

IMMUNOGEN INC
Form 10-Q
May 06, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from to

Commission file number 0-17999

ImmunoGen, Inc.

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Massachusetts
(State or other jurisdiction of incorporation or
organization)

04-2726691
(I.R.S. Employer Identification No.)

830 Winter Street, Waltham, MA 02451

(Address of principal executive offices, including zip code)

(781) 895-0600

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐
(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Shares of common stock, par value \$.01 per share: 84,533,809 shares outstanding as of April 29, 2013.

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IMMUNOGEN, INC.

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2013

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	March 31, 2013	June 30, 2012
ASSETS		
Cash and cash equivalents	\$ 206,103	\$ 160,938
Accounts receivable	5,446	129
Unbilled revenue	2,105	1,196
Inventory	112	1,288
Restricted cash	319	319
Prepaid and other current assets	1,622	2,400
Total current assets	215,707	166,270
Property and equipment, net of accumulated depreciation	10,561	11,633
Long-term restricted cash	2,231	2,231
Other assets	183	174
Total assets	\$ 228,682	\$ 180,308
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	\$ 2,723	\$ 3,395
Accrued compensation	5,063	4,942
Other accrued liabilities	6,337	4,589
Current portion of deferred lease incentive	979	979
Current portion of deferred revenue	1,712	2,349
Total current liabilities	16,814	16,254
Deferred lease incentive, net of current portion	5,871	6,605
Deferred revenue, net of current portion	63,297	69,761
Other long-term liabilities	3,698	3,798
Total liabilities	89,680	96,418
Commitments and contingencies (Note E)		
Shareholders' equity:		
Preferred stock, \$.01 par value; authorized 5,000 shares; no shares issued and outstanding		
Common stock, \$.01 par value; authorized 150,000 shares; issued and outstanding 84,437 and 77,759 shares as of March 31, 2013 and June 30, 2012, respectively	844	778
Additional paid-in capital	693,050	587,068
Accumulated deficit	(554,892)	(503,956)
Total shareholders' equity	139,002	83,890
Total liabilities and shareholders' equity	\$ 228,682	\$ 180,308

The accompanying notes are an integral part of the consolidated financial statements.

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IMMUNOGEN, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(UNAUDITED)
In thousands, except per share amounts

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
Revenues:				
Research and development support	\$ 2,257	\$ 1,320	\$ 5,670	\$ 3,333
License and milestone fees	22,010	999	23,372	8,211
Clinical materials revenue	734	933	2,662	1,861
Total revenues	25,001	3,252	31,704	13,405
Operating Expenses:				
Research and development	21,318	16,933	66,674	49,653
General and administrative	4,995	5,021	16,098	14,696
Total operating expenses	26,313	21,954	82,772	64,349
Loss from operations	(1,312)	(18,702)	(51,068)	(50,944)
Other (expense) income, net	(39)	33	132	39
Net loss	\$ (1,351)	\$ (18,669)	\$ (50,936)	\$ (50,905)
Basic and diluted net loss per common share	\$ (0.02)	\$ (0.24)	\$ (0.61)	\$ (0.66)
Basic and diluted weighted average common shares outstanding	84,279	76,961	83,923	76,615
Comprehensive loss	\$ (1,351)	\$ (18,669)	\$ (50,936)	\$ (50,905)

The accompanying notes are an integral part of the consolidated financial statements.

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IMMUNOGEN, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

In thousands, except per share amounts

	Nine Months ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net loss	\$ (50,936)	\$ (50,905)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	3,509	3,463
Gain on sale/disposal of fixed assets	(22)	(23)
Amortization of deferred lease incentive obligation	(734)	(733)
(Gain) loss on forward contracts	(150)	47
Stock and deferred share unit compensation	9,839	7,859
Deferred rent	(81)	(81)
Changes in operating assets and liabilities:		
Accounts receivable	(5,317)	3,238
Unbilled revenue	(909)	204
Inventory	1,176	(451)
Prepaid and other current assets	777	64
Restricted cash		700
Other assets	(9)	(58)
Accounts payable	(672)	(578)
Accrued compensation	121	(610)
Other accrued liabilities	1,822	529
Deferred revenue	(7,101)	19,220
Net cash used for operating activities	(48,687)	(18,115)
Cash flows from investing activities:		
Purchases of property and equipment, net	(2,415)	(1,782)
Proceeds (payments) from settlement of forward contracts	58	(56)
Net cash used for investing activities	(2,357)	(1,838)
Cash flows from financing activities:		
Proceeds from common stock issuance, net	93,991	
Proceeds from stock options exercised	2,218	4,007
Net cash provided by financing activities	96,209	4,007
Net change in cash and cash equivalents	45,165	(15,946)
Cash and cash equivalents, beginning balance	160,938	191,206
Cash and cash equivalents, ending balance	\$ 206,103	\$ 175,260

The accompanying notes are an integral part of the consolidated financial statements.

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IMMUNOGEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

A. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements at March 31, 2013 and June 30, 2012 and for the three and nine months ended March 31, 2013 and 2012 include the accounts of ImmunoGen, Inc., or the Company, and its wholly owned subsidiaries, ImmunoGen Securities Corp. and ImmunoGen Europe Limited. The consolidated financial statements include all of the adjustments, consisting only of normal recurring adjustments, which management considers necessary for a fair presentation of the Company's financial position in accordance with accounting principles generally accepted in the U.S. for interim financial information. Certain information and footnote disclosures normally included in the Company's annual financial statements have been condensed or omitted. The preparation of interim financial statements requires the use of management's estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim financial statements and the reported amounts of revenues and expenditures during the reported periods. The results of the interim periods are not necessarily indicative of the results for the entire year. Accordingly, the interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2012.

Subsequent Events

The Company has evaluated all events or transactions that occurred after March 31, 2013 up through the date the Company issued these financial statements. During this period, the Company did not have any material recognizable or unrecognizable subsequent events.

Revenue Recognition

The Company enters into licensing and development agreements with collaborative partners for the development of monoclonal antibody-based anticancer therapeutics. The terms of these agreements contain multiple deliverables which may include (i) licenses, or options to obtain licenses, to the Company's Targeted Antibody Payload, or TAP, technology, (ii) rights to future technological improvements, (iii) research activities to be performed on behalf of the collaborative partner, (iv) delivery of cytotoxic agents and (v) the manufacture of preclinical or clinical materials for the collaborative partner. Payments to the Company under these agreements may include license fees, option fees, exercise fees, payments for research activities, payments for the manufacture of preclinical or clinical materials, payments based upon the achievement of certain milestones and royalties on product sales. The Company follows the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 605-25, Revenue Recognition—Multiple-Element Arrangements, and ASC Topic 605-28, Revenue Recognition—Milestone Method, in accounting for these agreements. In order to account for these agreements, the Company must identify the deliverables included within the agreement and evaluate which deliverables represent separate units of accounting based on if certain

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criteria are met, including whether the delivered element has stand-alone value to the collaborator. The consideration received is allocated among the separate units of accounting, and the applicable revenue recognition criteria are applied to each of the separate units.

At March 31, 2013, the Company had the following two types of agreements with the parties identified below:

- Exclusive or non-exclusive development and commercialization licenses to use the Company's TAP technology and/or certain other intellectual property to develop compounds to a single target antigen (referred to herein as single-target licenses, as distinguished from the Company's right-to-test agreements described elsewhere):

Amgen (three single-target licenses)

Bayer HealthCare (one single-target license)

Biotest (one single-target license)

Novartis (one license to two related targets)

Roche, through its Genentech unit (five single-target licenses)

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Sanofi (license to multiple individual targets)

- Option/research agreement for a defined period of time to secure development and commercialization licenses to use the Company's TAP technology to develop anticancer compounds to specified targets on established terms (referred to herein as right-to-test agreements):

Amgen

Sanofi

Novartis

Eli Lilly and Company

There are no performance, cancellation, termination or refund provisions in any of the arrangements that contain material financial consequences to the Company.

Development and Commercialization Licenses

The deliverables under a development and commercialization license agreement generally include the license to the Company's TAP technology with respect to a specified antigen target, and may also include deliverables related to rights to future technological improvements, research activities to be performed on behalf of the collaborative partner and the manufacture of preclinical or clinical materials for the collaborative partner.

Generally, license agreements contain non-refundable terms for payments and, depending on the terms of the agreement, provide that the Company will (i) at the collaborator's request, provide research services at negotiated prices which are generally consistent with what other third parties would charge, (ii) at the collaborator's request, manufacture and provide to it preclinical and clinical materials or deliver cytotoxic agents at negotiated prices which are generally consistent with what other third parties would charge, (iii) earn payments upon the achievement of certain milestones and (iv) earn royalty payments, generally until the later of the last applicable patent expiration or 10 to 12 years after product launch. In the case of Kadcyla (ado-trastuzumab emtansine or T-DM1), however, the minimum royalty term is 10 years and the maximum royalty term is 12 years on a country-by-country basis. Royalty rates may vary over the royalty term depending on the Company's intellectual property rights. The Company may provide technical assistance and share any technology improvements with its collaborators during the term of the collaboration agreements. The Company does not directly control when any collaborator will request research or manufacturing services, achieve milestones or become liable for royalty payments. As a result, the Company cannot predict when it will recognize revenues in connection with any of the foregoing.

In determining the units of accounting, management evaluates whether the license has stand-alone value from the undelivered elements to the collaborative partner based on the consideration of the relevant facts and circumstances for each arrangement. Factors considered in this determination include the research capabilities of the partner and the availability of TAP technology research expertise in the general marketplace. If the Company concludes that the license has stand alone value and therefore will be accounted for as a separate unit of accounting, the Company then determines the estimated selling prices of the license and all other units of accounting based on market conditions, similar arrangements entered into by third parties, and entity-specific factors such as the terms of the Company's previous collaborative agreements, recent preclinical and clinical testing results of therapeutic products that use the Company's TAP technology, the Company's pricing practices and pricing objectives, the likelihood that technological improvements will be made, the likelihood that technological improvements made will be used by the Company's collaborators and the nature of the research services to be performed on behalf of its collaborators and market rates for similar services.

Upfront payments on single-target licenses are deferred if facts and circumstances dictate that the license does not have stand-alone value. Prior to the adoption of Accounting Standards Update (ASU) No. 2009-13, Revenue Arrangements with Multiple Deliverables on July 1, 2010, the Company determined that its licenses lacked stand-alone value and were combined with other elements of the arrangement and any amounts associated with the license were deferred and amortized over a certain period, which the Company refers to as the Company's period of substantial involvement. The determination of the length of the period over which to defer revenue is subject to judgment and estimation and can have an impact on the amount of revenue recognized in a given period. Historically the Company's involvement with the development of a collaborator's product candidate has been significant at the early stages of development, and lessens as it progresses into clinical trials. Also, as a drug candidate gets closer to commencing pivotal testing the Company's collaborators have sought an alternative site to manufacture the product, as the Company's facility does not produce pivotal or commercial drug product. Accordingly, the Company generally estimates this period of substantial involvement to

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begin at the inception of the collaboration agreement and conclude at the end of non-pivotal Phase II testing. The Company believes this period of substantial involvement is, depending on the nature of the license, on average six and one-half years. Quarterly, the Company reassesses its periods of substantial involvement over which the Company amortizes its upfront license fees and makes adjustments as appropriate. In the event a collaborator elects to discontinue development of a specific product candidate under a single target license, but retains its right to use the Company's technology to develop an alternative product candidate to the same target or a target substitute, the Company would cease amortization of any remaining portion of the upfront fee until there is substantial preclinical activity on another product candidate and its remaining period of substantial involvement can be estimated. In the event that a single target license were to be terminated, the Company would recognize as revenue any portion of the upfront fee that had not previously been recorded as revenue, but was classified as deferred revenue, at the date of such termination.

Subsequent to the adoption of ASU No. 2009-13, the Company determined that its research licenses lack stand-alone value and are considered for aggregation with the other elements of the arrangement and accounted for as one unit of accounting.

Upfront payments on single-target licenses may be recognized upon delivery of the license if facts and circumstances dictate that the license has stand-alone value from the undelivered elements, which generally include rights to future technological improvements, research services, delivery of cytotoxic agents and the manufacture of preclinical and clinical materials.

The Company recognizes revenue related to research services that represent separate units of accounting as they are performed, as long as there is persuasive evidence of an arrangement, the fee is fixed or determinable, and collection of the related receivable is probable. The Company recognizes revenue related to the rights to future technological improvements over the estimated term of the applicable license.

The Company may also provide cytotoxic agents to its collaborators or produce preclinical and clinical materials at negotiated prices which are generally consistent with what other third parties would charge. The Company recognizes revenue on cytotoxic agents and on preclinical and clinical materials when the materials have passed all quality testing required for collaborator acceptance and title and risk of loss have transferred to the collaborator. Arrangement consideration allocated to the manufacture of preclinical and clinical materials in a multiple-deliverable arrangement is below the Company's full cost, and the Company's full cost is not expected to ever be below its contract selling prices for its existing collaborations. During the nine months ended March 31, 2013 and 2012, the difference between the Company's full cost to manufacture preclinical and clinical materials on behalf of its collaborators as compared to total amounts received from collaborators for the manufacture of preclinical and clinical materials was \$755,000 and \$62,000, respectively. The majority of the Company's costs to produce these preclinical and clinical materials are fixed and then allocated to each batch based on the number of batches produced during the period. Therefore, the Company's costs to produce these materials are significantly impacted by the number of batches produced during the period. The volume of preclinical and clinical materials the Company produces is directly related to the number of clinical trials the Company and its collaborators are preparing for or currently have underway, the speed of enrollment in those trials, the dosage schedule of each clinical trial and the time period such trials last. Accordingly, the volume of preclinical and clinical materials produced, and therefore the Company's per batch costs to manufacture these preclinical and clinical materials, may vary significantly from period to period.

The Company may also produce research material for potential collaborators under material transfer agreements. Additionally, the Company performs research activities, including developing antibody specific conjugation processes, on behalf of its collaborators and potential collaborators during the early evaluation and preclinical testing stages of drug development. The Company records amounts received for research materials produced or services performed as a component of research and development support revenue. The Company also develops conjugation processes for materials for later stage testing and commercialization for certain collaborators. The Company is compensated at negotiated rates and may receive milestone payments for developing these processes which are recorded as a component of research and development support revenue.

The Company's license agreements have milestone payments which for reporting purposes are aggregated into three categories: (i) development milestones, (ii) regulatory milestones, and (iii) sales milestones. Development milestones are typically payable when a product candidate initiates or advances into different clinical trial phases. Regulatory milestones are typically payable upon submission for marketing approval with the U.S. Food and Drug Administration, or FDA, or other countries' regulatory authorities or on receipt of actual marketing approvals for the compound or for additional indications. Sales milestones are typically payable when annual sales reach certain levels.

At the inception of each agreement that includes milestone payments, the Company evaluates whether each milestone is substantive and at risk to both parties on the basis of the contingent nature of the milestone. This evaluation includes an assessment of whether (a) the consideration is commensurate with either (1) the entity's performance to achieve the milestone, or (2) the enhancement of the value of the delivered item(s) as a result of a specific outcome resulting from the entity's performance to achieve the milestone, (b) the consideration relates solely to past performance and (c) the consideration is reasonable relative to all of the deliverables and payment terms within the arrangement. The Company evaluates factors such as the scientific, regulatory, commercial

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and other risks that must be overcome to achieve the respective milestone, the level of effort and investment required to achieve the respective milestone and whether the milestone consideration is reasonable relative to all deliverables and payment terms in the arrangement in making this assessment.

Non-refundable development and regulatory milestones that are expected to be achieved as a result of the Company's efforts during the period of substantial involvement are considered substantive and are recognized as revenue upon the achievement of the milestone, assuming all other revenue recognition criteria are met. Milestones that are not considered substantive because we do not contribute effort to the achievement of such milestones are generally achieved after the period of substantial involvement and are recognized as revenue upon achievement of the milestone, as there are no undelivered elements remaining and no continuing performance obligations, assuming all other revenue recognition criteria are met.

Under the Company's license agreements, the Company receives royalty payments based upon its licensees' net sales of covered products. Generally, under these agreements the Company is to receive royalty reports and payments from its licensees approximately one quarter in arrears, that is, generally in the second month of the quarter after the licensee has sold the royalty bearing product or products. The Company recognizes royalty revenues when it can reliably estimate such amounts and collectability is reasonably assured. As such, the Company generally recognizes royalty revenues in the quarter reported to the Company by its licensees, or one quarter following the quarter in which sales by the Company's licensees occurred.

Right-to-Test Agreements

The Company's right-to-test agreements provide collaborators the right to (a) test the Company's TAP technology for a defined period of time through a right-to-test, or research, license, (b) take options, for a defined period of time, to specified targets and (c) upon exercise of those options, secure or take licenses to develop and commercialize products for the specified targets on established terms. Under these agreements, fees may be due to the Company (i) at the inception of the arrangement (referred to as upfront fees or payments), (ii) upon taking an option with respect to a specific target (referred to as option fees or payments earned, if any, when the option is taken), (iii) upon the exercise of a previously taken option to acquire a development and commercialization license(s) (referred to as exercise fees or payments earned, if any, when the development and commercialization license is taken), or (iv) some combination of all of these fees.

The accounting for right-to-test agreements is dependent on the nature of the options granted to the collaborative partner. Options are considered substantive if, at the inception of a right-to-test agreement, the Company is at risk as to whether the collaborative partner will choose to exercise the options to secure development and commercialization licenses. Factors that are considered in evaluating whether options are substantive include the overall objective of the arrangement, the benefit the collaborator might obtain from the agreement without exercising the options, the cost to exercise the options relative to the total upfront consideration, and the additional financial commitments or economic penalties imposed on the collaborator as a result of exercising the options.

For right-to-test agreements where the options to secure development and commercialization licenses to the Company's TAP technology are considered substantive, the Company does not consider the development and commercialization licenses to be a deliverable at the inception of the agreement. For those right-to-test agreements entered into prior to the adoption of ASU No. 2009-13 where the options to secure development and commercialization licenses are considered substantive, the Company has deferred the upfront payments received and recognizes this revenue over the period during which the collaborator could elect to take options for development and commercialization licenses. These periods are specific to each collaboration agreement. If a collaborator takes an option to acquire a development and commercialization license under these agreements, any substantive option fee is deferred and recognized over the life of the option, generally 12

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to 18 months. If a collaborator exercises an option and takes a development and commercialization license to a specific target, the Company attributes the exercise fee to the development and commercialization license. Upon exercise of an option to acquire a development and commercialization license, the Company would also attribute any remaining deferred option fee to the development and commercialization license and apply the multiple-element revenue recognition criteria to the development and commercialization license and any other deliverables to determine the appropriate revenue recognition, which will be consistent with the Company's accounting policy for upfront payments on single-target licenses. In the event a right-to-test agreement were to be terminated, the Company would recognize as revenue any portion of the upfront fee that had not previously been recorded as revenue, but was classified as deferred revenue, at the date of such termination. None of the Company's right-to-test agreements entered into subsequent to the adoption of ASU No. 2009-13 has been determined to contain substantive options.

For right-to-test agreements where the options to secure development and commercialization licenses to the Company's TAP technology are not considered substantive, the Company considers the development and commercialization licenses to be a deliverable at the inception of the agreement and applies the multiple-element revenue recognition criteria to determine the appropriate revenue recognition. None of the Company's right-to-test agreements entered into prior to the adoption of ASU No. 2009-13 has been determined to contain non-substantive options.

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The Company does not directly control when any collaborator will exercise its options for development and commercialization licenses. As a result, the Company cannot predict when it will recognize revenues in connection with any of the foregoing.

Fair Value of Financial Instruments

Fair value is defined under ASC Topic 820, Fair Value Measurements and Disclosures, 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. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy to measure fair value which is based on three levels of inputs, of which the first two are considered observable and the last unobservable, as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, 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.

As of March 31, 2013, the Company held certain assets that are required to be measured at fair value on a recurring basis. The following table represents the fair value hierarchy for the Company's financial assets measured at fair value on a recurring basis as of March 31, 2013 (in thousands):

	Total	Fair Value Measurements at March 31, 2013 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash, cash equivalents and restricted cash	\$ 208,653	\$ 208,653	\$	\$

As of June 30, 2012, the Company held certain assets that are required to be measured at fair value on a recurring basis. The following table represents the fair value hierarchy for the Company's financial assets measured at fair value on a recurring basis as of June 30, 2012 (in thousands):

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		Fair Value Measurements at June 30, 2012 Using			
		Quoted Prices in			Significant
		Active Markets for			Unobservable
		Identical Assets			Inputs
		(Level 1)			(Level 3)
	Total			Significant Other	
				Observable Inputs	
				(Level 2)	
Cash, cash equivalents and restricted cash	\$	163,488	\$	163,488	\$

The fair value of the Company's cash equivalents is based primarily on quoted prices from active markets.

Unbilled Revenue

The majority of the Company's unbilled revenue at March 31, 2013 and June 30, 2012 represents research funding earned prior to those dates based on actual resources utilized under the Company's agreements with various collaborators.

Inventory

Inventory costs relate to clinical trial materials being manufactured for sale to the Company's collaborators. Inventory is stated at the lower of cost or market as determined on a first-in, first-out (FIFO) basis.

Inventory at March 31, 2013 and June 30, 2012 is summarized below (in thousands):

	March 31, 2013	June 30, 2012
Raw materials	\$ 112	\$ 129
Work in process		1,159
Total	\$ 112	\$ 1,288

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Raw materials inventory consists entirely of DM1 and DM4, proprietary cell-killing agents the Company developed as part of its TAP technology. The Company considers more than a twelve month supply of raw materials that is not supported by firm, fixed orders and/or projections from its collaborators to be excess and establishes a reserve to reduce to zero the value of any such excess raw material inventory with a corresponding charge to research and development expense. In accordance with this policy, the Company recorded \$798,000 of expense related to excess inventory during the nine-month period ended March 31, 2013 compared to \$748,000 recorded during the same period last year. There were no expenses recorded for excess inventory during the three-month periods ended March 31, 2013 and 2012.

Work in process inventory consists of bulk drug substance manufactured for sale to the Company's collaborators to be used in preclinical and clinical studies. All bulk drug substance is made to order at the request of the collaborators and subject to the terms and conditions of respective supply agreements. As such, no reserve for work in process inventory is required.

Computation of Net Loss per Common Share

Basic and diluted net loss per share is calculated based upon the weighted average number of common shares outstanding during the period. The Company's common stock equivalents, as calculated in accordance with the treasury-stock method, are shown in the following table (in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
Options outstanding to purchase common stock	7,945	7,036	7,945	7,036
Common stock equivalents under treasury stock method	2,433	2,670	2,302	2,456

The Company's common stock equivalents have not been included in the net loss per share calculation because their effect is anti-dilutive due to the Company's net loss position.

Stock-Based Compensation

As of March 31, 2013, the Company is authorized to grant future awards under one employee share-based compensation plan, which is the ImmunoGen, Inc. 2006 Employee, Director and Consultant Equity Incentive Plan, or the 2006 Plan. At the annual meeting of shareholders on November 13, 2012, an amendment to the 2006 Plan was approved and an additional 3,500,000 shares were authorized for issuance under this plan. As amended, the 2006 Plan provides for the issuance of Stock Grants, the grant of Options and the grant of Stock-Based Awards for up to 12,000,000 shares of the Company's common stock, as well as any shares of common stock that are represented by awards granted under the previous stock option plan, the ImmunoGen, Inc. Restated Stock Option Plan, or the Former Plan, that are forfeited, expire or are cancelled without delivery of shares of common stock; provided, however, that no more than 5,900,000 shares shall be added to the Plan from the Former Plan, pursuant to this provision. Option awards are granted with an exercise price equal to the market price of the Company's stock at the date of grant. Options vest at various periods of up to four years and may be exercised within ten years of the date of grant.

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The stock-based awards are accounted for under ASC Topic 718, Compensation - Stock Compensation. Pursuant to Topic 718, the estimated grant date fair value of awards is charged to the statement of operations and comprehensive loss over the requisite service period, which is the vesting period. Such amounts have been reduced by an estimate of forfeitures of all unvested awards. The fair value of each stock option is estimated on the date of grant using the Black-Scholes option-pricing model with the assumptions noted in the following table. As the Company has not paid dividends since inception, nor does it expect to pay any dividends for the foreseeable future, the expected dividend yield assumption is zero. Expected volatility is based exclusively on historical volatility data of the Company's stock. The expected term of stock options granted is based exclusively on historical data and represents the period of time that stock options granted are expected to be outstanding. The expected term is calculated for and applied to one group of stock options as the Company does not expect substantially different exercise or post-vesting termination behavior among its option recipients. The risk-free rate of the stock options is based on the U.S. Treasury rate in effect at the time of grant for the expected term

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of the stock options.

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2013	2012	2013	2012
Dividend	None	None	None	None
Volatility	60.44%	58.91%	60.44%	59.76%
Risk-free interest rate	1.13%	1.41%	0.85%	2.19%
Expected life (years)	6.3	7.1	6.3	7.1

Using the Black-Scholes option-pricing model, the weighted average grant date fair values of options and restricted stock awards granted during the three months ended March 31, 2013 and 2012 were \$8.28 and \$7.31 per share, respectively, and \$8.67 and \$9.03 per share for options granted during the nine months ended March 31, 2013 and 2012, respectively.

Stock compensation expense related to stock options and restricted stock awards granted under the 2006 Plan was \$2.9 million and \$9.6 million during the three and nine months ended March 31, 2013, respectively, compared to stock compensation expense of \$2.3 million and \$7.6 million for the three and nine months ended March 31, 2012, respectively.

As of March 31, 2013, the estimated fair value of unvested employee awards was \$19.8 million, net of estimated forfeitures. The weighted-average remaining vesting period for these awards is two years.

During the nine months ended March 31, 2013, holders of options issued under the Company's equity plans exercised their rights to acquire an aggregate of approximately 378,000 shares of common stock at prices ranging from \$2.91 to \$15.20 per share. The total proceeds to the Company from these option exercises were approximately \$2.2 million.

Financial Instruments and Concentration of Credit Risk

The Company's cash equivalents consist principally of money market funds with underlying investments primarily being U.S. Government-issued securities and high quality, short-term commercial paper. All of the Company's cash and cash equivalents are maintained with three financial institutions in the U.S.

Derivative instruments include a portfolio of short duration foreign currency forward contracts intended to mitigate the risk of exchange fluctuations for existing or anticipated receivable and payable balances denominated in foreign currency. Derivatives are estimated at fair value and classified as other current assets or liabilities. The fair values of these instruments represent the present value of estimated future cash flows under the contracts, which are a function of underlying interest rates, currency rates, related volatility, counterparty creditworthiness and duration of the contracts. Changes in these factors or a combination thereof may affect the fair value of these instruments.

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The Company does not designate foreign currency forward contracts as hedges for accounting purposes, and changes in the fair value of these instruments are recognized in earnings during the period of change. Because the Company enters into forward contracts only as an economic hedge, any gain or loss on the underlying foreign-denominated existing or anticipated receivable or payable balance would be offset by the loss or gain on the forward contract. For the three and nine months ended March 31, 2013, net (losses) gains recognized on forward contracts were \$(13,000) and \$150,000, respectively, and are included in the accompanying consolidated statements of operations and comprehensive loss as other (expense) income, net. For the three and nine months ended March 31, 2012, net gains (losses) recognized on forward contracts were \$9,000 and \$(47,000), respectively. As of March 31, 2013, the Company had outstanding forward contracts with notional amounts equivalent to approximately \$1.9 million (1.4 million), all maturing on or before October 7, 2013. As of June 30, 2012, the Company had outstanding forward contracts with notional amounts equivalent to approximately \$3.3 million (2.5 million). The Company does not anticipate using derivative instruments for any purpose other than hedging exchange rate exposure.

Segment Information

During the nine months ended March 31, 2013, the Company continued to operate in one reportable business segment which is the business of discovery of monoclonal antibody-based anticancer therapeutics.

The percentages of revenues recognized from significant customers of the Company in the three and nine months ended March 31, 2013 and 2012 are included in the following table:

Collaborative Partner:	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2013	2012	2013	2012
Amgen	2%	38%	6%	33%
Bayer HealthCare	3%	24%	5%	14%
Novartis	51%	22%	48%	14%
Sanofi	1%	5%	2%	27%
Roche	42%	%	33%	%

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There were no other customers of the Company with significant revenues in the three and nine months ended March 31, 2013 and 2012.

B. Collaborative Agreements

Roche

In May 2000, the Company granted Roche, through its Genentech unit, an exclusive license to use the Company's maytansinoid TAP technology with antibodies or other proteins that target HER2, such as trastuzumab. Under the terms of this agreement, Roche has exclusive worldwide rights to develop and commercialize maytansinoid TAP compounds targeting HER2. In February 2013, the US FDA granted marketing approval to Kadcyla. Roche is responsible for the manufacturing, product development and marketing of Kadcyla or any other products resulting from the agreement. The Company is compensated for any preclinical and clinical materials that the Company manufactures under the agreement. The Company received a \$2 million non-refundable upfront payment from Roche upon execution of the agreement. The Company is also entitled to receive up to a total of \$44 million in milestone payments, plus royalties on the commercial sales of Kadcyla or any other resulting products. Total milestones are categorized as follows: development milestones \$13.5 million; and regulatory milestones \$30.5 million. The marketing approval of Kadcyla in February 2013 triggered a \$10.5 million regulatory milestone payment to the Company. Based on an evaluation of the effort contributed to the achievement of this milestone, the Company determined this milestone was not substantive. In consideration that there are no undelivered elements remaining, no continuing performance obligations and all other revenue recognition criteria have been met, the Company recognized the \$10.5 million non-refundable payment as revenue upon achievement of the milestone, which is included in license and milestone fees for the three and nine months ended March 31, 2013. The next potential milestone the Company will be entitled to receive will be either a \$5 million regulatory milestone for marketing approval of Kadcyla in Europe or a \$5 million regulatory milestone for marketing approval of Kadcyla in Japan depending on which occurs first. Based on an evaluation of the effort contributed to the achievement of these milestones, the Company has determined these milestones are not substantive. The Company will receive royalty reports and payments related to sales of Kadcyla from Roche one quarter in arrears. In accordance with the Company's revenue recognition policy, royalties on sales of Kadcyla for the period ended March 31, 2013 will be recorded in the Company's fourth quarter of fiscal 2013.

Novartis

In October 2010, the Company entered into a three-year right-to-test agreement with Novartis. The agreement provides Novartis with the right to (a) test the Company's TAP technology with individual antibodies selected by Novartis under a right-to-test, or research, license, (b) take exclusive options, with certain restrictions, to individual targets selected by Novartis for specified option periods and (c) upon exercise of those options, take exclusive licenses to use the Company's TAP technology to develop and commercialize products for a specified number of individual targets on terms agreed upon at the inception of the right-to-test agreement. The Company received a \$45 million upfront payment in connection with the execution of the right-to-test agreement, and for each development and commercialization license for a specific target, the Company is entitled to receive an exercise fee of \$1 million and up to a total of \$199.5 million in milestone payments, plus royalties on the commercial sales of any resulting products. The total milestones are categorized as follows: development milestones \$22.5 million; regulatory milestones \$77 million; and sales milestones \$100 million.

Effective March 29, 2013, the Company and Novartis amended the right-to-test agreement so that Novartis can take a license to develop and commercialize products directed at two pre-defined and related undisclosed targets, one target licensed on an exclusive basis and the other target initially licensed on a non-exclusive basis. The Company was entitled to a \$3.5 million fee in connection with the execution of the amendment to the agreement. The Company may be required to credit this fee against future milestone payments if Novartis discontinues the development of a specified product under certain circumstances.

In connection with the amendment, on March 29, 2013, Novartis took the license referenced above under the right-to-test agreement, as amended, enabling it to develop and commercialize products directed at the two targets. The Company was entitled to a \$1 million upfront fee with the execution of this license. Additionally, the execution of this license provides the Company the opportunity to receive milestone payments totaling \$199.5 million (development milestones \$22.5 million; regulatory milestones \$77 million; and sales milestones \$100 million) or \$238 million (development milestones \$22.5 million; regulatory milestones \$115.5 million; and sales milestones \$100 million), depending on the composition of any resulting products. The first potential milestone the Company will be entitled to receive will be a \$5.0 million development milestone for commencement of a Phase I

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clinical trial. At the time of execution of this agreement, there was significant uncertainty as to whether this milestone would be achieved. In consideration of this, as well as the Company's past involvement in the research and manufacturing of this product candidate, this milestone was deemed substantive. Additionally, the Company is entitled to receive royalties on product sales, if any. Novartis also has the right to convert the noted non-exclusive license to an exclusive license, in which case the Company would be entitled to receive a conversion fee and, depending on the composition of resultant products, an upward adjustment on milestone payments. The Company also is entitled to receive payments for research and development activities performed on behalf of Novartis. Novartis is responsible for the manufacturing, product development and marketing of any products resulting from this agreement.

In accordance with ACS 605-25 (as amended by ASU No. 2009-13), the Company identified all of the deliverables at the inception of the right-to-test agreement and subsequently when amended. The significant deliverables were determined to be the right-to-test, or research, license, the development and commercialization licenses, rights to future technological improvements, and the research services. The options to obtain development and commercialization licenses in the right-to-test agreement were determined not to be substantive and, as a result, the exclusive development and commercialization licenses were considered deliverables at the inception of the right-to-test agreement. Factors that were considered in determining the options were not substantive included (i) the overall objective of the agreement was for Novartis to obtain development and commercialization licenses, (ii) the size of the exercise fee of \$1 million for each development and commercialization license obtained is not significant relative to the \$45 million upfront payment that was due at the inception of the right-to-test agreement, (iii) the limited economic benefit that Novartis could obtain from the right-to-test agreement unless it exercised its options to obtain development and commercialization licenses, and (iv) the lack of economic penalties as a result of exercising the options.

The Company has determined that the research license together with the development and commercialization licenses represent one unit of accounting as the research license does not have stand-alone value from the development and commercialization licenses due to the lack of transferability of the research license and the limited economic benefit Novartis would derive if they did not obtain any development and commercialization licenses. The Company has also determined that this unit of accounting does have stand-alone value from the rights to future technological improvements and the research services. The rights to future technological improvements and the research services are considered separate units of accounting as each of these was determined to have stand-alone value. The rights to future technological improvements have stand-alone value as Novartis would be able to use those items for their intended purpose without the undelivered elements. The research services have stand-alone value as similar services are sold separately by other vendors.

The estimated selling prices for the development and commercialization licenses are the Company's best estimate of selling price and were determined based on market conditions, similar arrangements entered into by third parties, including pricing terms offered by our competitors for single-target development and commercialization licenses that utilize antibody-drug conjugate technology, and entity-specific factors such as the pricing terms of the Company's previous single-target development and commercialization licenses, recent preclinical and clinical testing results of therapeutic products that use the Company's TAP technology, and the Company's pricing practices and pricing objectives. The estimated selling price of the right to technological improvements is the Company's best estimate of selling price and was determined by estimating the probability that technological improvements will be made and the probability that such technological improvements made will be used by Novartis. In estimating these probabilities, we considered factors such as the technology that is the subject of the development and commercialization licenses, our history of making technological improvements, and when such improvements, if any, were likely to occur relative to the stage of development of any product candidates pursuant to the development and commercialization licenses. The Company's estimate of probability considered the likely period of time that any improvements would be utilized, which was estimated to be ten years following delivery of a commercialization and development license. The value of any technological improvements made available after this ten year period was considered to be *de minimis* due to the significant additional costs that would be incurred to incorporate such technology into any existing product candidates. The estimate of probability was multiplied by the estimated selling price of the development and commercialization licenses and the resulting cash flow was discounted at a rate of 16%, representing the Company's estimate of its cost of capital. The estimated selling price of the research services was based on third-party evidence given the nature of the research services to be performed for Novartis and market rates for similar services.

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The total arrangement consideration of \$55.2 million (which comprises the \$45 million upfront payment, the amendment fee of \$3.5 million, the exercise fee for each license, and the expected fees for the research services to be provided under the remainder of the arrangement) was allocated to the deliverables based on the relative selling price method as follows: \$50.4 million to the development and commercialization licenses; \$4.1 million to the rights to future technological improvements; and \$710,000 to the research services. Upon execution of the development and commercialization license taken by Novartis in March 2013, the Company recorded \$11.1 million of the \$50.4 million of the arrangement consideration outlined above, which is included in license and milestone fee revenue for the three and nine months ended March 31, 2013. With this first development and commercialization license taken, the amount of the total arrangement consideration allocated to future technological improvements will commence to be recognized as revenue ratably over the period the Company is obligated to make available any technological improvements, which is equivalent to the estimated term of the agreement. The Company estimates the term of a development and commercialization license to be approximately 25 years, which reflects management's estimate of the time necessary to develop and commercialize products pursuant to the license plus the estimated royalty term. The Company reassesses the estimated term at the end of each reporting

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period. The Company will recognize as license revenue an equal amount of the total remaining \$39.3 million of arrangement consideration allocated to the development and commercialization licenses as each individual license is delivered to Novartis upon Novartis' exercise of its remaining options to such licenses. The Company does not control when Novartis will exercise its options for development and commercialization licenses. As a result, the Company cannot predict when it will recognize the related license revenue except that it will be within the term of the research license. The Company will recognize research services revenue as the related services are delivered.

Amgen

In September 2000, the Company entered into a ten-year right-to-test agreement with Abgenix, Inc. which was later acquired by Amgen. The agreement provides Amgen with the right to (a) test the Company's maytansinoid TAP technology with Amgen's antibodies under a right-to-test, or research, license, (b) take options, with certain restrictions, to individual targets selected by Amgen on either an exclusive and non-exclusive basis for specified option periods and (c) upon exercise of those options, take exclusive or non-exclusive licenses to use the Company's maytansinoid TAP technology to develop and commercialize products for the specified targets on previously agreed-upon terms. For each exclusive development and commercialization license taken, the Company is entitled to receive an exercise fee of \$1 million and up to a total of \$34 million in milestone payments, plus royalties on the commercial sales of any resulting products. The total milestones per development and commercialization license are categorized as follows: development milestones \$9 million; regulatory milestones \$20 million; and sales milestones \$5 million.

Under the right-to-test agreement, in September 2009, November 2009 and December 2012, Amgen took three development and commercialization licenses and the Company received an exercise fee of \$1 million for each license taken. The Company has deferred each \$1 million exercise fee and is recognizing these amounts as revenue ratably over the respective estimated periods of its substantial involvement. In November 2011, the IND applications to the FDA for two compounds developed under the September 2009 and November 2009 development and commercialization licenses became effective, which triggered two \$1 million milestone payments to the Company. These payments are included in license and milestone fees for the nine months ended March 31, 2012. At the time of execution of each of these development and commercialization licenses, there was significant uncertainty as to whether these milestones would be achieved. In consideration of this, as well as the Company's past involvement in the research and manufacturing of these product candidates, these milestones were deemed substantive. The next potential milestone the Company will be entitled to receive under either of these two development and commercialization licenses will be a development milestone for the first dosing of a patient in a Phase II clinical trial, which will result in a \$3 million payment being due. The next potential milestone the Company will be entitled to receive under the December 2012 development and commercialization license will be a development milestone for IND approval which will result in a \$1 million payment being due to the Company.

Sanofi

In July 2003, the Company entered into a broad collaboration agreement with Sanofi (formerly Aventis) to discover, develop and commercialize antibody-based products. The product candidates (targets) currently in the collaboration include SAR3419 (CD19), SAR650984 (CD38), SAR566658 (DS6, also known as CA6) and at least one earlier-stage compound that has yet to be disclosed. For each of the targets included in the collaboration at this time, the Company is entitled to receive up to a total of \$21.5 million in milestone payments, plus royalties on the commercial sales of any resulting products. The total milestones are categorized as follows: development milestones \$7.5 million; and regulatory milestones \$14 million. Through March 31, 2013, the Company has received and recognized an aggregate of \$16 million in milestone payments for compounds covered under this agreement now or in the past, including a \$3 million milestone payment related to the initiation of a Phase IIb clinical trial (as defined in the agreement) for SAR3419, which is included in license and milestone fee revenue for the nine months ended March 31, 2012. At the time of execution of this agreement, there was significant uncertainty as to whether this milestone would be achieved. In consideration of this, as well as the Company's past involvement in the research and manufacturing of these product candidates, the milestone was deemed substantive. The next potential milestone the Company will be entitled to receive with respect to

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SAR3419 will be a development milestone for initiation of a Phase III clinical trial, which will result in a \$3 million payment being due to the Company.

For additional information related to these agreements, as well as the Company's other significant collaborative agreements, please read Note C, *Agreements* to our consolidated financial statements included within the Company's 2012 Form 10-K.

Kadcyla is a trademark of Genentech.

C. Capital Stock

2001 Non-Employee Director Stock Plan

During the three and nine months ended March 31, 2013, the Company recorded approximately \$21,000 and \$(4,000) in expense and expense reduction, respectively, related to stock units outstanding under the Company's 2001 Non-Employee Director Stock Plan, or the 2001 Plan, compared to \$18,000 and \$22,000 in expense recorded during the three and nine months ended March

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31, 2012, respectively. The value of the stock units is adjusted to market value at each reporting period as the redemption amount of stock units for this plan will be paid in cash. No stock units have been issued under the 2001 Plan subsequent to June 30, 2004.

Compensation Policy for Non-Employee Directors

During the three and nine months ended March 31, 2013 and 2012, the Company recorded approximately \$98,000 and \$253,000 in compensation expense, respectively, related to deferred share units issued and outstanding under the Company's Compensation Policy for Non-Employee Directors, compared to \$67,000 and \$236,000 in compensation expense recorded during the three and nine months ended March 31, 2012, respectively. Pursuant to the Compensation Policy for Non-Employee Directors, the redemption amount of deferred share units issued will be paid in shares of common stock of the Company on the date a director ceases to be a member of the Board. Annual retainers vest quarterly over approximately one year from the date of grant, contingent upon the individual remaining a director of ImmunoGen as of each vesting date, and the number of deferred share units awarded is based on the market value of the Company's common stock on the date of the award. All unvested deferred stock awards will automatically vest immediately prior to the occurrence of a change of control.

In addition to the deferred share units, the Non-Employee Directors are also entitled to receive stock option awards having a grant date fair value of \$30,000, determined using the Black-Scholes option pricing model measured on the date of grant, which would be the date of the annual meeting of shareholders. These options vest quarterly over approximately one year from the date of grant. Any new directors will receive a pro-rated award, depending on their date of election to the Board. The directors received a total of 41,805, 33,187 and 49,688 options in fiscal 2013, 2012 and 2011, respectively, and the related compensation expense for the three and nine months ended March 31, 2013 and 2012 is included in the amounts discussed in the Stock-Based Compensation section of footnote A above.

D. Cash and Cash Equivalents

As of March 31, 2013 and June 30, 2012, the Company held \$206.1 million and \$160.9 million, respectively, in cash, and money market funds consisting principally of U.S. Government-issued securities and high quality, short-term commercial paper which were classified as cash and cash equivalents.

E. Commitments and Contingencies

Leases

Effective July 27, 2007, the Company entered into a lease agreement with Intercontinental Fund III for the rental of approximately 89,000 square feet of laboratory and office space at 830 Winter Street, Waltham, MA. The Company uses this space for its corporate headquarters, research and other operations. The initial term of the lease is for twelve years with an option for the Company to extend the lease for two additional terms of five years. The Company is required to pay certain operating expenses for the leased premises subject to escalation charges for certain expense increases over a base amount. The Company entered into a sublease in December 2009 for 14,100 square feet of this space in Waltham through January 2015, with the sublessee having a conditional option to extend the term for an additional two years.

Effective April 2012, the Company entered into a sublease agreement for the rental of 7,310 square feet of laboratory and office space at 830 Winter Street, Waltham, MA from Histogenics Corporation. The initial term of the sublease is for three years with a conditional option for the Company to extend the lease through October 2017. The Company is required to pay certain operating expenses for the leased premises subject to escalation charges for certain expense increases over a base amount.

At March 31, 2013, the Company also leases a facility consisting of 43,850 square feet in Norwood, MA under an agreement through 2018 with an option to extend the lease for an additional term of five years. The Company is required to pay certain operating expenses for the leased premises subject to escalation charges for certain expense increases over a base amount.

Effective April 2013, the Company entered into a lease agreement with River Ridge Limited Partnership for the rental of 7,507 square feet of additional office space at 100 River Ridge Drive, Norwood, MA. The initial term of the lease is for five years and two months commencing on June 1, 2013 with an option for the Company to extend the lease through May 2023. The Company is required to pay certain operating expenses for the leased premises subject to escalation charges for certain expense increases over a base amount.

The minimum rental commitments for the Company's facilities, including real estate taxes and other expenses, for the next five fiscal years and thereafter under the non-cancelable operating lease agreements discussed above are as follows (in thousands):

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2013 (three months remaining)	\$	1,596
2014		6,607
2015		6,741
2016		6,512
2017		6,586
Thereafter		16,727
Total minimum lease payments	\$	44,769
Total minimum rental payments from sublease		(1,249)
Total minimum lease payments, net	\$	43,520

Collaborative Agreements

The Company is contractually obligated to make potential future success-based regulatory milestone payments in conjunction with certain collaborative agreements. These payments are contingent upon the occurrence of certain future events and, given the nature of these events, it is unclear when, if ever, the Company may be required to pay such amounts. Further, the timing of any future payment is not reasonably estimable. During the first quarter of fiscal 2013, the Company's license agreement with Janssen Biotech was terminated and, accordingly, the Company is no longer obligated to make \$41.0 million of potential future success-based milestone and third-party payments under such agreement. As of March 31, 2013, the maximum amount that may be payable in the future under the Company's current collaborative agreements is \$2.0 million, \$1.4 million of which is reimbursable by a third party under a separate agreement.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**OVERVIEW**

Since our inception, we have been principally engaged in the development of novel, antibody-drug conjugates (ADCs) for the treatment of cancer using our expertise in cancer biology, monoclonal antibodies, highly potent cytotoxic, or cell-killing, agents, and the design of linkers that enable these agents to remain stably attached to the antibodies while in the blood stream and released in their fully active form after delivery to a cancer cell. An anticancer compound made using our Targeted Antibody Payload, or TAP, technology consists of a monoclonal antibody that binds specifically to an antigen target found on cancer cells with multiple copies of one of our proprietary cell-killing agents attached to the antibody using one of our engineered linkers. Its antibody component enables a TAP compound to bind specifically to cancer cells that express its target antigen, the highly potent cytotoxic agent serves to kill the cancer cell, and the engineered linker controls the release and activation of the cytotoxic agent inside the cancer cell. With some TAP compounds, the antibody component also has anticancer activity of its own. Our TAP technology is designed to enable the creation of highly effective, well-tolerated anticancer products. All of the TAP compounds currently in clinical testing contain either DM1 or DM4 as the cytotoxic agent. Both DM1 and DM4, collectively DMx, are our proprietary derivatives of a cytotoxic agent called maytansine. We also have expertise in antibodies and cancer biology to develop naked, or non-conjugated, antibody anticancer product candidates.

We have used our proprietary TAP technology in conjunction with our in-house antibody expertise to develop our own anticancer product candidates. We have also entered into collaborative agreements that enable companies to use our TAP technology to develop and commercialize product candidates to specified targets. Under the terms of our collaborative agreements, we are generally entitled to upfront fees, milestone payments and royalties on any commercial product sales. In addition, under certain agreements we are compensated for research and development activities performed at our collaborative partner's request at negotiated prices which are generally consistent with what other third parties would charge. We are compensated to manufacture preclinical and clinical materials and deliver cytotoxic agent at negotiated prices

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which are generally consistent with what other third parties would charge. Currently, our collaborative partners are Amgen, Bayer HealthCare, Biotest, Lilly, Novartis, Roche and Sanofi. We expect that substantially all of our revenue for the foreseeable future will result from payments under our collaborative arrangements. Details for some of our collaborative agreements with recent activity follow. Details for our other significant agreements can be found in our 2012 Annual Report on Form 10-K

Roche In May 2000, we granted Roche, through its Genentech unit, an exclusive license to our maytansinoid TAP technology for use with antibodies or other proteins that target HER2, such as trastuzumab. Under the terms of this agreement, Roche has exclusive worldwide rights to develop and commercialize maytansinoid TAP compounds that target HER2. In February 2013, the U.S. Food and Drug Administration, or FDA, granted marketing approval to Kadcyla. Roche is responsible for the manufacturing, product development and marketing of Kadcyla and any other products resulting from the agreement. We are compensated for any preclinical and clinical materials that we manufacture under the agreement. We received a \$2 million non-refundable upfront payment from Roche upon execution of the agreement. We are also entitled to receive up to a total of \$44 million in milestone payments, plus royalties on the commercial sales of Kadcyla and any other resulting products. Total milestones are categorized as follows:

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development milestones \$13.5 million; and regulatory milestones \$30.5 million. The marketing approval of Kadcyla in February 2013 triggered a \$10.5 million regulatory milestone payment to us, which is included in license and milestone fees for the three and nine months ended March 31, 2013. We will receive royalty reports and payments related to sales of Kadcyla from Roche one quarter in arrears. In accordance with our revenue recognition policy, royalties on sales of Kadcyla for the period ended March 31, 2013 will be recorded in our fourth quarter of fiscal 2013.

Novartis In October 2010, we entered into a three-year right-to-test agreement with Novartis. The agreement provides Novartis with the right to (a) test our TAP technology with individual antibodies selected by Novartis under a right-to-test, or research, license, (b) take exclusive options, with certain restrictions, to individual targets selected by Novartis for specified option periods and (c) upon exercise of those options, take exclusive licenses to use our TAP technology to develop and commercialize products for a specified number of individual targets on terms agreed upon at the inception of the right-to-test agreement. The Company received a \$45 million upfront payment in connection with the execution of the right-to-test agreement, and for each development and commercialization license for a specific target, the Company is entitled to receive an exercise fee of \$1 million and up to a total of \$199.5 million in milestone payments, plus royalties on the commercial sales of any resulting products. The total milestones are categorized as follows: development milestones \$22.5 million; regulatory milestones \$77 million; and sales milestones \$100 million.

Effective March 29, 2013, we and Novartis amended the right-to-test agreement so that Novartis can take a license to develop and commercialize products directed at two pre-defined and related undisclosed targets, one target licensed on an exclusive basis and the other target initially licensed on a non-exclusive basis. We are entitled to a \$3.5 million fee in connection with the execution of the amendment to the agreement. We may be required to credit this fee against future milestone payments if Novartis discontinues the development of a specified product under certain circumstances.

On March 29, 2013, Novartis also took the license referenced above under the right-to-test agreement, as amended, enabling it to develop and commercialize products directed at the two targets. We are entitled to a \$1 million upfront fee with the execution of this license. Additionally, the execution of this license provides us the opportunity to receive milestone payments totaling \$199.5 million (development milestones \$22.5 million; regulatory milestones \$77 million; and sales milestones \$100 million) or \$238 million (development milestones \$22.5 million; regulatory milestones \$115.5 million; and sales milestones \$100 million), depending on the composition of any resulting products. Additionally, we are entitled to receive royalties on product sales, if any. Novartis also has the right to convert the noted non-exclusive license to an exclusive license, in which case we would be entitled to receive a conversion fee and, depending on the composition of resultant products, an upward adjustment on milestone payments. In accordance with our revenue recognition policy, upon execution of the development and commercialization license taken by Novartis, we recorded \$11.1 million of revenue, which is included in license and milestone fee revenue for the three and nine months ended March 31, 2013.

Amgen In September 2000, we entered into a ten-year right-to-test agreement with Abgenix, Inc. which was later acquired by Amgen. The agreement provides Amgen with the right to (a) test our maytansinoid TAP technology with Amgen's antibodies under a right-to-test, or research, license, (b) take options, with certain restrictions, to individual targets selected by Amgen on either an exclusive or non-exclusive basis for specified option periods and (c) upon exercise of those options, take exclusive or non-exclusive licenses to use our maytansinoid TAP technology to develop and commercialize products for the specified targets on previously agreed-upon terms. Under the right-to-test agreement, in September 2009, November 2009 and December 2012, Amgen took three development and commercialization licenses and we received an exercise fee of \$1 million for each license taken. We have deferred each \$1 million exercise fee and are recognizing these amounts as revenue ratably over the respective estimated periods of our substantial involvement. For each development and commercialization license taken, we are entitled to receive an exercise fee of \$1 million and up to a total of \$34 million in milestone payments, plus royalties on the commercial sales of any resulting products. The total milestones per development and commercialization license are categorized as follows: development milestones \$9 million; regulatory milestones \$20 million; and sales milestones \$5 million. In November 2011, the Investigational New Drug (IND) applications for two compounds developed under the September 2009 and November 2009 development and commercialization licenses became active, which triggered two \$1 million milestone payments to us. These payments are included in license and milestone fees for the nine months ended March 31, 2012.

Sanofi In July 2003, we entered into a broad collaboration agreement with Sanofi (formerly Aventis) to discover, develop and commercialize antibody-based products. The product candidates (targets) currently in the collaboration include SAR3419 (CD19), SAR650984 (CD38), SAR566658 (DS6, also known as CA6) and at least one earlier-stage compound that has yet to be disclosed. For each of the targets included in the collaboration at this time, we are entitled to receive up to a total of \$21.5 million in milestone payments, plus royalties on the commercial sales of any resulting products. The total milestones are categorized as follows: development milestones \$7.5 million; and regulatory milestones

\$14 million. Through March 31, 2013, we have received and recognized an aggregate of \$16 million in milestone payments under this agreement for compounds covered under this agreement now or in the past, including a \$3 million milestone payment earned related to the initiation of a Phase IIb clinical trial (as defined in the agreement) for SAR3419, which is included in license and milestone fee revenue for the nine months ended March 31, 2012.

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To date, we have not generated revenues from our proprietary commercial product sales and we expect to incur significant operating losses for the foreseeable future. As of March 31, 2013, we had approximately \$206.1 million in cash and cash equivalents compared to \$160.9 million in cash and cash equivalents as of June 30, 2012.

We anticipate that future cash expenditures will be partially offset by collaboration-derived proceeds, including milestone payments, royalties and upfront fees. Accordingly, period-to-period operating results may fluctuate dramatically based upon the timing of receipt of the proceeds. We believe that our established collaboration agreements, while subject to specified milestone achievements, will provide funding to assist us in meeting obligations under our collaborative agreements while also providing funding for the development of internal product candidates and technologies. However, we can give no assurances that such collaborative agreement funding will, in fact, be realized in the time frames we expect, or at all. Should we or our partners not meet some or all of the terms and conditions of our various collaboration agreements, we may be required to pursue additional strategic partners, secure alternative financing arrangements, and/or defer or limit some or all of our research, development and/or clinical projects. However, we cannot provide assurance that any such opportunities presented by additional strategic partners or alternative financing arrangements will be entirely available to us, if at all.

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the U.S. 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 on-going basis, we evaluate our estimates, including those related to our collaborative agreements, inventory and stock-based compensation. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates.

Royalty Revenue Recognition Under our development and commercialization license agreements, we receive royalty payments based upon our licensees' net sales of covered products. Generally, under these agreements we are to receive royalty reports and payments from our licensees approximately one quarter in arrears, that is, generally in the second month of the quarter after the licensee has sold the royalty bearing product or products. We recognize royalty revenues when we can reliably estimate such amounts and collectability is reasonably assured. As such, we generally recognize royalty revenues in the quarter reported to us by our licensees, or one quarter following the quarter in which sales by our licensees occurred.

There were no other updates or significant changes to our critical accounting policies from those disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2012.

RESULTS OF OPERATIONS

Comparison of Three Months ended March 31, 2013 and 2012

Revenues

Our total revenues for the three months ended March 31, 2013 and 2012 were \$25.0 million and \$3.3 million, respectively. The \$21.7 million increase in revenues in the three months ended March 31, 2013 from the same period in the prior year is attributable to an increase in research and development support revenue and license and milestone fees, partially offset by a decrease in clinical materials revenue, all of which are discussed below.

Research and development support revenue was \$2.3 million for the three months ended March 31, 2013 compared with \$1.3 million for the three months ended March 31, 2012. These amounts primarily represent research funding earned based on actual resources utilized under our agreements with our collaborators shown in the table below. Also included in research and development support revenue are fees for developing antibody-specific conjugation processes on behalf of our collaborators and potential collaborators during the early evaluation and preclinical testing stages of drug development. The amount of research and development support revenue we earn is directly related to the number of our collaborators and potential collaborators, the stage of development of our collaborators' product candidates and the resources our collaborators allocate to the development effort. As such, the amount of research and development support revenue may vary widely from quarter to quarter and year to year. Total revenue recognized from research and development support from each of our collaborative partners in the three-month periods ended March 31, 2013 and 2012 is included in the following table (in thousands):

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Research and Development Support	Three Months Ended March 31,	
	2013	2012
Collaborative Partner:		
Amgen	\$ 127	\$ 277
Biotest	252	132
Lilly	160	164
Novartis	1,616	723
Other	102	24
Total	\$ 2,257	\$ 1,320

Revenues from license and milestone fees for the three months ended March 31, 2013 increased \$21.0 million to \$22.0 million from \$999,000 in the same period ended March 31, 2012. Included in license and milestone fees for the three months ended March 31, 2013 was a \$10.5 million regulatory milestone achieved under our collaboration agreement with Roche and \$11.1 million of license revenue earned upon the execution of a development and commercialization license by Novartis. The amount of license and milestone fees we earn is directly related to the number of our collaborators and potential collaborators, the collaborators' advancement of the product candidates, and the overall success in the clinical trials of the product candidates. As such, the amount of license and milestone fees may vary widely from quarter to quarter and year to year. Total revenue from license and milestone fees recognized from each of our collaborative partners in the three-month periods ended March 31, 2013 and 2012 is included in the following table (in thousands):

License and Milestone Fees	Three Months Ended March 31,	
	2013	2012
Collaborative Partner:		
Amgen	\$ 247	\$ 279
Bayer HealthCare		521
Biotest	6	32
Novartis	11,090	
Sanofi	167	167
Roche	10,500	
Total	\$ 22,010	\$ 999

Deferred revenue of \$65.0 million as of March 31, 2013 primarily represents payments received from our collaborators pursuant to our license agreements, including a \$20 million upfront payment received from Lilly during fiscal 2012 and \$38.4 million remaining of a \$45 million upfront payment received from Novartis during fiscal 2011, both of which we have yet to earn pursuant to our revenue recognition policy.

Clinical materials revenue decreased \$199,000 in the three months ended March 31, 2013 to \$734,000 from \$933,000 in the three months ended March 31, 2012. We are compensated at negotiated prices which are generally consistent with what other third-parties would charge. The amount of clinical materials revenue we earn, and the related cost of clinical materials charged to research and development expense, is directly related to the number of clinical trials our collaborators are preparing or have underway, the speed of enrollment in those trials, the dosage schedule of each clinical trial and the time period, if any, during which patients in the trial receive clinical benefit from the clinical materials, and the supply of clinical-grade material to our collaborators for process development and analytical purposes. As such, the amount of clinical materials revenue and the related cost of clinical materials charged to research and development expense may vary significantly from quarter to quarter and year to year.

Research and Development Expenses

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Our research and development expenses relate to (i) research to evaluate new targets and to develop and evaluate new antibodies, linkers and cytotoxic agents, (ii) preclinical testing of our own and, in certain instances, our collaborators' product candidates, and the cost of our own clinical trials, (iii) development related to clinical and commercial manufacturing processes and (iv) manufacturing operations which also includes raw materials.

Research and development expense for the three months ended March 31, 2013 increased \$4.4 million to \$21.3 million from \$16.9 million for the three months ended March 31, 2012. The increase was primarily due to (i) increased antibody development and supply expenses; (ii) decreased overhead utilization absorbed by the manufacture of clinical materials on behalf of our collaborators; and (iii) increased salaries and related expenses due primarily to additional headcount, increased incentive compensation and increased stock compensation costs. The number of our research and development personnel increased to 241 as of March 31, 2013 compared to 212 at March 31, 2012. A more detailed discussion of research and development expense in the period follows.

We are unable to accurately estimate which potential product candidates, if any, will eventually move into our internal preclinical research program. We are unable to reliably estimate the costs to develop these products as a result of the uncertainties related to discovery research efforts as well as preclinical and clinical testing. Our decision to move a product candidate into the clinical development phase is predicated upon the results of preclinical tests. We cannot accurately predict which, if any, of the discovery stage product candidates will advance from preclinical testing and move into our internal clinical development program. The clinical trial and regulatory approval processes for our product candidates that have advanced or that we intend to advance to

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clinical testing are lengthy, expensive and uncertain in both timing and outcome. As a result, the pace and timing of the clinical development of our product candidates is highly uncertain and may not ever result in approved products. Completion dates and development costs will vary significantly for each product candidate and are difficult to predict. A variety of factors, many of which are outside our control, could cause or contribute to the prevention or delay of the successful completion of our clinical trials, or delay or prevent our obtaining necessary regulatory approvals. The costs to take a product through clinical trials are dependent upon, among other factors, the clinical indications, the timing, size and design of each clinical trial, the number of patients enrolled in each trial, and the speed at which patients are enrolled and treated. Product candidates may be found to be ineffective or to cause unacceptable side effects during clinical trials, may take longer to progress through clinical trials than anticipated may fail to receive necessary regulatory approvals or may prove impractical to manufacture in commercial quantities at reasonable cost or with acceptable quality.

The lengthy process of securing FDA approvals for new drugs requires the expenditure of substantial resources. Any failure by us to obtain, or any delay in obtaining regulatory approvals would materially adversely affect our product development efforts and our business overall. Accordingly, we cannot currently estimate, with any degree of certainty, the amount of time or money that we will be required to expend in the future on our product candidates prior to their regulatory approval, if such approval is ever granted. As a result of these uncertainties surrounding the timing and outcome of our clinical trials, we are currently unable to estimate when, if ever, our product candidates that have advanced into clinical testing will generate revenues and cash flows.

We do not track our research and development costs by project. Since we use our research and development resources across multiple research and development projects, we manage our research and development expenses within each of the categories listed in the following table and described in more detail below (in thousands):

Research and Development Expense	Three Months Ended March 31,	
	2013	2012
Research	\$ 4,369	\$ 4,070
Preclinical and Clinical Testing	6,395	5,665
Process and Product Development	1,938	1,736
Manufacturing Operations	8,616	5,462
Total Research and Development Expense	\$ 21,318	\$ 16,933

Research: Research includes expenses primarily associated with activities to identify and evaluate new targets and to develop and evaluate new antibodies, linkers and cytotoxic agents for our products and in support of our collaborators. Such expenses primarily include personnel, contract services, facilities and lab supplies. Research expenses for the three months ended March 31, 2013 increased \$299,000 compared to the three months ended March 31, 2012. This increase is primarily the result of an increase in salaries and related expenses. We expect research expenses for fiscal 2013 to be marginally higher than fiscal 2012.

Preclinical and Clinical Testing: Preclinical and clinical testing includes expenses related to preclinical testing of our own and, in certain instances, our collaborators' product candidates, regulatory activities, and the cost of our own clinical trials. Such expenses include personnel, patient enrollment at our clinical testing sites, consultant fees, contract services, and facility expenses. Preclinical and clinical testing expenses for the three months ended March 31, 2013 increased \$730,000 to \$6.4 million compared to \$5.7 million for the three months ended March 31, 2012. This increase is primarily the result of an increase in salaries and related expenses and an increase in clinical trial costs due primarily to increased costs incurred for the IMGN529 trial, as well as the IMGN853 trial which initiated patient enrollment in the first quarter of fiscal 2013. Partially offsetting these increases, contract service expense decreased related to less cost for *in vivo* studies conducted during the current period related to IMGN289, a potential new linker and a cytotoxic agent than incurred during the prior period. We expect preclinical and clinical testing expenses for fiscal 2013 to be significantly higher than fiscal 2012 due to increased activities to advance our wholly owned product candidates.

Process and Product Development: Process and product development expenses include costs for development of clinical and commercial manufacturing processes for our own and collaborator compounds. Such expenses include the costs of personnel, contract services and facility expenses. For the three months ended March 31, 2013, total development expenses increased \$202,000 compared to the three months ended March 31, 2012. This increase is primarily the result of an increase in salaries and related expenses. We expect process and product development expenses for fiscal 2013 to be marginally higher than fiscal 2012.

Manufacturing Operations: Manufacturing operations expense includes costs to manufacture preclinical and clinical materials for our own and our collaborator's product candidates, and quality control and quality assurance activities and costs to support the operation and maintenance of our conjugate manufacturing facility. Such expenses include personnel, raw materials for our and our collaborators' preclinical studies and clinical trials, development costs with contract manufacturing organizations, manufacturing supplies, and facilities expense. For the three months ended March 31, 2013, manufacturing operations expense increased \$3.1 million to \$8.6 million compared to \$5.5 million in the same period last year. The increase in the three months ended March 31, 2013 as compared to the three months ended March 31, 2012 is primarily the result of (i) an increase in antibody development and supply expense driven primarily by timing of supply required for our IMGN853 program; (ii) an increase in salaries and related expenses; and (iii) a decrease in overhead utilization absorbed by the manufacture of clinical materials on behalf of our

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collaborators. Partially offsetting these increases, contract service expense decreased due primarily to decreased third-party quality assurance support activities and decreased linker development activities and cost of clinical materials revenue decreased due to decreased sales of such clinical materials to our partners. We expect manufacturing operations expense for fiscal 2013 to be significantly higher than fiscal 2012 due primarily to increased third-party costs to produce finished drug product for clinical use.

General and Administrative Expenses

General and administrative expenses for the three months ended March 31, 2013 decreased \$26,000 from the three months ended March 31, 2012. This decrease is primarily due to a decrease in professional service fees, particularly patent expenses and consulting fees, partially offset by an increase in salaries and related expenses, particularly stock compensation cost. We expect general and administrative expenses for fiscal 2013 to be marginally higher than fiscal 2012.

Other (Expense) Income, net

Other (expense) income, net for the three months ended March 31, 2013 and 2012 is included in the following table (in thousands):

	Three Months Ended March 31,			
	2013		2012	
Other (Expense) Income, net				
Interest Income	\$	27	\$	18
Other (Expense) Income, net		(66)		15
Total Other (Expense) Income, net	\$	(39)	\$	33

Comparison of Nine Months ended March 31, 2013 and 2012

Revenues

Our total revenues for the nine months ended March 31, 2013 and 2012 were \$31.7 million and \$13.4 million, respectively. The \$18.3 million increase in revenues in the nine months ended March 31, 2013 from the same period in the prior year is attributable to an increase in research and development support revenue, license and milestone fees and clinical materials revenue, all of which are discussed below.

Research and development support revenue was \$5.7 million for the nine months ended March 31, 2013 compared with \$3.3 for the nine months ended March 31, 2012. These amounts primarily represent research funding earned based on actual resources utilized under our agreements with our collaborators shown in the table below. Also included in research and development support revenue are fees for developing antibody-specific conjugation processes on behalf of our collaborators and potential collaborators during the early evaluation and preclinical testing stages of drug development. The amount of research and development support revenue we earn is directly related to the number of our collaborators and potential collaborators, the stage of development of our collaborators' product candidates and the resources our collaborators

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allocate to the development effort. As such, the amount of research and development support revenue may vary widely from quarter to quarter and year to year. Total revenue recognized from research and development support from each of our collaborative partners in the nine-month periods ended March 31, 2013 and 2012 is included in the following table (in thousands):

Research and Development Support	Nine Months Ended March 31,	
	2013	2012
Collaborative Partner:		
Amgen	\$ 339	\$ 818
Biotest	705	436
Lilly	583	171
Novartis	3,934	1,867
Other	109	41
Total	\$ 5,670	\$ 3,333

Revenues from license and milestone fees for the nine months ended March 31, 2013 increased \$15.2 million to \$23.4 million from \$8.2 million in the same period ended March 31, 2012. Included in license and milestone fees for the nine months ended March 31, 2013 was a \$10.5 million regulatory milestone achieved under our collaboration agreement with Roche and \$11.1 million of license revenue earned upon the execution of a development and commercialization license by Novartis. Included in license and milestone fees for the nine months ended March 31, 2012 was a \$3 million milestone payment related to the initiation of Phase II clinical testing of SAR3419 achieved under our collaboration agreement with Sanofi and two \$1 million milestone payments related to Phase I clinical testing of AMG595 and AMG172 achieved under our license agreements with Amgen. The amount of license and

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milestone fees we earn is directly related to the number of our collaborators and potential collaborators, the collaborators' advancement of the product candidates, and the overall success in the clinical trials of the product candidates. As such, the amount of license and milestone fees may vary widely from quarter to quarter and year to year. Total revenue from license and milestone fees recognized from each of our collaborative partners in the nine-month periods ended March 31, 2013 and 2012 is included in the following table (in thousands):

License and Milestone Fees	Nine Months Ended March 31,	
	2013	2012
Collaborative Partner:		
Amgen	\$ 742	\$ 2,879
Bayer HealthCare	521	1,318
Biogen Idec		270
Biotest	19	97
Centocor		19
Novartis	11,090	
Sanofi	500	3,628
Roche	10,500	
Total	\$ 23,372	\$ 8,211

Clinical materials revenue increased \$801,000 in the nine months ended March 31, 2013, to \$2.7 million from \$1.9 million in the nine months ended March 31, 2012. We are compensated at negotiated prices which are generally consistent with what other third-parties would charge. The amount of clinical materials revenue we earn, and the related cost of clinical materials charged to research and development expense, is directly related to the number of clinical trials our collaborators are preparing or have underway, the speed of enrollment in those trials, the dosage schedule of each clinical trial and the time period, if any, during which patients in the trial receive clinical benefit from the clinical materials, and the supply of clinical-grade material to our collaborators for process development and analytical purposes. As such, the amount of clinical materials revenue and the related cost of clinical materials charged to research and development expense may vary significantly from quarter to quarter and year to year.

Research and Development Expenses

Research and development expense for the nine months ended March 31, 2013 increased \$17.0 million to \$66.7 million from \$49.7 million for the nine months ended March 31, 2012. The increase was primarily due to (i) increased antibody development and supply expenses; (ii) increased clinical trial costs; (iii) decreased overhead utilization absorbed by the manufacture of clinical materials on behalf of our collaborators; and (vi) increased salaries and related expenses due primarily to additional headcount, increased bonus compensation, increased health insurance costs and higher stock compensation cost. A more detailed discussion of research and development expense in the period follows.

We are unable to accurately estimate which potential product candidates, if any, will eventually move into our internal preclinical research program. We are unable to reliably estimate the costs to develop these products as a result of the uncertainties related to discovery research efforts as well as preclinical and clinical testing. Our decision to move a product candidate into the clinical development phase is predicated upon the results of preclinical tests. We cannot accurately predict which, if any, of the discovery stage product candidates will advance from preclinical testing and move into our internal clinical development program. The clinical trial and regulatory approval processes for our product candidates that have advanced or that we intend to advance to clinical testing are lengthy, expensive and uncertain in both timing and outcome. As a result, the pace and timing of the clinical development of our product candidates is highly uncertain and may not ever result in approved products. Completion dates and development costs will vary significantly for each product candidate and are difficult to predict. A variety of factors, many of which are outside our control, could cause or contribute to the prevention or delay of the successful completion of our clinical trials, or delay or prevent our obtaining necessary regulatory approvals. The costs to take a product through clinical trials are dependent upon,

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among other factors, the clinical indications, the timing, size and design of each clinical trial, the number of patients enrolled in each trial, and the speed at which patients are enrolled and treated. Product candidates may be found to be ineffective or to cause unacceptable side effects during clinical trials, may take longer to progress through clinical trials than anticipated may fail to receive necessary regulatory approvals or may prove impractical to manufacture in commercial quantities at reasonable cost or with acceptable quality.

The lengthy process of securing FDA approvals for new drugs requires the expenditure of substantial resources. Any failure by us to obtain, or any delay in obtaining regulatory approvals would materially adversely affect our product development efforts and our business overall. Accordingly, we cannot currently estimate, with any degree of certainty, the amount of time or money that we will be required to expend in the future on our product candidates prior to their regulatory approval, if such approval is ever granted. As a result of these uncertainties surrounding the timing and outcome of our clinical trials, we are currently unable to estimate when, if ever, our product candidates that have advanced into clinical testing will generate revenues and cash flows.

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We do not track our research and development costs by project. Since we use our research and development resources across multiple research and development projects, we manage our research and development expenses within each of the categories listed in the following table and described in more detail below (in thousands):

Research and Development Expense	Nine Months Ended March 31,	
	2013	2012
Research	\$ 12,958	\$ 12,458
Preclinical and Clinical Testing	20,244	15,538
Process and Product Development	5,774	5,303
Manufacturing Operations	27,698	16,354
Total Research and Development Expense	\$ 66,674	\$ 49,653

Research: Research includes expenses primarily associated with activities to identify and evaluate new targets and to develop and evaluate new antibodies, linkers and cytotoxic agents for our products and in support of our collaborators. Such expenses primarily include personnel, contract services, facilities and lab supplies. Research expenses for the nine months ended March 31, 2013 increased \$500,000 compared to the nine months ended March 31, 2012. This increase is primarily the result of an increase in salaries and related expenses. We expect research expenses for fiscal 2013 to be marginally higher than fiscal 2012.

Preclinical and Clinical Testing: Preclinical and clinical testing includes expenses related to preclinical testing of our own and, in certain instances, our collaborators' product candidates, regulatory activities, and the cost of our own clinical trials. Such expenses include personnel, patient enrollment at our clinical testing sites, consultant fees, contract services, and facility expenses. Preclinical and clinical testing expenses for the nine months ended March 31, 2013 increased \$4.7 million to \$20.2 million compared to \$15.5 million for the nine months ended March 31, 2012. This increase is primarily the result of an increase in clinical trial costs due primarily to site expansion and higher patient enrollment for the IMGN901 007 study, increased costs incurred for the IMGN853 trial which was initiated during the second half of fiscal 2012, and data management costs incurred to finalize the IMGN388 study, as well as an increase in salaries and related expenses. We expect preclinical and clinical testing expenses for fiscal 2013 to be significantly higher than fiscal 2012 due to increased activities to advance our wholly owned product candidates.

Process and Product Development: Process and product development expenses include costs for development of clinical and commercial manufacturing processes for our own and collaborator compounds. Such expenses include the costs of personnel, contract services and facility expenses. For the nine months ended March 31, 2013, total development expenses increased \$471,000 compared to the nine months ended March 31, 2012. This increase is primarily the result of an increase in salaries and related expenses. We expect process and product development expenses for fiscal 2013 to be marginally higher than fiscal 2012.

Manufacturing Operations: Manufacturing operations expense includes costs to manufacture preclinical and clinical materials for our own and our collaborators' product candidates, and quality control and quality assurance activities and costs to support the operation and maintenance of our conjugate manufacturing facility. Such expenses include personnel, raw materials for our and our collaborators' preclinical studies and clinical trials, development costs with contract manufacturing organizations, manufacturing supplies, and facilities expense. For the nine months ended March 31, 2013, manufacturing operations expense increased \$11.3 million to \$27.7 million compared to \$16.4 million in the same period last year. The increase in the nine months ended March 31, 2013 as compared to the nine months ended March 31, 2012 is primarily the result of (i) an increase in antibody development and supply expense driven by our IMGN901, IMGN853, IMGN529 and IMGN289 programs; (ii) a decrease in overhead utilization absorbed by the manufacture of clinical materials on behalf of our collaborators; (iii) an increase in salaries and related expenses; and (iv) an increase in fill/finish costs driven by increased activities performed for our internal programs. We expect manufacturing operations expense for fiscal 2013 to be significantly higher than fiscal 2012 due primarily to increased third-party costs to produce finished drug product for clinical use.

General and Administrative Expenses

General and administrative expenses for the nine months ended March 31, 2013 increased \$1.4 million to \$16.1 million compared to \$14.7 million for the nine months ended March 31, 2012. This increase is primarily due to an increase in salaries and related expenses, particularly stock compensation cost, and an increase in patent expenses. We expect general and administrative expenses for fiscal 2013 to be marginally higher than fiscal 2012.

Other (Expense) Income, net

Other (expense) income, net for the nine months ended March 31, 2013 and 2012 is included in the following table (in thousands):

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Other (Expense) Income, net	Nine Months Ended March 31,			
	2013		2012	
Interest Income	\$	112	\$	40
Other Income (Expense), net		20		(1)
Total Other (Expense) Income, net	\$	132	\$	39

LIQUIDITY AND CAPITAL RESOURCES

	March 31, 2013	June 30, 2012
(In thousands)		
Cash and cash equivalents	\$ 206,103	\$ 160,938
Working capital	198,893	150,016
Shareholders' equity	139,002	83,890

	Nine Months Ended March 31,	
	2013	2012
(In thousands)		
Cash used for operating activities	\$ (48,687)	\$ (18,115)
Cash used for investing activities	(2,357)	(1,838)
Cash provided by financing activities	96,209	4,007

Cash Flows

We require cash to fund our operating expenses, including the advancement of our own clinical programs, and to make capital expenditures. Historically, we have funded our cash requirements primarily through equity financings in public markets and payments from our collaborators, including equity investments, license fees, milestones and research funding. As of March 31, 2013, we had approximately \$206.1 million in cash and cash equivalents. Net cash used for operations was \$48.7 million and \$18.1 million for the nine months ended March 31, 2013 and 2012, respectively. The principal use of cash in operating activities for all periods presented was to fund our net loss.

Net cash used for investing activities was \$2.4 million and \$1.8 million for the nine months ended March 31, 2013 and 2012, respectively, and primarily represents cash outflows for capital expenditures. Capital expenditures, primarily for the purchase of new equipment and leasehold improvements, were \$2.4 million and \$1.8 million for the nine-month periods ended March 31, 2013 and 2012, respectively.

Net cash provided by financing activities was \$96.2 million and \$4.0 million for the nine months ended March 31, 2013 and 2012, respectively, which represents proceeds from the exercise of approximately 378,000 and 863,000 stock options, respectively. Also, pursuant to a public offering in the current period, we issued and sold 6,250,000 shares of our common stock resulting in net proceeds of \$94.0 million.

We anticipate that our current capital resources and expected future collaborator payments under existing collaborations will enable us to meet our operational expenses and capital expenditures through fiscal year 2015. However, we cannot provide assurance that such future collaborative agreement funding will, in fact, be received. Should we or our partners not meet some or all of the terms and conditions of our various

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collaboration agreements, we may be required to pursue additional strategic partners, secure alternative financing arrangements, and/or defer or limit some or all of our research, development and/or clinical projects.

Contractual Obligations

We are contractually obligated to make potential future success-based regulatory milestone payments in conjunction with certain collaborative agreements. These payments are contingent upon the occurrence of certain future events and, given the nature of these events, it is unclear when, if ever, we may be required to pay such amounts. Further, the timing of any future payment is not reasonably estimable. During the current period, our license agreement with Janssen Biotech was terminated and, accordingly, we are no longer obligated to make \$41.0 million of potential future success-based milestone and third-party payments under such agreement. As of March 31, 2013, the maximum amount that may be payable in the future under our current collaborative agreements is approximately \$2.0 million, \$1.4 million of which is reimbursable by a third party under a separate agreement.

There have been no other material changes to our contractual obligations during the current period from those disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2012.

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Forward-Looking Statements

This quarterly report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to analyses and other information which are based on forecasts of future results and estimates of amounts that are not yet determinable. There are a number of factors that could cause actual events or results to be significantly different from those described in the forward-looking statements. Forward-looking statements might include, but are not limited to, one or more of the following subjects:

- future products revenues, expenses, liquidity and cash needs;
- anticipated agreements with collaboration partners;
- anticipated clinical trial timelines or results;
- anticipated research and product development results;
- projected regulatory timelines;
- descriptions of plans or objectives of management for future operations, products or services;
- forecasts of future economic performance; and
- descriptions or assumptions underlying or relating to any of the above items.

Forward-looking statements can be identified by the fact that they do not relate to historical or current facts. They use words such as anticipate, estimate, expect, project, intend, opportunity, plan, potential, believe or words of similar meaning. They may also use words such as should, could or may. Given these uncertainties, you should not place undue reliance on these forward-looking statements, which speak only as of the date of this report. You should review carefully the risks and uncertainties identified in this Quarterly Report on Form 10-Q, including the cautionary information set forth under Part II, Item 1A., Risk Factors, and our Annual Report on Form 10-K for the year ended June 30, 2012. We may not revise these forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

OFF-BALANCE SHEET ARRANGEMENTS

None.

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ITEM 3. *Quantitative and Qualitative Disclosure about Market Risk*

Our market risks, and the ways we manage them, are summarized in Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" of our Annual Report on Form 10-K for the fiscal year ended June 30, 2012. Since then there have been no material changes to our market risks or to our management of such risks.

ITEM 4. *Controls and Procedures*

(a) *Disclosure Controls and Procedures*

The Company's management, with the participation of its principal executive officer and principal financial officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, the Company's principal executive officer and principal financial officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were adequate and effective.

(b) *Changes in Internal Controls*

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1A. *Risk Factors*

You should carefully review and consider the information regarding certain factors that could materially affect our business, financial condition or future results set forth under Item 1A. (Risk Factors) in our Annual Report on Form 10-K for the fiscal year ended June 30, 2012. In addition to the factors disclosed in our 2012 Annual Report on Form 10-K, please note the following additional risk factors:

Our revenues and operating results will likely fluctuate and may become more difficult to forecast in future periods.

On February 22, 2013, the FDA granted marketing approval to Kadcyla. Kadcyla was developed by Genentech (a member of the Roche group) under a license we granted to Genentech in May 2000, pursuant to which we are entitled to receive milestone payments plus royalties on commercial sales of Kadcyla. Roche and its affiliates have also applied for marketing approval of Kadcyla in Europe and Japan. As a result of the start of commercialization of Kadcyla in the U.S. and the possible marketing approvals elsewhere, we expect an increasing proportion of our revenue and operating results to derive from royalties based on the commercial sales of Kadcyla. These royalty revenues may fluctuate considerably because they depend upon, among other things, the rate of growth of sales of Kadcyla as well as the mix of U.S.-based sales and ex-U.S.-based sales. Kadcyla is currently the only product with respect to which we are entitled to receive royalties that has received marketing approval.

The Genentech agreement provides for separate tiered royalty structures with respect to sales in two territories: 1) the U.S. and 2) the rest of the world. The royalty rate Genentech must pay on sales in each of these two territories increases on incremental sales in a given calendar year in the applicable territory above certain net sales thresholds. As a result of the tiered royalty structure, Genentech's average royalty rate should increase over the course of a calendar year as more Kadcyla is sold in that year. However, we recognize royalty revenues in the quarter in which they are received, which are based on Kadcyla sales in the preceding quarter. Accordingly, we anticipate that the average royalty rate for payments we receive from Genentech will generally increase between the second quarter of one calendar year (our fourth fiscal quarter) and the first calendar quarter of the next (our third quarter of the next fiscal year).

We depend on our collaborative partners for the determination of royalty payments. We may not be able to detect errors and payment calculations may call for retroactive adjustments.

The royalty payments we receive are determined by our collaborative partners based on their reported sales. Each collaborative partner's calculation of the royalty payments is subject to and dependent upon the adequacy and accuracy of its sales and accounting functions, and errors may occur from time to time in the calculations made by a collaborative partner. Our agreement with Genentech provides us the right to audit the calculations and sales data for the associated royalty payments; however, such audits may occur many months following our recognition of the royalty revenue, may require us to adjust our royalty revenues in later periods and generally require expense on our part.

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ITEM 6. Exhibits

Exhibit No.	Description
10.1*	First Amendment, effective as of March 29, 2013, to Multi-Target Agreement by and between the Registrant and Novartis Institutes for BioMedical Research, Inc.
31.1	Certification of Principal Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certifications of Principal Executive Officer and Principal Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* Portions of this Exhibit were omitted, as indicated by [***], and have been filed separately with the Secretary of the Commission pursuant to the Registrant's application requesting confidential treatment.

Furnished, not filed.

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SIGNATURES

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

ImmunoGen, Inc.

Date: May 6, 2013

By:

/s/ Daniel M. Junius
Daniel M. Junius
President, Chief Executive Officer(Principal
Executive Officer)

Date: May 6, 2013

By:

/s/ Gregory D. Perry
Gregory D. Perry
Executive Vice President, Chief Financial
Officer(Principal Financial and Accounting
Officer)