IMMUNOGEN INC
Form 10-Q
October 31, 2011
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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 September 30, 2011**

**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.

| **Massachusetts** | **04-2726691** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (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. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o 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 o | Accelerated filer x |
| Non-accelerated filer o | Smaller reporting company o |
| (Do not check if a smaller reporting company) | |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x 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: 76,435,916 shares outstanding as of October 25, 2011.

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**IMMUNOGEN, INC.**

**FORM 10-Q**

**FOR THE QUARTER ENDED SEPTEMBER 30, 2011**

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**ITEM 1.** ***Financial Statements***

**IMMUNOGEN, INC.**

**CONSOLIDATED BALANCE SHEETS**

**(UNAUDITED)**

**In thousands, except per share amounts**

| | September 30, 2011 | June 30, 2011 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 179,765 | $ 191,206 |
| Accounts receivable | 1 | 4,668 |
| Unbilled revenue | 1,098 | 1,488 |
| Inventory | 1,147 | 480 |
| Restricted cash | 319 | 1,019 |
| Prepaid and other current assets | 1,279 | 2,664 |
| Total current assets | 183,609 | 201,525 |
| | | |
| Property and equipment, net of accumulated depreciation | 12,805 | 13,409 |
| Long-term restricted cash | 2,549 | 2,549 |
| Other assets | 141 | 158 |
| | | |
| Total assets | $ 199,104 | $ 217,641 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | |
| Accounts payable | $ 2,850 | $ 3,213 |
| Accrued compensation | 2,306 | 4,723 |
| Other accrued liabilities | 3,236 | 3,305 |
| Current portion of deferred lease incentive | 979 | 979 |
| Current portion of deferred revenue | 3,848 | 2,346 |
| Total current liabilities | 13,219 | 14,566 |
| | | |
| Deferred lease incentive, net of current portion | 7,339 | 7,583 |
| Deferred revenue, net of current portion | 50,856 | 51,545 |
| Other long-term liabilities | 3,919 | 3,978 |
| Total liabilities | 75,333 | 77,672 |
| 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 100,000 shares; issued and outstanding 76,422 and 76,281 shares as of September 30, 2011 and June 30, 2011, respectively | 764 | 763 |
| Additional paid-in capital | 573,127 | 569,843 |
| Accumulated deficit | (450,120) | (430,637) |
| Total shareholders equity | 123,771 | 139,969 |
| Total liabilities and shareholders equity | $ 199,104 | $ 217,641 |

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

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**IMMUNOGEN, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(UNAUDITED)**

**In thousands, except per share amounts**

| | Three Months Ended September 30, | |
|---|---|---|
| | **2011** | **2010** |
| Revenues: | | |
| Research and development support | $ 1,068 | $ 1,495 |
| License and milestone fees | 1,187 | 1,810 |
| Clinical materials reimbursement | 281 | 106 |
| Total revenues | 2,536 | 3,411 |
| Operating Expenses: | | |
| Research and development | 17,161 | 13,425 |
| General and administrative | 4,841 | 3,364 |
| Total operating expenses | 22,002 | 16,789 |
| Loss from operations | (19,466) | (13,378) |
| Other (expense) income, net | (17) | 490 |
| Loss before provision for income taxes | (19,483) | (12,888) |
| Provision for income taxes | | |
| Net loss | $ (19,483) | $ (12,888) |
| Basic and diluted net loss per common share | $ (0.26) | $ (0.19) |
| Basic and diluted weighted average common shares outstanding | 76,364 | 67,944 |

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**

| | Three Months ended September 30, | |
|---|---|---|
| | **2011** | **2010** |
| Cash flows from operating activities: | | |
| Net loss | $ (19,483) | $ (12,888) |
| Adjustments to reconcile net loss to net cash used for operating activities: | | |
| Depreciation and amortization | 1,163 | 1,178 |
| (Gain) loss on sale/disposal of fixed assets | (5) | 2 |
| Amortization of deferred lease incentive | (244) | (245) |
| Gain on sale of marketable securities | | (341) |
| Loss (gain) on forward contracts | 44 | (146) |
| Stock and deferred share unit compensation | 2,568 | 1,478 |
| Deferred rent | (27) | 8 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 4,667 | (112) |
| Unbilled revenue | 390 | (146) |
| Inventory | (667) | (258) |
| Prepaid and other current assets | 1,374 | 513 |
| Restricted cash | 700 | 255 |
| Other assets | 17 | 34 |
| Accounts payable | (363) | (1,972) |
| Accrued compensation | (2,417) | (2,364) |
| Other accrued liabilities | (95) | (236) |
| Deferred revenue | 813 | (43) |
| Net cash used for operating activities | (11,565) | (15,283) |
| | | |
| Cash flows from investing activities: | | |
| Proceeds from maturities or sales of marketable securities | | 1,201 |
| Purchases of property and equipment, net | (554) | (348) |
| (Payments) proceeds from settlement of forward contracts | (38) | 96 |
| Net cash (used for) provided by investing activities | (592) | 949 |
| | | |
| Cash flows from financing activities: | | |
| Proceeds from stock options exercised | 716 | 120 |
| Net cash provided by financing activities | 716 | 120 |
| | | |
| Net change in cash and cash equivalents | (11,441) | (14,214) |
| | | |
| Cash and cash equivalents, beginning balance | 191,206 | 109,156 |
| | | |
| Cash and cash equivalents, ending balance | $ 179,765 | $ 94,942 |

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

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**IMMUNOGEN, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2011**

## A. Summary of Significant Accounting Policies

*Basis of Presentation*

The accompanying unaudited consolidated financial statements at September 30, 2011 and June 30, 2011 and for the three months ended September 30, 2011 and 2010 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, 2011.

*Subsequent Events*

The Company has evaluated all events or transactions that occurred after September 30, 2011 up through the date the Company issued these financial statements. In October 2011, pursuant to the Company s broad collaboration agreement with Sanofi, the Company recognized a $3 million milestone fee related to the initiation of Phase II clinical testing of SAR3419. The Company did not have any other material recognizable or unrecognizable subsequent events during this period.

*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 TAP technology, (ii) rights to future technological improvements, (iii) research activities to be performed on behalf of the collaborative partner, and (iv) the manufacture of preclinical or clinical materials for the collaborative partner. Payments to the Company under these agreements may include non-refundable 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 ASU No. 2010-17, Revenue Recognition Milestone Method, in accounting for

these agreements. Effective July 1, 2010, the Company adopted Accounting Standards Update (ASU) No. 2009-13, Multiple-Deliverable Revenue Arrangements , which amended FASB ASC Topic 605-25. 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 criteria are met, including whether the delivered element has standalone 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 September 30, 2011, the Company had the following two types of agreements with the parties identified below:

- 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 (exclusive licenses):

Amgen (two single-target licenses)

Bayer HealthCare (one single-target license)

Biotest (one single-target license)

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 a limited number of targets on established terms (broad option agreement):

Amgen

Sanofi

Novartis

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

Exclusive Licenses

The deliverables under an exclusive license agreement generally include the exclusive 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, exclusive 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 which are reimbursed at a contractually determined rate, (ii) at the collaborator s request, manufacture and provide to them preclinical and clinical materials which are reimbursed at the Company s cost, or, in some cases, cost plus a margin, (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. 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 exclusive license has standalone 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 standalone value. 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. The Company s employees are generally available to assist its collaborators during the development of their products. The Company generally estimates this development phase to 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 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.

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Upfront payments on single-target licenses may be recognized upon delivery of the license if facts and circumstances dictate that the license has standalone value from the undelivered elements, which generally include rights to future technological improvements, research services 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 period that the rights will be in force.

The Company may also produce preclinical and clinical materials for its collaborators. The Company is reimbursed for its direct costs and a portion of its overhead costs to produce clinical materials. The Company recognizes revenue 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.

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. Generally, the Company is reimbursed for certain of its direct and overhead costs of producing these materials or providing these services. The Company records the amounts received for the preclinical 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 reimbursed for certain of its direct and overhead costs 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 fees which generally meet the criteria of ASU No. 2010-17, Revenue Recognition Milestone Method, and accordingly, revenue is recognized when such milestones are achieved. For the Company s existing licensing agreements in which the Company is involved in the discovery, development and/or manufacturing of the related drug or provides the partner with ongoing access to new technologies the Company discovers, the Company determined all future milestones are substantive. For those agreements that do not meet the above criteria, the Company does not consider the future milestones to be substantive.

Broad Option Agreements

The accounting for broad option agreements is dependent on the nature of the option granted to the collaborative partner. For broad option agreements where the option to secure a development and commercialization license to the Company s TAP technology is considered substantive, the Company defers upfront payments received and recognizes this revenue over the period during which the collaborator could elect to take an option for a development and commercialization license. 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 to 18 months. If a collaborator exercises an option and the Company grants a single target development and commercialization license to the collaborator, the Company accounts for any license fee as it would an upfront payment on a single target license, as discussed above. Upon exercise of an option to acquire a development and commercialization license, the Company would also recognize any remaining deferred option fee or exercise fee as it would an upfront payment on a single target license as discussed above. In the event a broad option/research 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. The Company recognizes revenue related to research activities 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.

For broad option agreements where the option to secure a development and commercialization license to the Company s TAP technology is not considered substantive, the Company accounts for any fees received as it would an upfront payment on a single target license, as discussed above.

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

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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 September 30, 2011, 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 September 30, 2011 (in thousands):

| | Total | Fair Value Measurements at September 30, 2011 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 | $ 182,633 | $ 182,633 | $ | $ |

As of June 30, 2011, 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, 2011 (in thousands):

| | Total | Fair Value Measurements at June 30, 2011 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 | $ 194,744 | $ 194,744 | $ | $ |

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

The carrying amounts reflected in the consolidated balance sheets for accounts receivable, unbilled revenue, prepaid and other current assets, accounts payable, accrued compensation, and other accrued liabilities approximate fair value due to their short-term nature.

*Unbilled Revenue*

The majority of the Company s unbilled revenue at September 30, 2011 and June 30, 2011 represents research funding earned 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 September 30, 2011 and June 30, 2011 is summarized below (in thousands):

| | September 30, 2011 | June 30, 2011 |
|---|---|---|
| Raw materials | $ 543 | $ 480 |
| Work in process | 604 | |
| Total | $ 1,147 | $ 480 |

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Raw materials inventory consists entirely of DM1 or DM4 , our proprietary cell-killing agents, which are included in all Targeted Antibody Payload, or TAP, product candidates currently in preclinical and clinical testing with our collaborators. 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 $748,000 of expense related to excess inventory during the three-month period ended September 30, 2011. There were no expenses recorded for excess inventory during the same period last year.

*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 accounting method, are shown in the following table (in thousands):

| | Three Months Ended September 30, | |
|---|---|---|
| | **2011** | **2010** |
| Options outstanding to purchase common stock | 7,762 | 7,334 |
| Common stock equivalents under treasury stock method | 2,743 | 1,710 |

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.

*Comprehensive Loss*

For the three months ended September 30, 2011 and 2010, total comprehensive loss equaled $19.5 million and $13.2 million, respectively. Comprehensive loss is comprised of the Company s net loss for the period and unrealized gains and losses recognized on available-for-sale marketable securities.

*Stock-Based Compensation*

As of September 30, 2011, 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. The 2006 Plan provides for the issuance of Stock Grants, the grant of Options and the grant of Stock-Based Awards for up to 8,500,000 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.

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 of the stock options.

| | Three Months Ended September 30, | |
|---|---|---|
| | **2011** | **2010** |
| Dividend | None | None |
| Volatility | 59.79% | 58.40% |
| Risk-free interest rate | 2.25% | 2.42% |
| Expected life (years) | 7.1 | 7.1 |

Using the Black-Scholes option-pricing model, the weighted average grant date fair values of options granted during the three months ended September 30, 2011 and 2010 were $9.15 and $5.46 per share, respectively.

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Stock compensation expense related to stock options granted under the 2006 Plan was $2.5 million and $1.4 million during the three months ended September 30, 2011 and 2010, respectively.

As of September 30, 2011, the estimated fair value of unvested employee awards was $17.9 million, net of estimated forfeitures. The weighted-average remaining vesting period for these awards is approximately two and a half years.

During the three months ended September 30, 2011, holders of options issued under the Company s equity plans exercised their rights to acquire an aggregate of approximately 141,000 shares of common stock at prices ranging from $2.91 to $9.88 per share. The total proceeds to the Company from these option exercises were approximately $716,000.

*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.

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 months ended September 30, 2011 and 2010, net (losses) gains recognized on forward contracts were $(44,000) and $146,000, respectively, and are included in the accompanying consolidated statements of operations as other income, net. As of September 30, 2011, the Company had outstanding forward contracts with notional amounts equivalent to approximately $613,000 ( 444,000), all maturing on or before October 7, 2013. As of June 30, 2011, the Company had outstanding forward contracts with notional amounts equivalent to approximately $1.6 million ( 1.1 million). The Company does not anticipate using derivative instruments for any purpose other than hedging exchange rate exposure.

*Segment Information*

During the three months ended September 30, 2011, 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 months ended September 30, 2011 and 2010 are included in the following table:

| | Three Months Ended September 30, | |
|---|---|---|
| **Collaborative Partner:** | **2011** | **2010** |
| Amgen | 26% | 47% |
| Bayer HealthCare | 21% | 7% |
| Biogen Idec | 11% | 1% |
| Novartis | 22% | |
| Sanofi | 12% | 40% |

There were no other customers of the Company with significant revenues in the three months ended September 30, 2011 and 2010.

*Recent Accounting Pronouncements*

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement. This ASU clarifies the concepts related to highest and best use and valuation premise, blockage factors and other premiums and discounts, the fair value measurement of financial instruments held in a portfolio and of those instruments classified as a component of shareholders equity. The guidance

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includes enhanced disclosure requirements about recurring Level 3 fair value measurements, the use of nonfinancial assets, and the level in the fair value hierarchy of assets and liabilities not recorded at fair value. The provisions of this ASU are effective prospectively for interim and annual periods beginning on or after December 15, 2011. Early application is prohibited. The Company does not expect the adoption of these provisions to have a significant impact on our financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income. This ASU intends to enhance comparability and transparency of other comprehensive income components. The guidance provides an option to present total comprehensive income, the components of net income and the components of other comprehensive income in a single continuous statement or two separate but consecutive statements. This ASU eliminates the option to present other comprehensive income components as part of the statement of changes in shareholders equity. The provisions of this ASU will be applied retrospectively for interim and annual periods beginning after December 15, 2011. Early application is permitted. The Company does not expect the adoption of these provisions to have a significant impact on our financial statements.

**B. Collaborative Agreements**

*Sanofi*

In July 2003, the Company entered into a broad collaboration agreement with Sanofi (formerly Aventis) to discover, develop and commercialize antibody-based anticancer therapeutics. The collaboration agreement provides for certain payments based on the achievement of product candidate milestones and royalties on sales of any resulting products, if and when such sales commence. For the targets included in the collaboration at this time, the Company is entitled to milestone payments potentially totaling $21.5 million for each product candidate developed under this agreement. Through September 30, 2011, the Company has earned and received an aggregate of $14 million in milestone payments under this agreement for compounds covered under this agreement now or in the past, including a $1 million milestone payment earned in September 2010 related to the initiation of Phase I clinical testing of SAR566658 which is included in license and milestone fee revenue for the three months ended September 30, 2010. In October 2011, the Company recognized an additional $3 million milestone fee related to the initiation of Phase II clinical testing of SAR3419. At the time of execution of this agreement, 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 this product candidate, these milestones were deemed substantive.

In August 2008, Sanofi exercised its option under a separate 2006 agreement for expanded access to ImmunoGen s TAP technology. The exercise of this option enables Sanofi to evaluate, with certain restrictions, the Company s maytansinoid TAP technology with antibodies to targets that were not included in the existing research collaboration between the companies and to license the exclusive right to use the technology to develop products to specific targets on the terms in the 2006 agreement. ImmunoGen is entitled to earn upfront and milestone payments potentially totaling $32 million per target for each compound developed under the 2006 agreement, as well as royalties on the commercial sales of any resulting products. ImmunoGen also is entitled to manufacturing payments for any materials made on behalf of Sanofi. The Company received $3.5 million with the exercise of this option in August 2008, in addition to the $500,000 ImmunoGen received in December 2006 with the signing of the option agreement. The agreement had a three-year original term from the date of the exercise of the option and was renewed by Sanofi for one additional three-year term by payment of a $2 million fee in August 2011. The Company has deferred the $2 million extension fee and is recognizing this amount as revenue over the three year period during which Sanofi can elect to exercise an option for a development and commercialization license.

*Bayer HealthCare*

In October 2008, the Company entered into a development and license agreement with Bayer HealthCare. The agreement grants Bayer HealthCare exclusive rights to use the Company s maytansinoid TAP technology to develop and commercialize therapeutic compounds to the mesothelin target found on solid tumors. Bayer HealthCare is responsible for the research, development, manufacturing and marketing of any products resulting from the license. The Company received a $4 million upfront payment upon execution of the agreement, and for each compound developed and marketed by Bayer HealthCare under this collaboration the Company could potentially receive up to $170.5 million in milestone payments; additionally, the Company is entitled to receive royalties on the sales of any resulting products. Through September 30, 2011, the Company has earned and received an aggregate of $3 million in milestone payments under this agreement.

The Company had previously deferred the $4 million upfront payment received and was recognizing this amount as revenue ratably over the estimated period of substantial involvement. The Company had previously estimated this development period would conclude at the end of non-pivotal Phase II testing. During the current quarter, Bayer HealthCare initiated Phase I clinical testing of its product candidate. In reaching this stage of clinical testing, Bayer HealthCare developed its own processes for manufacturing required clinical material and produced clinical material in its own manufacturing facility. Considering that Bayer was able to accomplish this without significant reliance on the Company, and considering that the Company s expected future involvement will be primarily supplying Bayer HealthCare with small quantities of cytotoxic agents for a limited period of time, the Company believes its

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period of substantial involvement will end prior to the completion of non-pivotal Phase II testing. As a result of this determination, beginning in September 2011, the Company is recognizing the balance of the upfront payment as revenue ratably through September 2012. This change in estimate results in an increase to license and milestone fees of approximately $122,000 for the quarter ended September 30, 2011 and $1.2 million for the fiscal year ended June 30, 2012 compared to amounts that would have been recognized pursuant to the Company s previous estimate.

Additional information on the agreements the Company has with these companies, as well as other companies, is described elsewhere in this Quarterly Report and in the Company s 2011 Annual Report on Form 10-K.

**C. Capital Stock**

*2001 Non-Employee Director Stock Plan*

During both the three months ended September 30, 2011 and 2010, the Company recorded approximately $(19,000) and $(45,000) in expense reduction, respectively, related to stock units outstanding under the Company s 2001 Non-Employee Director Stock Plan, or the 2001 Plan. 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*

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.

During the three months ended September 30, 2011 and 2010, the Company recorded approximately $84,000 and $81,000 in compensation expense, respectively, related to deferred share units issued and outstanding.

In September 2010, the Board revised the Compensation Policy for Non-Employee Directors to provide that, in addition to the compensation they received previously, they would also become 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 will 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 49,688 options on November 16, 2010, and the related compensation expense is included in the amounts discussed in the Stock-Based Compensation section of footnote A above.

**D. Cash and Cash Equivalents**

As of September 30, 2011 and June 30, 2011, the Company held $179.8 million and $191.2 million, respectively, in cash, U.S. Government treasury bills, 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 an option to extend the term for an additional two years.

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At September 30, 2011, the Company also leases a facility 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.

The minimum rental commitments for both of 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):

| | | |
|---|---|---|
| 2012 (nine months remaining) | $ | 4,419 |
| 2013 | | 5,893 |
| 2014 | | 5,981 |
| 2015 | | 6,181 |
| 2016 | | 6,203 |
| Thereafter | | 22,413 |
| Total minimum lease payments | $ | 51,090 |
| Total minimum rental payments from sublease | | (2,092) |
| Total minimum lease payments, net | $ | 48,998 |

*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. As of September 30, 2011, the maximum amount that may be payable in the future under such arrangements is approximately $43.0 million.

**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, targeted therapeutics 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 a particular 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. Our TAP technology is designed to enable the creation of highly effective, well-tolerated anticancer products. All of our and our collaborative partners TAP compounds currently in preclinical and clinical testing contain either DM1 or DM4 as the cytotoxic agent. Both DM1 and DM4, collectively DMx, are our proprietary derivatives of a naturally occurring substance called maytansine. We also have expertise in antibodies and cancer biology to develop naked, or non-conjugated, antibody anticancer product candidates.

We have entered into collaborative agreements that enable companies to use our TAP technology to develop commercial product candidates to specified targets. We have also used our proprietary TAP technology in conjunction with our in-house antibody expertise to develop our own anticancer product candidates. 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 entitled to research and development funding based on activities performed at our collaborative partner s request. We are reimbursed for our direct and a portion of overhead costs to manufacture preclinical and clinical materials and, under certain collaborative agreements, the reimbursement includes a profit margin. Currently, our collaborative partners are Amgen, Bayer HealthCare, Biotest, 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 2011 Annual Report on Form 10-K

*Sanofi* In July 2003, we entered into a discovery, development and commercialization collaboration with Sanofi. The collaboration agreement provides for certain payments based on the achievement of product candidate milestones and royalties on sales of any resulting products, if and when such sales commence. For the targets included in the collaboration at this time, we are entitled to milestone payments potentially totaling $21.5 million for each product candidate developed under this agreement. Through

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September 30, 2011, we have earned and received an aggregate of $14 million in milestone payments under this agreement for compounds covered under this agreement now or in the past, including a $1 million milestone payment earned in September 2010 related to the initiation of Phase I clinical testing of SAR566658 which is included in license and milestone fee revenue for the three months ended September 30, 2010. In October 2011, we recognized an additional $3 million milestone fee related to the initiation of Phase II clinical testing of SAR3419.

In August 2008, Sanofi exercised its option under a separate 2006 agreement for expanded access to our TAP technology. The exercise of this option enables Sanofi to evaluate, with certain restrictions, our maytansinoid TAP technology with antibodies to targets that were not included in the existing research collaboration between the companies and to license the exclusive right to use the technology to develop products to specific targets on the terms in the 2006 agreement. We are entitled to earn upfront and milestone payments potentially totaling $32 million per target for each compound developed under the 2006 agreement, as well as royalties on the commercial sales of any resulting products. We are also entitled to manufacturing payments for any materials made on behalf of Sanofi. We received $3.5 million with the exercise of this option in August 2008, in addition to the $500,000 ImmunoGen received in December 2006 with the signing of the option agreement. The agreement had a three-year original term from the date of the exercise of the option and was renewed by Sanofi for one additional three-year term by payment of a $2 million fee in August 2011. We have deferred the $2 million extension fee and are recognizing this amount as revenue over the three year period during which Sanofi can elect to exercise an option for a development and commercialization license.

*Bayer HealthCare* In October 2008, we entered into a development and license agreement with Bayer HealthCare. The agreement grants Bayer HealthCare exclusive rights to use our maytansinoid TAP technology to develop and commercialize therapeutic compounds to the mesothelin target found on solid tumors. Bayer HealthCare is responsible for the research, development, manufacturing and marketing of any products resulting from the license. We received a $4 million upfront payment upon execution of the agreement, and for each compound developed and marketed by Bayer HealthCare under this collaboration we could potentially receive up to $170.5 million in milestone payments; additionally, we are entitled to receive royalties on the sales of any resulting products. Through September 30, 2011, we have earned and received an aggregate of $3 million in milestone payments under this agreement.

We had previously deferred the $4 million upfront payment received and were recognizing this amount as revenue ratably over the estimated period of substantial involvement. We had previously estimated this development period would conclude at the end of non-pivotal Phase II testing. During the current quarter, Bayer HealthCare initiated Phase I clinical testing of its product candidate. In reaching this stage of clinical testing, Bayer HealthCare developed its own processes for manufacturing required clinical material and produced clinical material in its own manufacturing facility. Considering that Bayer was able to accomplish this without significant reliance on us, and considering that our expected future involvement will be primarily supplying BayerHealthCare with small quantities of cytotoxic agents for a limited period of time, we believe our period of substantial involvement will end prior to the completion of non-pivotal Phase II testing. As a result of this determination, beginning in September 2011, we are recognizing the balance of the upfront payment as revenue ratably through September 2012. This change in estimate results in an increase to license and milestone fees of approximately $122,000 for the quarter ended September 30, 2011 and $1.2 million for the fiscal year ended June 30, 2012 compared to amounts that would have been recognized pursuant to our previous estimate.

To date, we have not generated revenues from commercial product sales and we expect to incur significant operating losses for the foreseeable future. As of September 30, 2011, we had approximately $179.8 million in cash and cash equivalents compared to $191.2 million in cash, cash equivalents and marketable securities as of June 30, 2011.

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 and inventory. We base our estimates on historical experience and

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various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates.

There were no 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, 2011.

**RESULTS OF OPERATIONS**

***Comparison of Three Months ended September 30, 2011 and 2010***

*Revenues*

Our total revenues for the three months ended September 30, 2011 and 2010 were $2.5 million and $3.4 million, respectively. The $875,000 decrease in revenues in the three months ended September 30, 2011 from the same period in the prior year is attributable to a decrease in license and milestone fees and research and development support revenue, partially offset by an increase in clinical materials reimbursement revenue, all of which are discussed below.

Research and development support revenue was $1.1 million for the three months ended September 30, 2011 compared with $1.5 million for the three months ended September 30, 2010. These amounts primarily represent research funding earned based on actual resources utilized under our agreements with our collaborators shown in the table below. The decreased research and development support fees in the current period compared to the prior year period is primarily due to lower revenues earned under our agreements with Amgen, partially offset by increased revenue earned under our development and collaboration agreement with Novartis. 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 September 30, 2011 and 2010 is included in the following table (in thousands):

| | Three Months Ended September 30, | |
|---|---|---|
| **Research and Development Support** | **2011** | **2010** |
| Collaborative Partner: | | |
| Amgen | $ 340 | $ 1,274 |
| Bayer HealthCare | 6 | 77 |
| Biotest | 144 | 102 |
| Genentech | | 3 |
| Novartis | 568 | |
| Sanofi | 10 | 6 |
| Other | | 33 |
| Total | $ 1,068 | $ 1,495 |

Revenues from license and milestone fees for the three months ended September 30, 2011 decreased $623,000 to $1.2 million from $1.8 million in the same period ended September 30, 2010. During the three-month period ended September 30, 2011, Biogen Idec terminated its exclusive license to our TAP technology to develop and commercialize therapeutic compounds to the target Cripto and as a result, we recognized the remaining $270,000 of the $1 million upfront fee received from Biogen Idec upon execution of the license which had been previously deferred. Included in license and milestone fees for the three months ended September 30, 2010 was a $1 million milestone payment related to the initiation of Phase I clinical testing of SAR566658 achieved under the collaboration agreement with Sanofi. The amount of license and milestone fees we earn is directly related to the number of our collaborators and potential collaborators, the resources our collaborators allocate to the advancement of the product candidates, the number of clinical trials our collaborators conduct and the speed of enrollment and overall success in those trials. 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 September 30, 2011 and 2010 is included in the following table (in thousands):

| | Three Months Ended September 30, | |
|---|---|---|
| **License and Milestone Fees** | **2011** | **2010** |
| Collaborative Partner: | | |
| Amgen | $ 300 | $ 224 |
| Bayer HealthCare | 276 | 154 |
| Biogen Idec | 270 | 21 |
| Biotest | 32 | 32 |
| Centocor | 14 | 20 |
| Sanofi | 295 | 1,359 |
| Total | $ 1,187 | $ 1,810 |

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Deferred revenue of $54.7 million as of September 30, 2011 primarily represents payments received from our collaborators pursuant to our license agreements, including a $45 million upfront payment received from Novartis during fiscal 2011, which we have yet to earn pursuant to our revenue recognition policy.

Clinical materials reimbursement increased $175,000 in the three months ended September 30, 2011, to $281,000 from $106,000 in the three months ended September 30, 2010. We are reimbursed for certain of our direct and overhead costs to produce clinical materials plus, for certain programs, a profit margin. The amount of clinical materials reimbursement 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 reimbursement 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*

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 material.

Research and development expense for the three months ended September 30, 2011 increased $3.8 million to $17.2 million from $13.4 million for the three months ended September 30, 2010. The increase was primarily due to (i) an increase in cost of raw material inventory written off as excess in accordance with our inventory policy; (ii) increased contract service expenses to advance our internal product candidates; and (iii) increased salaries and related expenses due primarily to additional headcount and higher stock compensation cost. The number of our research and development personnel increased to 206 as of September 30, 2011 compared to 180 at September 30, 2010.

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, 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):

| | Three Months Ended September 30, | |
|---|---|---|
| **Research and Development Expense** | **2011** | **2010** |
| Research | $ 4,185 | $ 3,625 |
| Preclinical and Clinical Testing | 4,881 | 3,818 |
| Process and Product Development | 1,798 | 1,614 |
| Manufacturing Operations | 6,297 | 4,368 |
| Total Research and Development Expense | $ 17,161 | $ 13,425 |

*Research:* Research includes expenses 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, fees to in-license certain technology, facilities and lab supplies. Research expenses for the three months ended September 30, 2011 increased $560,000 compared to the three months ended September 30, 2010. This increase is primarily the result of an increase in salaries and related expenses.

*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 September 30, 2011 increased $1.1 million to $4.9 million compared to $3.8 million for the three months ended September 30, 2010. This increase is primarily the result of an increase in salaries and related expenses, an increase in contract service expense and an increase in clinical trial costs.

*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 September 30, 2011, total development expenses increased $184,000 compared to the three months ended September 30, 2010. This increase is primarily the result of an increase in salaries and related expenses.

*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 September 30, 2011, manufacturing operations expense increased $1.9 million to $6.3 million compared to $4.4 million in the same period last year. The increase in the three months ended September 30, 2011 as compared to the three months ended September 30, 2010 is primarily the result of (i) an increase in cost of raw material inventory written off as excess in accordance with our inventory policy; (ii) an increase in antibody development and supply expense; (iii) an increase in contract service expense; and (iv) an increase in salaries and related expenses. Partially offsetting these increases, consulting service expense decreased during the current period and overhead utilization absorbed by the manufacture of clinical materials on behalf of our collaborators increased.

*General and Administrative Expenses*

General and administrative expenses for the three months ended September 30, 2011 increased $1.4 million to $4.8 million compared to $3.4 million for the three months ended September 30, 2010. This increase is primarily due to an increase in salaries and related expenses, an increase in patent expenses and an increase in consulting fees.

*Other (Expense) Income, net*

Other (expense) income, net for the three months ended September 30, 2011 and 2010 is included in the following table (in thousands):

| | Three Months Ended September 30, | |
|---|---|---|
| **Other (Expense) Income, net** | **2011** | **2010** |
| Interest Income | $ 13 | $ 49 |
| Net Realized Gains on Investments | | 341 |
| Other (Expense) Income, net | (30) | 100 |
| Total Other (Expense) Income, net | $ (17) | $ 490 |

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*Net Realized Gains on Investments*

During the three months ended September 30, 2010, we sold the remaining marketable securities held in our investment portfolio at June 30, 2010, resulting in a net realized gain of $341,000.

**LIQUIDITY AND CAPITAL RESOURCES**

| | September 30, 2011 | June 30, 2011 |
|---|---|---|
| | (In thousands) | |
| Cash and cash equivalents | $ 179,765 | $ 191,206 |
| Working capital | 170,390 | 186,959 |
| Shareholders equity | 123,771 | 139,969 |

| | Three Months Ended September 30, | |
|---|---|---|
| | 2011 | 2010 |
| | (In thousands) | |
| Cash used for operating activities | $ (11,565) | $ (15,283) |
| Cash (used for) provided by investing activities | (592) | 949 |
| Cash provided by financing activities | 716 | 120 |

*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 September 30, 2011, we had approximately $179.8 million in cash and cash equivalents. Net cash used for operations was $11.6 million and $15.3 million for the three months ended September 30, 2011 and 2010, respectively. The principal use of cash in operating activities for all periods presented was to fund our net loss.

Net cash (used for) provided by investing activities was $(592,000) and $949,000 for the three months ended September 30, 2011 and 2010, respectively, and primarily represents cash outflows for capital expenditures offset by cash inflows from the sales and maturities of marketable securities. Capital expenditures, primarily for the purchase of new equipment, were $554,000 and $348,000 for the three-month periods ended September 30, 2011 and 2010, respectively.

Net cash provided by financing activities was $716,000 and $120,000 for the three months ended September 30, 2011 and 2010, respectively, which represents proceeds from the exercise of approximately 141,000 and 21,000 stock options, respectively.

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 2014. 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 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*

There have been no other material changes to our contractual obligations outside the ordinary course of business from those disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2011.

*Recent Accounting Pronouncements*

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement. This ASU clarifies the concepts related to highest and best use and valuation premise, blockage factors and other premiums and discounts, the fair value measurement of financial instruments held in a portfolio and of those instruments classified as a component of shareholders equity. The guidance includes enhanced disclosure requirements about recurring Level 3 fair value measurements, the use of nonfinancial assets, and the level in the fair value hierarchy of assets and liabilities not recorded at fair value. The provisions of this ASU are effective

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prospectively for interim and annual periods beginning on or after December 15, 2011. Early application is prohibited. We do not expect the adoption of these provisions to have a significant impact on our financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income. This ASU intends to enhance comparability and transparency of other comprehensive income components. The guidance provides an option to present total comprehensive income, the components of net income and the components of other comprehensive income in a single continuous statement or two separate but consecutive statements. This ASU eliminates the option to present other comprehensive income components as part of the statement of changes in shareholders equity. The provisions of this ASU will be applied retrospectively for interim and annual periods beginning after December 15, 2011. Early application is permitted. We do not expect the adoption of these provisions to have a significant impact on our financial statements.

*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 a 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, 2011. 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.

**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, 2011. 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.

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(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 September 30, 2011 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, 2011. There have been no material changes from the factors disclosed in our 2011 Annual Report on Form 10-K, although we may disclose changes to such factors or disclose additional factors from time to time in our future filings with the Securities and Exchange Commission.

**ITEM 6.** ***Exhibits***

| Exhibit No. | Description |
|---|---|
| 10.1* | License Agreement dated effective May 2, 2000 by and between the Registrant and Genentech, Inc. |
| 10.2* | Option and License Agreement dated September 5, 2000 by and between the Registrant and Amgen Inc. (as successor-in-interest to Abgenix, 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 |

*Furnished, not filed.*

* *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.*

** *Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.*

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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: October 31, 2011 | By: | /s/ Daniel M. Junius<br>Daniel M. Junius<br>President, Chief Executive Officer (Principal Executive Officer) |
| Date: October 31, 2011 | By: | /s/ Gregory D. Perry<br>Gregory D. Perry<br>Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer) |