*  
*(Principal Financial Officer)*

## CERTIFICATION

I, Richard P. Eno, President, Chief Executive Officer and Principal Executive Officer of Metabolix, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Metabolix, Inc.;
2. Based on my knowledge, this report 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 such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2008

/s/ RICHARD P. ENO

Name: Richard P. Eno  
Title: *President and Chief Executive Officer*  
*(Principal Executive Officer)*

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## CERTIFICATION

I, Joseph D. Hill, Vice President, Chief Financial Officer and Principal Financial Officer of Metabolix, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Metabolix, Inc.;
2. Based on my knowledge, this report 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 such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2008

/s/ JOSEPH D. HILL

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Name: Joseph D. Hill  
Title: Vice President and Chief Financial Officer  
(Principal Financial Officer)

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report on Form 10-Q of Metabolix, Inc. (the "Company") for the quarter ended June 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Richard P. Eno, President, Chief Executive Officer and Principal Executive Officer of the Company and Joseph D. Hill, Vice President, Chief Financial Officer and Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to our knowledge that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
2. The information in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certification is being provided pursuant to 18 U.S.C. 1350 and is not to be deemed a part of the Report, nor is it to be deemed to be "filed" for any purpose whatsoever.

Dated: August 11, 2008

/s/ RICHARD P. ENO

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*President and Chief Executive Officer  
(Principal Executive Officer)*

Dated: August 11, 2008

/s/ JOSEPH D. HILL

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*Vice President and Chief Financial Officer  
(Principal Financial Officer)*

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