

IMMUNOGEN INC  
Form 10-Q  
November 04, 2016  
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from            to

Commission file number 0-17999

ImmunoGen, Inc.

Massachusetts

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

Edgar Filing: IMMUNOGEN INC - Form 10-Q

(State or other jurisdiction of incorporation or organization)

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

Smaller reporting company

(Do not check if a smaller reporting company)

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

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

Edgar Filing: IMMUNOGEN INC - Form 10-Q

Shares of common stock, par value \$.01 per share: 87,301,341 shares outstanding as of October 27, 2016.

---

Table of Contents

IMMUNOGEN, INC.

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2016

TABLE OF CONTENTS

Item		Page Number
	Part I	
<u>1.</u>		
<u>1a.</u>	<u>Consolidated Balance Sheets as of September 30, 2016 and June 30, 2016</u>	2
<u>1b.</u>	<u>Consolidated Statements of Operations and Comprehensive Loss for the three months ended September 30, 2016 and 2015</u>	3
<u>1c.</u>	<u>Consolidated Statements of Cash Flows for the three months ended September 30, 2016 and 2015</u>	4
<u>1d.</u>	<u>Notes to Consolidated Financial Statements</u>	5
<u>2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
<u>3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	31
<u>4.</u>	<u>Controls and Procedures</u>	31
	Part II	
<u>1A.</u>	<u>Risk Factors</u>	31
<u>6.</u>	<u>Exhibits</u>	32
	<u>Signatures</u>	33

Table of Contents

## ITEM 1. Financial Statements

IMMUNOGEN, INC.

## CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

In thousands, except per share amounts

	September 30, 2016	June 30, 2016
<b>ASSETS</b>		
Cash and cash equivalents	\$ 196,000	\$ 245,026
Accounts receivable	316	883
Unbilled revenue	1,460	1,409
Inventory	2,027	907
Prepaid and other current assets	7,481	4,881
Total current assets	207,284	253,106
Property and equipment, net of accumulated depreciation	20,931	22,704
Other assets	3,133	3,430
Total assets	\$ 231,348	\$ 279,240
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>		
Accounts payable	\$ 8,973	\$ 11,510
Accrued compensation	6,746	10,724
Other accrued liabilities	10,018	9,713
Current portion of deferred lease incentive	784	772
Current portion of liability related to the sale of future royalties, net of deferred financing costs of \$981 and \$1,000, respectively	16,070	14,138
Current portion of deferred revenue	13,634	13,582
Total current liabilities	56,225	60,439
Deferred lease incentive, net of current portion	6,110	6,236
Deferred revenue, net of current portion	19,162	19,288
Convertible 4.5% senior notes, net of deferred financing costs of \$3,206 and \$3,372, respectively	96,794	96,628
Liability related to the sale of future royalties, net of current portion and deferred financing costs of \$3,237 and \$3,473, respectively	171,492	174,761
Other long-term liabilities	4,103	4,192
Total liabilities	353,886	361,544
Commitments and contingencies (Note H)		
Shareholders' deficit:	—	—

Edgar Filing: IMMUNOGEN INC - Form 10-Q

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 87,314 and 87,209 shares as of September 30, 2016 and June 30, 2016, respectively	873	872
Additional paid-in capital	775,007	770,511
Accumulated deficit	(898,418)	(853,687)
Total shareholders' deficit	(122,538)	(82,304)
Total liabilities and shareholders' deficit	\$ 231,348	\$ 279,240

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

Table of Contents

IMMUNOGEN, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(UNAUDITED)

In thousands, except per share amounts

	Three Months Ended September 30,	
	2016	2015
Revenues:		
License and milestone fees	\$ 76	\$ 6,070
Non-cash royalty revenue related to the sale of future royalties	6,184	5,684
Research and development support	1,354	772
Clinical materials revenue	46	2,325
Total revenues	7,660	14,851
Operating Expenses:		
Research and development	32,909	35,132
General and administrative	9,459	8,329
Restructuring charge	4,130	—
Total operating expenses	46,498	43,461
Loss from operations	(38,838)	(28,610)
Investment income, net	146	51
Non-cash interest expense on liability related to the sale of future royalties and convertible senior notes	(5,018)	(5,143)
Interest expense on convertible senior notes	(1,150)	—
Other income (expense), net	129	(38)
Net loss	\$ (44,731)	\$ (33,740)
Basic and diluted net loss per common share	\$ (0.51)	\$ (0.39)
Basic and diluted weighted average common shares outstanding	87,102	86,838
Total comprehensive loss	\$ (44,731)	\$ (33,740)

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

Table of Contents

IMMUNOGEN, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

In thousands, except per share amounts

	Three Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	\$ (44,731)	\$ (33,740)
Adjustments to reconcile net loss to net cash used for operating activities:		
Non-cash royalty revenue related to sale of future royalties	(6,184)	(5,684)
Non-cash interest expense on liability related to sale of future royalties	5,018	5,143
Depreciation and amortization	1,528	1,127
Loss (gain) on sale/disposal of fixed assets	—	(6)
Impairment charge related to restructuring	970	—
Stock and deferred share unit compensation	4,497	5,783
Deferred rent	63	29
Change in operating assets and liabilities:		
Accounts receivable	567	(1,724)
Unbilled revenue	(51)	(185)
Inventory	(1,120)	1,689
Prepaid and other current assets	(2,600)	95
Other assets	292	62
Accounts payable	(2,120)	1,551
Accrued compensation	(3,978)	(5,084)
Other accrued liabilities	38	(871)
Deferred revenue, net of non-cash upfront license payment	(74)	464
Proceeds from landlord for tenant improvements	41	—
Net cash used for operating activities	(47,844)	(31,351)
Cash flows from investing activities:		
Purchases of property and equipment, net	(1,182)	(3,377)
Net cash used for investing activities	(1,182)	(3,377)
Cash flows from financing activities:		
Proceeds from stock options exercised	—	4,462
Net cash provided by financing activities	—	4,462
Net change in cash and cash equivalents	(49,026)	(30,266)
Cash and cash equivalents, beginning of period	245,026	278,109
Cash and cash equivalents, end of period	\$ 196,000	\$ 247,843



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

4

---

Table of Contents

IMMUNOGEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2016

A. Nature of Business and Plan of Operations

ImmunoGen, Inc. (the Company) was incorporated in Massachusetts in 1981 and is focused on the development of antibody based anticancer therapeutics. The Company has incurred operating losses and negative cash flows from operations since inception, incurred a net loss of \$44.7 million during the three months ended September 30, 2016, and has an accumulated deficit of \$898.4 million as of September 30, 2016. The Company has primarily funded these losses through payments received from its collaborations and equity and convertible debt financings. To date, the Company has no product revenue and management expects operating losses to continue for the foreseeable future.

At September 30, 2016, the Company had \$196.0 million of cash and cash equivalents on hand. The Company anticipates that its current capital resources and expected future collaborator payments will enable it to meet its operational expenses and capital expenditures into the second quarter of calendar year 2018. Without such collaborator payments, it would last into the first quarter of calendar year 2018. The Company may raise additional funds through equity or debt financings or generate revenues from collaborative partners through a combination of upfront license payments, milestone payments, royalty payments, research funding, and clinical material reimbursement. There can be no assurance that the Company will be able to obtain additional debt or equity financing or generate revenues from collaborative partners on terms acceptable to the Company or at all. The failure of the Company to obtain sufficient funds on acceptable terms when needed could have a material adverse effect on the Company's business, results of operations and financial condition and require the Company to defer or limit some or all of its research, development and/or clinical projects.

The Company is subject to risks common to companies in the biotechnology industry including, but not limited to, the development by its competitors of new technological innovations, dependence on key personnel, protection of proprietary technology, manufacturing and marketing limitations, collaboration arrangements, third party reimbursements and compliance with governmental regulations.

On June 15, 2016, the Company's Board of Directors approved a change in the Company's fiscal year from a fiscal year ending on the last day of June of each year to a calendar fiscal year ending on the last day of December of each year, effective January 1, 2017. Accordingly the Company will be issuing six month transitional financial statements as of December 31, 2016, and calendar year financial statements thereafter.

B.Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements at September 30, 2016 and June 30, 2016 and for the three months ended September 30, 2016 and 2015 include the accounts of ImmunoGen, Inc., or the Company, and its wholly owned subsidiaries, ImmunoGen Securities Corp., ImmunoGen Europe Limited and Hurricane, LLC. 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. The June 30, 2016 condensed consolidated balance sheet data presented for comparative purposes was derived from our audited financial statements but certain information and footnote disclosures normally included in the Company's annual financial statements have been condensed or omitted. Certain prior year amounts have been reclassified for consistency with the current period presentation. 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, 2016.

## Table of Contents

### Subsequent Events

The Company has evaluated all events or transactions that occurred after September 30, 2016 up through the date the Company issued these financial statements. The Company did not have any material recognizable or unrecognizable subsequent events during this period.

### Related Party Transaction

During fiscal year 2016, the Company entered into a transaction with Sanofi to purchase drug product along with the master and working cell banks for a product that Sanofi previously discontinued and had returned its rights back to the Company. The Company entered into this transaction, at a cost of €1.6 million, in order to continue development of the product, or make it more attractive to re-license the target to another partner. A relationship between an executive from the Company and an executive from Sanofi qualified this transaction as potentially between related parties, and accordingly, the audit committee of the Board of Directors of the Company approved the terms and conditions of the transaction, believing that it was in the best interest of the Company to proceed and that it was done at an arms-length amount. The transaction was substantially completed during fiscal year 2016; however, as of September 30, 2016, \$44,000 is classified as a prepaid expense and approximately \$258,000 more will be payable when a deliverable still pending from Sanofi is received.

### 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 antibody-drug conjugate, or ADC, 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 upfront 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 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 September 30, 2016, the Company had the following two types of agreements with the parties identified below:

Development and commercialization licenses, which provide the party with the right to use the Company's ADC technology and/or certain other intellectual property to develop compounds to a specified antigen target:

Amgen (two exclusive single-target licenses (1))

Bayer (one exclusive single-target license)

Biotest (one exclusive single-target license)

CytomX (one exclusive single-target license)

Lilly (three exclusive single-target licenses)

---

(1) Amgen has sublicensed one of its exclusive single-target licenses to Oxford BioTherapeutics Ltd.

6

---

Table of Contents

Novartis (five exclusive single-target licenses and one license to two related targets: one target on an exclusive basis and the second target on a non-exclusive basis)

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

Sanofi (one exclusive single-target license and one exclusive license to multiple individual targets)

Takeda, through its wholly owned subsidiary, Millennium Pharmaceuticals, Inc. (one exclusive single-target license)

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

CytomX

Takeda

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 ADC 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, development and commercialization licenses 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 Kadcyra®, however, the minimum royalty term is 10 years and the maximum royalty term is 12 years on a country by country basis, regardless of patent protection. Royalty rates may vary over the royalty term depending on the Company's intellectual property rights and/or the presence of comparable competing products. 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 or whether any collaborator will request research or manufacturing services, achieve milestones or become liable for royalty payments. As a result, the Company cannot predict when or if 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 ADC 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 ADC technology, the Company's pricing practices and pricing objectives, the likelihood that technological

Table of Contents

improvements will be made, and, if 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 development and commercialization 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 three months ended September 30, 2015, 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 \$7.0 million. There were no sales of manufactured preclinical or clinical materials during the three months ended September 30, 2016. 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 affected 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 development and commercialization 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

## Table of Contents

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 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 partly as a result of the Company's efforts 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 the Company does not contribute effort to the achievement of such milestones 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 development and commercialization 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 third 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 ADC technology for a defined period of time through a research, or right-to-test, 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. None of the Company's right-to-test agreements entered into subsequent to the adoption of Accounting Standards Update (ASU) No. 2009-13, "Revenue Arrangements with Multiple Deliverables" on July 1, 2010 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 ADC 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. 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.

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

## Table of Contents

### Financial Instruments and Concentration of Credit Risk

Cash and cash equivalents are primarily maintained with three financial institutions in the U.S. Deposits with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and, therefore, bear minimal risk. The Company's cash equivalents consist of money market funds with underlying investments primarily being U.S. Government issued securities and high quality, short term commercial paper. Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents and marketable securities. The Company held no marketable securities as of September 30, 2016 and June 30, 2016. The Company's investment policy, approved by the Board of Directors, limits the amount it may invest in any one type of investment, thereby reducing credit risk concentrations.

### Cash and Cash Equivalents

All highly liquid financial instruments with maturities of three months or less when purchased are considered cash equivalents. As of September 30, 2016 and June 30, 2016, the Company held \$196.0 million and \$245.0 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.

### Non-cash Investing Activities

The Company had approximately \$306,000 and \$804,000 of accrued capital expenditures as of September 30, 2016 and June 30, 2016, respectively, which have been treated as a non-cash investing activity and, accordingly, are not reflected in the consolidated statement of cash flows.

### 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 September 30, 2016, 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, 2016 (in thousands):

	Fair Value Measurements at September 30, 2016 Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Total			
Cash equivalents	\$ 172,058	\$ 172,058	\$ —	\$ —

Table of Contents

As of June 30, 2016, 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, 2016 (in thousands):

	Fair Value Measurements at June 30, 2016 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 219,918	\$ 219,918	\$ —	\$ —

The fair value of the Company's cash equivalents is based 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. The gross carrying amount and estimated fair value of the convertible 4.5% senior notes was \$100.0 million and \$85.0 million, respectively, as of September 30, 2016 compared to \$100.0 million and \$91.2 million, respectively, as of June 30, 2016. The fair value of the Convertible Notes is influenced by interest rates, the Company's stock price and stock price volatility and is determined by prices for the Convertible Notes observed in a market which is a Level 2 input for fair value purposes.

#### Unbilled Revenue

The majority of the Company's unbilled revenue at September 30, 2016 and June 30, 2016 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 September 30, 2016 and June 30, 2016 is summarized below (in thousands):

	September 30, 2016	June 30, 2016
Raw materials	\$ 191	\$ 317
Work in process	1,836	590
Total	\$ 2,027	\$ 907

Raw materials inventory consists entirely of proprietary cell killing agents the Company developed as part of its ADC technology. All raw materials inventory is currently procured from two suppliers. 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 no expense related to excess inventory in either the three months ended September 30, 2016 or three months ended September 30, 2015.

Work in process inventory consists of conjugate manufactured for sale to the Company's collaborators to be used in preclinical and clinical studies. All conjugate is made to order at the request of the collaborators and subject to the terms and conditions of respective supply agreements. Based on historical reprocessing or reimbursement required for conjugate that did not meet specification and status of current conjugate on hand, no reserve for work in process inventory was determined to be required at September 30, 2016. As discussed above, the Company's costs to manufacture conjugate on behalf of its partners are greater than the supply prices charged to partners, and therefore costs are capitalized into inventory at the supply prices.

Table of Contents

## 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. During periods of income, participating securities are allocated a proportional share of income determined by dividing total weighted average participating securities by the sum of the total weighted average common shares and participating securities (the “two-class method”). Shares of the Company’s restricted stock participate in any dividends declared by the Company and are therefore considered to be participating securities. Participating securities have the effect of diluting both basic and diluted earnings per share during periods of income. During periods of loss, no loss is allocated to participating securities since they have no contractual obligation to share in the losses of the Company. Diluted (loss) income per share is computed after giving consideration to the dilutive effect of stock options and restricted stock that are outstanding during the period, except where such non-participating securities would be anti-dilutive.

The Company’s common stock equivalents, as calculated in accordance with the treasury stock method for the options and the if-converted method for the convertible notes, are shown in the following table (in thousands):

	September 30, 2016	2015
Options outstanding to purchase common stock and unvested restricted stock	14,929	11,494
Common stock equivalents under treasury stock method for options	3	1,296
Shares issuable upon conversion of convertible notes	23,878	—
Common stock equivalents under if-converted method for convertible notes	23,878	—

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 September 30, 2016 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 11, 2014, an amendment to the 2006 Plan was approved and an additional 5,500,000 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 17,500,000 shares of the Company's common stock, as well as 1,676,599 shares of common stock which represent awards granted under the previous stock option plan, the ImmunoGen, Inc. Restated Stock Option Plan, or the Former Plan, that were forfeited, expired or were cancelled without delivery of shares of common stock or which resulted in the forfeiture of shares of common stock back to the Company between November 11, 2006 and June 30, 2014. 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 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 of the stock options.

Table of Contents

	Three Months Ended September 30,	
	2016	2015
Dividend	None	None
Volatility	65.65 %	67.07 %
Risk-free interest rate	1.26 %	1.89 %
Expected life (years)	6.3	6.3

Using the Black-Scholes option-pricing model, the weighted average grant date fair values of options granted during the three months ended September 30, 2016 and 2015 were \$1.79 and \$10.31 per share, respectively.

A summary of option activity under the 2006 Plan as of September 30, 2016, and changes during the three month period then ended is presented below (in thousands, except weighted-average data):

	Number of Stock Options	Weighted Average Exercise Price
Outstanding at June 30, 2016	11,813	\$ 13.03
Granted	3,341	\$ 2.95
Exercised	—	\$ 0.00
Forfeited/Canceled	(436)	\$ 10.41
Outstanding at September 30, 2016	14,718	\$ 10.82

Included in the outstanding options in the table above are approximately 762,000 stock options that will forfeit in the quarter ending December 31, 2016 in connection with the workforce reduction related to the restructuring event in the current period, the details of which are discussed further in Note G. Accordingly, the Company recorded an approximate \$837,000 credit to stock compensation expense in the current period related to these known future forfeitures.

In August 2016, the Company granted 117,800 shares of restricted common stock with a grant date fair value of \$3.15 to certain officers of the Company. These restrictions will lapse in three equal installments upon the achievement of specified performance goals within the next five years. The Company determined it is not currently probable that these performance goals will be achieved, and therefore, no expense has been recorded to date.

Stock compensation expense related to stock options and restricted stock awards granted under the 2006 Plan was \$4.4 million and \$5.7 million during the three months ended September 30, 2016 and 2015, respectively. The decrease in expense is primarily due to greater forfeitures recorded in the current period as discussed above. As of September 30, 2016, the estimated fair value of unvested employee awards was \$24.3 million, net of estimated forfeitures. The weighted-average remaining vesting period for these awards is approximately two years. Included in stock compensation expense for the three months ended September 30, 2016 and 2015 are \$108,000 and \$82,000, respectively, of expense recorded for directors' deferred share units, the details of which are discussed in Note F.

#### Segment Information

During the three months ended September 30, 2016, the Company continued to operate in one operating segment which is the business of discovery of monoclonal antibody-based anticancer therapeutics.

Table of Contents

The percentages of revenues recognized from significant customers of the Company in the three months ended September 30, 2016 and 2015 are included in the following table:

Collaborative Partner:	Three Months Ended September 30,			
	2016		2015	
Biotest	1	%	16	%
Lilly	1	%	35	%
Roche	81	%	38	%

There were no other customers of the Company with significant revenues in the three months ended September 30, 2016 and 2015.

## Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”), to clarify the principles for recognizing revenue. This update provides a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which delayed the effective date of the new standard from January 1, 2017 to January 1, 2018. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations, which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which clarifies certain aspects of identifying performance obligations and licensing implementation guidance. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients related to disclosures of remaining performance obligations, as well as other amendments to guidance on collectibility, non-cash consideration and the presentation of sales and other similar taxes collected from customers. These standards have the same effective date and transition date of January 1, 2018. The new revenue standard allows for either full retrospective or modified retrospective application. The Company is currently evaluating the timing of its adoption, the transition method to apply and the impact that this guidance will have on its consolidated financial statements and related disclosures.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. This new standard gives a company’s management the final responsibilities to decide whether there’s substantial doubt about the company’s ability to continue as a going concern and to provide related footnote disclosures. The standard provides guidance to management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that companies commonly provide in their footnotes. Under the new standard, management

must decide whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the company's ability to continue as a going concern within one year after the date that the financial statements are issued, or within one year after the date that the financial statements are available to be issued when applicable. This guidance is effective for annual reporting ending after December 15, 2016, and interim periods thereafter, with early application permitted. Accordingly, the standard is effective for the Company at December 31, 2016. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements. Refer to Note A, Nature of Business and Plan of Operations for further discussion.

In April 2015, the FASB issued Accounting Standards Update 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. To simplify presentation of debt issuance costs, this new standard requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this update. This guidance is effective for annual reporting beginning after December 15, 2015, including interim periods within the year of adoption, and calls for

Table of Contents

retrospective application, with early application permitted. The Company implemented the recommendations of this update, resulting in a reduction of prepaid and other current assets and non-current other assets of approximately \$1 million and \$6.8 million, respectively, as of June 30, 2016, with corresponding reductions of the debt liabilities as shown on the face of the accompanying consolidated balance sheet to the financial statements.

In July 2015, the FASB issued Accounting Standards Update 2015-11, Simplifying the Measurement of Inventory (Topic 330). To simplify the principles for subsequent measurement of inventory, this new standard requires inventory measured using any method other than LIFO or the retail method shall be measured at the lower of cost and net realizable value, rather than lower of cost or market. This guidance is effective for annual reporting beginning after December 15, 2016, including interim periods within the year of adoption, and calls for prospective application, with early application permitted. Accordingly, the standard is effective for the Company on January 1, 2017. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In January 2016, the FASB issued Accounting Standards Update 2016-1, Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825). The amendments in this Update supersede the guidance to classify equity securities with readily determinable fair values into different categories (that is, trading or available-for-sale) and require equity securities (including other ownership interests, such as partnerships, unincorporated joint ventures, and limited liability companies) to be measured at fair value with changes in the fair value recognized through net income. The amendments allow equity investments that do not have readily determinable fair values to be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment. The amendments also require enhanced disclosures about those investments. The amendments improve financial reporting by providing relevant information about an entity's equity investments and reducing the number of items that are recognized in other comprehensive income. This guidance is effective for annual reporting beginning after December 15, 2017, including interim periods within the year of adoption, and calls for prospective application, with early application permitted. Accordingly, the standard is effective for the Company on January 1, 2018. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update 2016-2, Leases (Topic 842) that primarily requires lessees to recognize most leases on their balance sheets but record expenses on their income statements in a manner similar to current accounting. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. Accordingly, the standard is effective for the Company on January 1, 2019. The Company is currently evaluating the impact of this guidance on our financial statements and the timing of adoption.

In March 2016, the FASB issued ASU 2016-9, Improvements to Employee Share-Based Payment Accounting (Topic 718) that changes the accounting for certain aspects of share-based payments to employees. The guidance requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid in capital pools. The guidance also allows for the employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. The guidance is

effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods with early adoption permitted. Accordingly, the standard is effective for the Company on January 1, 2017. The Company is currently evaluating the impact of this guidance on our financial statements and the timing of adoption.

C. Agreements

Significant Collaborative Agreements

Roche

In 2000, the Company granted Genentech, now a unit of Roche, an exclusive license to use the Company's maytansinoid ADC technology with antibodies, such as trastuzumab, or other proteins that target HER2. Under the terms of this agreement, Roche has exclusive worldwide rights to develop and commercialize maytansinoid ADC compounds targeting HER2. In 2013, the HER2 targeting ADC compound, Kadcyla, was approved for marketing in the U.S., Japan

Table of Contents

and the European Union, or EU. Roche has also received marketing approval in various other countries around the world. Roche is responsible for the manufacturing, product development and marketing of any products resulting from 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 Kadcyra or any other resulting products. Total milestones are categorized as follows: development milestones—\$13.5 million; and regulatory milestones—\$30.5 million. Through September 30, 2016, the Company has received and recognized \$13.5 million and \$20.5 million in development and regulatory milestone payments, respectively, related to Kadcyra. The next potential milestone the Company will be entitled to receive will be a \$5 million regulatory milestone for marketing approval of Kadcyra for a first extended indication as defined in the agreement. Based on an evaluation of the effort contributed towards the achievement of this future milestone, the Company determined this milestone is not substantive.

The Company receives royalty reports and payments related to sales of Kadcyra from Roche one quarter in arrears. In accordance with the Company's revenue recognition policy, \$6.2 million of non-cash royalties on net sales of Kadcyra for the three-month period ended June 30, 2016 were recorded and included in non-cash royalty revenue for the three-month period ended September 30, 2016 and \$5.7 million of non-cash royalties on net sales of Kadcyra for the three-month period ended June 30, 2015 is included in non-cash royalty revenue for the three-month period ended September 30, 2015. Kadcyra sales occurring after January 1, 2015 are covered by a royalty purchase agreement whereby the associated cash is remitted to Immunity Royalty Holdings, L.P, or IRH, as discussed further in Note E.

## Amgen

Under a now expired right-to-test agreement established in 2000, Amgen took three exclusive development and commercialization licenses, for which the Company received an exercise fee of \$1 million for each license taken. In May 2013, Amgen took one non-exclusive development and commercialization license, for which the Company received an exercise fee of \$500,000. In October 2013, the non-exclusive license was amended and converted to an exclusive license, for which Amgen paid an additional \$500,000 fee to the Company. Amgen has sublicensed its rights under this license to Oxford BioTherapeutics Ltd. In December 2015, Amgen advised the Company that it had discontinued development of two product candidates, AMG 595 and AMG 172 that had been covered by two of Amgen's four exclusive licenses, and in February 2016, Amgen terminated these two licenses.

For each of the two remaining development and commercialization license taken, the Company is entitled to receive up to a total of \$34 million in milestone payments, plus royalties on the commercial sales of any resulting products. The total milestones per license are categorized as follows: development milestones—\$9 million; regulatory milestones—\$20 million; and sales milestones—\$5 million. Amgen (or its sublicensee(s)) is responsible for the manufacturing, product development and marketing of any products resulting from these development and commercialization licenses. Through September 30, 2016, the Company has received and recognized an aggregate of \$3 million in milestone payments for compounds covered under this agreement now or in the past. In September 2015, Amgen's IND application under the remaining license not sublicensed to Oxford BioTherapeutics became effective, triggering a \$1 million milestone payment to the Company which is included in license and milestone fee revenue for the three-month period ended September 30, 2015. The next potential milestone the Company will be entitled to receive under this license 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 May 2013 license will be a \$1 million development milestone for an IND becoming effective. 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.

## Lilly



Eli Lilly and Company (Lilly) took three exclusive development and commercialization licenses under a now-expired right-to-test agreement established in 2011. The Company received a \$20 million upfront payment in connection with the execution of the right to test agreement in 2011. Under the terms of this right-to-test agreement, the first license had no associated exercise fee, and the second and third licenses each had a \$2 million exercise fee. The first development and commercialization license was taken in August 2013 and the agreement was amended in December

Table of Contents

2013 to provide Lilly with an extension provision and retrospectively include a \$2 million exercise fee for the first license in lieu of the fee due for either the second or third license. The second and third licenses were taken in December 2014, with one including the \$2 million exercise fee and the other not. Under the two licenses with the \$2 million exercise fee, the Company is entitled to receive up to a total of \$199 million in milestone payments, plus royalties on the commercial sales of any resulting products. Under the license taken in December 2014 without the exercise fee, the Company is entitled to receive up to a total of \$200.5 million in milestone payments, plus royalties on the commercial sales of any resulting products. The total milestones are categorized as follows: development milestones—\$29 million for the two development and commercialization licenses with the \$2 million exercise fee, and \$30.5 million for the one development and commercialization license with no exercise fee; regulatory milestones—\$70 million in all cases; and sales milestones—\$100 million in all cases. In September 2015, Lilly began Phase I evaluation of one of its licensed ADC products which triggered a \$5 million milestone payment to the Company which is included in license and milestone fee revenue for the three months ended September 30, 2015. The next payment the Company could receive would be either a \$9 million development milestone for commencement of a Phase II clinical trial under this license or a \$5 million development milestone payment with the initiation of a Phase I clinical trial under either of its other two development and commercialization licenses taken. 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 expected involvement in the research and manufacturing of these product candidates, these milestones were deemed substantive. The Company also is entitled to receive payments for delivery of cytotoxic agents to Lilly and research and development activities performed on behalf of Lilly. Lilly is responsible for the manufacturing, product development and marketing of any products resulting from this collaboration.

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 2016 Form 10-K

#### D. Convertible 4.5% Senior Notes

In June 2016, the Company issued Convertible 4.5% Senior Notes with an aggregate principal amount of \$100 million. The Company received net proceeds of approximately \$96.6 million from the sale of the Convertible Notes, after deducting fees and expenses of approximately \$3.4 million.

The Convertible Notes are governed by the terms of an indenture between the Company, as issuer, and Wilmington Trust, National Association, as the trustee. The Convertible Notes are senior unsecured obligations and bear interest at a rate of 4.5% per year, payable semi-annually in arrears on January 1 and July 1 of each year, commencing on January 1, 2017. The Company recorded approximately \$1.2 million of interest expense in the three months ended September 30, 2016. The Convertible Notes will mature on July 1, 2021, unless earlier repurchased or converted. Holders may convert their notes at their option at any time prior to the close of business on the business day immediately preceding the stated maturity date. Upon conversion, the Company will deliver for each \$1,000 principal amount of converted notes a number of shares equally to the conversion rate, which will initially be 238.7775 shares of common stock, equivalent to an initial conversion price of approximately \$4.19. The conversion rate will be subject to adjustment in some circumstances, but will not be adjusted for any accrued and unpaid interest. In addition, if a “make-whole fundamental change” (as defined in the offering memorandum) occurs prior to the stated maturity date, the Company will increase the conversion rate for a holder who elects to convert its notes in connection with such make-whole fundamental change in certain circumstances. If the Company undergoes a fundamental change, subject to certain conditions, holders may require the Company to repurchase for cash all or part of their notes at a purchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest to, but

excluding, the fundamental change purchase date. In addition, upon an event of default, the holders may require the Company to repurchase for cash all of their notes at a purchase price equal to 100% of the principal amount, plus accrued and unpaid interest. Upon bankruptcy, this becomes an automatic repurchase obligation. Also, if the Company fails to comply with certain reporting requirements as described in the indenture it will constitute an event of default, however the Company may elect to pay additional interest at an annual rate equal to 0.5% of the principal amount for the 90 days following such event as a remedy for the default. Subsequent to the 90 days, if still in default, the principal amount of the notes and accrued interest may become immediately due and payable. If a “restricted event” occurs as described in the indenture that causes the notes not to become freely tradable by holders other than our affiliates after the first anniversary of the original issuance date of the notes, the Company would also become obligated to pay additional interest at an annual rate

Table of Contents

equal to 0.5% of the principal amount. The combined additional interest rate under these two circumstances, however, cannot exceed 0.5%.

The Company analyzed the terms of the Convertible Notes and determined that under current accounting guidance the notes would be entirely accounted for as debt and none of the terms of the notes require separate accounting. The accounting treatment will be re-assessed six months from the issuance date when the underlying shares become freely transferable and each subsequent reporting period thereafter. As part of the issuance of the Convertible Notes, the Company incurred \$3.4 million of transaction costs, which are netted against the Convertible Notes in the accompanying consolidated balance sheet and will be amortized to interest expense ratably over the term of the Convertible Notes.

#### E. Liability Related to Sale of Future Royalties

In April 2015, Immunity Royalty Holdings, L.P. (IRH) purchased the right to receive 100% of the royalty payments on commercial sales of Kadcyla subsequent to December 31, 2014, arising under the Company's development and commercialization license with Genentech (a unit of Roche), until IRH has received aggregate royalties equal to \$235 million or \$260 million, depending on when the aggregate royalties received by IRH reach a specified milestone. Once the applicable threshold is met, if ever, the Company will thereafter receive 85% and IRH will receive 15% of the Kadcyla royalties for the remaining royalty term. At consummation of the transaction in April 2015, the Company received cash proceeds of \$200 million. As part of this sale, the Company incurred \$5.9 million of transaction costs, which are presented net of the liability in the accompanying consolidated balance sheet and will be amortized to interest expense over the estimated life of the royalty purchase agreement. Although the Company sold its rights to receive royalties from the sales of Kadcyla, as a result of its ongoing involvement in the cash flows related to these royalties, the Company will continue to account for these royalties as revenue and recorded the \$200 million in proceeds from this transaction as a liability related to sale of future royalties (Royalty Obligation) that will be amortized using the interest method over the estimated life of the royalty purchase agreement.

The following table shows the activity within the liability account during the three-month period ended September 30, 2016 (in thousands):

	Period from June 30, 2016 to September 30, 2016
Liability related to sale of future royalties, net — beginning balance	\$ 188,899
Non-cash Kadcyla royalty revenue	(6,184)
Non-cash interest expense recognized	4,847
Liability related to sale of future royalties, net — ending balance	\$ 187,562

As royalties are remitted to IRH, the balance of the Royalty Obligation will be effectively repaid over the life of the agreement. Through September 30, 2016, \$37.0 million in cumulative royalty payments have been received from Roche and paid to IRH. In order to determine the amortization of the Royalty Obligation, the Company is required to estimate the total amount of future royalty payments to be received and remitted to IRH as noted above over the life of the agreement. The sum of these amounts less the \$200 million proceeds the Company received will be recorded as interest expense over the life of the Royalty Obligation. Since inception, the Company's estimate of this total interest expense resulted in an effective annual interest rate of 9.6%. The Company periodically assesses the estimated royalty payments to IRH and to the extent such payments are greater or less than its initial estimates, or the timing of such payments is materially different than its original estimates, the Company will prospectively adjust the amortization of the Royalty Obligation. There are a number of factors that could materially affect the amount and timing of royalty payments from Genentech, most of which are not within the Company's control. Such factors include, but are not limited to, changing standards of care, the introduction of competing products, manufacturing or other delays, biosimilar competition, patent protection, adverse events that result in governmental health authority imposed restrictions on the use of the drug products, significant changes in foreign exchange rates as the royalties remitted to IRH are made in U.S. dollars (USD) while significant portions of the underlying sales of Kadcyra are made in currencies other than USD, and other events or circumstances that could result in reduced royalty payments from Kadcyra, all of which would result in a

Table of Contents

reduction of non-cash royalty revenues and the non-cash interest expense over the life of the Royalty Obligation. Conversely, if sales of Kadcyra are more than expected, the non-cash royalty revenues and the non-cash interest expense recorded by the Company would be greater over the term of the Royalty Obligation.

In addition, the royalty purchase agreement grants IRH the right to receive certain reports and other information relating to the royalties and contains other representations and warranties, covenants and indemnification obligations that are customary for a transaction of this nature.

F. Capital Stock

2001 Non-Employee Director Stock Plan

During the three months ended September 30, 2016, the Company recorded approximately (\$3,000) in expense reduction related to stock units outstanding under the Company's 2001 Non-Employee Director Stock Plan, or the 2001 Plan, compared to (\$30,000) in expense reduction recorded during the three months ended September 30, 2015. The value of the stock units are classified as a liability and 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

On November 12, 2013, the Board amended the Compensation Policy for Non-Employee Directors to make certain changes to the compensation of its non-employee directors, including an increase in the fees paid in cash to the non-employee directors. Under the terms of the amended policy, the redemption amount of deferred share units issued will continue to 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. The number of deferred share units awarded is now fixed per the plan on the date of the award and is no longer based on the market price 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 a fixed number of stock options 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 80,000 stock options in November of 2015 and 2014, respectively, and the related compensation expense for the three months ended September 30, 2016 and 2015 is included in the amounts discussed in the “Stock-Based Compensation” section of footnote B above.

During the three months ended September 30, 2016, the Company recorded approximately \$108,000 in compensation expense, respectively, related to deferred share units issued and outstanding under the Company’s Compensation Policy for Non-Employee Directors, compared to \$82,000 in compensation expense recorded during the three months ended September 30, 2015.

#### G. Restructuring Charge

On September 26, 2016, the Board of Directors approved a plan to reengineer the business, resulting in a reduction of the workforce by approximately 17%, or 65 positions, which included the separation of 60 current employees. Communication of the plan to the impacted employees was substantially completed on September 29, 2016. All of the workforce reduction is expected to be completed during the quarter ending December 31, 2016. As a result of the workforce reduction, in the current period, the Company recorded a restructuring charge totaling \$3.1 million related to termination benefits and other related charges, of which \$2.5 million was recorded as a one-time termination benefit, and \$593,000 recorded as a benefit under an ongoing benefit plan. An additional one-time termination charge of approximately \$257,000 is anticipated to be recorded in the quarter ending December 31, 2016. No cash payments were

Table of Contents

made during the current period. The related cash payments will begin to be paid out in October 2016 and will be substantially paid out by June 30, 2017. Additionally, approximately 762,000 stock options will forfeit in the quarter ending December 31, 2016 in connection with the workforce reduction, and as a result, the Company recorded an approximate \$837,000 credit to stock compensation expense related to these known future forfeitures which is included in research and development expense and general and administrative expense for the current period.

In addition to the termination benefits and other related charges, the Company will seek to sub-lease 10,281 square feet of unoccupied office space in Waltham that was leased in February 2016. Based on an estimate of the potential time it will take to find a tenant of approximately nine months, the anticipated sub-lease terms, and consideration of the tenant allowance that was given to the Company to build out the space, the Company determined it did not need to record a loss on the sub-lease. The Company then evaluated the balance of the leasehold improvements for potential impairment as of September 30, 2016. In performing the recoverability test, the Company concluded that a substantial portion of the leasehold improvements were not recoverable. The Company recorded an impairment charge of \$970,000 related to these assets after comparing the fair value (using probability weighted scenarios with discounted cash flows) to the leasehold improvements' carrying value, leaving a remaining cost basis of \$193,000 as of September 30, 2016.

In September 2016, the Compensation Committee of the Board of Directors approved cash and stock option retention incentive awards for certain remaining eligible employees who continue employment with the Company in order to execute the Company's strategic priorities. The cash awards will be payable to these employees in either October 2017 or March 2018 based on continued employment and services performed during these periods. Stock option awards covering 847,000 shares were granted and will vest annually in equal installments over three years from the date of grant and are included in the option summary table within the "Stock-Based Compensation" section of Note B above.

H. Commitments and Contingencies

Leases

The Company currently has a lease agreement with CRP/King 830 Winter L.L.C. for the rental of approximately 110,000 square feet of laboratory and office space at 830 Winter Street, Waltham, MA through March 2026. The Company uses this space for its corporate headquarters and other operations. The Company may extend the lease for two additional terms of five years. Pursuant to lease amendments executed in December 2013, April 2014, and December 2015, the Company received construction allowances of approximately \$746,000, \$1.1 million, and \$186,000, respectively, to build out office and lab space to the Company's specifications. 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.



In February 2016, the Company entered into a lease agreement with PDM 930 Unit, LLC for the rental of 10,281 square feet of additional office space at 930 Winter Street, Waltham, MA through August 31, 2021. The Company received approximately \$617,000 as a construction allowance to build out the office space to the Company's specifications. The Company is required to pay certain operating expenses for the leased premises based on its pro-rata share of such expenses for the entire rentable space of the building. As noted above, the Company will seek to sub-lease this currently unoccupied office space that is no longer required due to the restructuring completed in the current period.

The Company also leases manufacturing and office space at 333 Providence Highway, 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 in July 2013 with an option for the Company 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 Company entered into a sublease in December 2014 for this space, effective from January 2015 through July 2018.

Table of Contents

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):

2017 (nine months remaining)	\$ 5,955
2018	8,056
2019	7,258
2020	7,254
2021	7,302
Thereafter	34,252
Total minimum lease payments	\$ 70,077
Total minimum rental income from subleases	(220)
Total minimum lease payments, net	\$ 69,857

There are no obligations under capital leases as of September 30, 2016, as all of the capital leases were single payment obligations which have all been made.

## Collaborations

The Company is contractually obligated to make potential future success-based development, regulatory or sales 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, 2016, the maximum amount that may be payable in the future under the Company's current collaborative agreements is \$162 million, \$1.4 million of which is reimbursable by a third party under a separate agreement.

In addition, The Company is party to a license agreement covering the manufacture of the antibodies used in certain of product candidates which, under certain circumstances, requires periodic payments once the product reaches a specified stage of clinical development, and royalties on commercial sales of the product. The Company believes that the license agreement, by its terms, does not obligate it to make any further payments thereunder and accordingly, has not accrued a potential payment of £300,000 for one of its product candidates that has reached this stage.



Table of Contents

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

OVERVIEW

ImmunoGen is a clinical-stage biotechnology company that develops targeted cancer therapeutics using our proprietary antibody-drug conjugate, or ADC, technology. An ADC with our technology comprises an antibody that binds to a target found on tumor cells conjugated to one of our potent anti-cancer agents as a "payload" to kill the tumor cell once the ADC has bound to its target. ADCs are an expanding approach to the treatment of cancer, with two approved products and the number of agents in development more than doubling during the last five years.

We have established a leadership position in ADCs. Our technology is deployed in Roche's Kadcyla® (ado-trastuzumab emtansine), the first ADC to demonstrate superiority over standard of care in a randomized pivotal trial, EMILIA, and gain FDA approval. Following Kadcyla are 12 clinical-stage ADCs with our technology: four wholly owned by us and eight through our partnerships with Amgen, Bayer, Biotest, Lilly, Novartis, and Sanofi.

Our proprietary portfolio is led by mirvetuximab soravtansine, a first-in-class ADC targeting folate-receptor alpha, or FR $\alpha$ . Following a meeting with the U.S. Food and Drug Administration, or FDA, in July 2016, we are initiating a Phase 3 registration trial, FORWARD I, with mirvetuximab soravtansine for use as single-agent therapy to treat patients with platinum-resistant ovarian cancer whose tumors express high or medium levels of FR $\alpha$  and who have received up to three prior treatment regimens. Additionally, we are accruing patients in a companion study, FORWARD II, to evaluate mirvetuximab soravtansine in combination regimens to expand the number of patients with ovarian cancer eligible for treatment with the ADC. FORWARD II consists of cohorts assessing mirvetuximab soravtansine in combination with, in separate doublets, Avastin® (bevacizumab), pegylated liposomal doxorubicin, or PLD, and carboplatin. We have also entered into a collaboration with Merck under which Merck will provide Keytruda® (pembrolizumab) for evaluation in combination with mirvetuximab soravtansine as part of the FORWARD II study. We expect to begin reporting clinical findings from FORWARD II in the second quarter of 2017.

We have built a productive platform that continues to generate innovative and proprietary ADCs, including IMGN779, our CD33-targeting product candidate for acute myeloid leukemia, or AML. IMGN779 integrates one of our new DNA-alkylating IGN payload agents and is progressing through dose escalation in a Phase 1 trial in AML. We also are advancing IMGN632, a preclinical CD123-targeting ADC that uses an even more potent IGN payload agent with a new engineered linker and novel antibody, which we are developing for hematological malignancies including AML.

In addition to fueling our organic growth, we also selectively license limited rights to use of our ADC technology to other companies. These licenses can provide us with cash through upfront and milestone payments, research and manufacturing support payments, and royalties on commercial sales, if any, as well as access to complementary technology and capabilities. The most advanced partner program is Roche's marketed product, Kadcyla.

In addition to the discussion below for agreements with activity in the periods presented, details for all of our significant agreements can be found in our 2016 Annual Report on Form 10-K.

Roche—In May 2000, we granted Genentech, now a unit of Roche, an exclusive license to use our maytansinoid ADC technology with antibodies, such as trastuzumab, or other proteins that target HER2. Pursuant to this agreement, Roche developed and received marketing approval for its HER2-targeting ADC compound, Kadcyla, in the U.S., Europe, Japan and numerous other countries. We receive royalty reports and payments related to sales of Kadcyla from Roche one quarter in arrears. In accordance with our revenue recognition policy, \$6.2 million of non-cash royalties on net sales of Kadcyla for the three-month period ended June 30, 2016 were recorded and included in non-cash royalty revenue for the three months ended September 30, 2016 and \$5.7 million of non-cash royalties on net sales of Kadcyla for the three-month period ended June 30, 2015 were included in non-cash royalty revenue for the three months ended September 30, 2015. Kadcyla sales occurring after January 1, 2015 are covered by a royalty purchase agreement whereby the associated cash is remitted to Immunity Royalty Holdings, L.P, or IRH, as discussed further in Note E to the consolidated financial statements.

Table of Contents

Amgen— Under a now-expired right-to-test agreement, in December 2012, Amgen took an exclusive development and commercialization license. The Company is entitled to receive up to a total of \$34 million in milestone payments, plus royalties on the commercial sales of any resulting products from this license. The total milestones are categorized as follows: development milestones—\$9 million; regulatory milestones—\$20 million; and sales milestones—\$5 million. In September 2015, the IND application for its ADC product candidate under this license became effective, triggering a \$1 million milestone payment to us which is included in license and milestone fee revenue for the three months ended September 30, 2015.

Lilly— Under a now-expired right-to-test agreement executed in December 2011, Lilly has taken three exclusive development and commercialization licenses. We received a \$20 million upfront payment in connection with the execution of the right-to-test agreement, and for the first development and commercialization license taken in August 2013 and amended in December 2013, we received an exercise fee in the amount of \$2 million and are entitled to receive up to a total of \$199 million in milestone payments, plus royalties on the commercial sales of any resulting products. The second and third exclusive licenses were taken in December 2014, one of which we received an exercise fee in the amount of \$2 million and are entitled to receive up to a total of \$199 million in milestone payments, plus royalties on the commercial sales of any resulting products. For the third license taken in December 2014, for which we did not receive an exercise fee, we are entitled to receive up to a total of \$200.5 million in milestone payments, plus royalties on the commercial sales of any resulting products. The total milestones are categorized as follows: development milestones—\$29 million for the two development and commercialization licenses with the \$2 million exercise fee, and \$30.5 million for the one development and commercialization license with no exercise fee; regulatory milestones—\$70 million in all cases; and sales milestones—\$100 million in all cases. In September 2015, Lilly began Phase I evaluation of one of their potential products which triggered a \$5 million milestone payment to us which is included in license and milestone fee revenue for the three months ended September 30, 2015.

To date, we have not generated revenues from commercial sales of internal products and we expect to incur significant operating losses for the foreseeable future. As of September 30, 2016, we had approximately \$196 million in cash and cash equivalents compared to \$245 million in cash and cash equivalents as of June 30, 2016.

We anticipate that future cash expenditures will be partially offset by collaboration-derived proceeds, including milestone payments and upfront fees. Accordingly, period-to-period operational results may fluctuate dramatically based upon the timing of receipt of the proceeds. We believe that our established collaborative agreements, while subject to specified milestone achievements, will provide funding to assist us in meeting obligations under our collaborative agreements while also assisting in 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 secure alternative financing arrangements, find additional partners 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 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, clinical trial accruals, 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.

During the current period, the Board of Directors approved a plan to reengineer the business, resulting in a restructuring event, the related accounting of which is discussed further under the Results of Operation. There were no other 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, 2016.

Table of Contents

## RESULTS OF OPERATIONS

## Comparison of Three Months ended September 30, 2016 and 2015

## Revenues

Our total revenues for the three months ended September 30, 2016 and 2015 were \$7.7 million and \$14.9 million, respectively. The \$7.2 million decrease in revenues in the three months ended September 30, 2016 from the same period in the prior year is attributable to decreases in license and milestone fees and clinical materials revenue, partially offset by increases in non-cash royalty revenue and research and development support revenue, all of which are discussed below.

Revenues from license and milestone fees for the three months ended September 30, 2016 decreased \$6.0 million to \$76,000 from \$6.1 million in the same period ended September 30, 2015. Included in license and milestone fees for the three months ended September 30, 2015 is a \$5 million development milestone achieved under a license agreement with Lilly and a \$1 million development milestone achieved under a license agreement with Amgen. There were no milestones achieved during the three month period ended September 30, 2016. The amount of license and milestone fees we earn is directly related to the number of our 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 significantly 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, 2016 and 2015 is included in the following table (in thousands):

License and Milestone Fees Collaborative Partner:	Three Months Ended September 30,	
	2016	2015
Amgen	\$ 4	\$ 1,004
Biotest	—	6
Lilly	6	5,006
Novartis	45	45
Sanofi	—	9
Takeda	21	—
Total	\$ 76	\$ 6,070



Deferred revenue of \$32.8 million as of September 30, 2016 primarily represents consideration received from our collaborators pursuant to our license agreements, which we have yet to earn pursuant to our revenue recognition policy. Included within this amount is \$13 million of non-cash consideration recorded in connection with our arrangement with CytomX during fiscal 2014.

Kadcyla is an ADC marketed product resulting from one of our development and commercialization licenses with Roche, through its Genentech unit. We receive royalty reports and payments related to sales of Kadcyla from Roche one quarter in arrears. In accordance with our revenue recognition policy, \$6.2 million of non-cash royalties on net sales of Kadcyla for the three-month period ended June 30, 2016 were recorded and included in revenue for the three months ended September 30, 2016 and \$5.7 million of royalties on net sales of Kadcyla for the three-month period ended June 30, 2015 is included in revenue for the three months ended September 30, 2015. In April 2015, we consummated a royalty purchase transaction — see Liquidity and Capital Resources below for further details.

Research and development support revenue was \$1.4 million for the three months ended September 30, 2016 compared with \$772,000 for the three months ended September 30, 2015. 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

Table of Contents

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, 2016 and 2015 is included in the following table (in thousands):

	Three Months Ended September 30,	
Research and Development Support Collaborative Partner:	2016	2015
Amgen	\$ —	\$ 30
Biotest	38	151
CytomX	587	19
Lilly	61	155
Novartis	15	31
Takeda	639	384
Other	14	2
Total	\$ 1,354	\$ 772

Clinical materials revenue was \$46,000 for the three months ended September 30, 2016 compared with \$2.3 million for the three months ended September 30, 2015. 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 who use us to manufacture clinical materials 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 demand our collaborators have for clinical-grade material 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

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 expense which also includes raw materials.

Research and development expense for the three months ended September 30, 2016 decreased \$2.2 million to \$32.9 million from \$35.1 million for the three months ended September 30, 2015. A more detailed discussion of research and development expense in the period follows.

Table of Contents

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	2016	2015
Research	\$ 6,273	\$ 5,940
Preclinical and Clinical Testing	14,294	15,498
Process and Product Development	3,757	2,693
Manufacturing Operations	8,585	11,001
Total Research and Development Expense	\$ 32,909	\$ 35,132

**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, research licensing fees, facilities and lab supplies. Research expenses for the three months ended September 30, 2016 increased \$333,000 compared to the three months ended September 30, 2015. This increase is principally due to an increase in salaries and related expenses driven primarily by increases in personnel from hiring during fiscal year 2016 and an increase in depreciation expense driven by new lab space built out in fiscal 2016.

**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, 2016 decreased \$1.2 million to \$14.3 million compared to \$15.5 million for the three months ended September 30, 2015. This decrease is primarily the result of a decrease in contract service expense driven primarily by timing of certain activities related to mirvetuximab ravtansine, partially offset by an increase in clinical trial costs driven by increased activities related to our mirvetuximab soravtansine, IMG529 combination and IMG779 studies. Additionally, salaries and related expenses also increased due primarily to increases in personnel from hiring during fiscal year 2016.

**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, 2016, total development expenses increased \$1.1 million compared to the three months ended September 30, 2015. This increase is principally due to an increase in salaries and related expenses driven primarily by increases in personnel from hiring during fiscal year 2016 and an increase in contract services driven by increased development activities related to our IG529 cytotoxic agents.

**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, 2016, manufacturing operations expense decreased \$2.4 million to \$8.6 million compared to \$11.0 million in the same period last year. This decrease is principally the result of a decrease in cost of clinical materials revenue charged to research and development expense due to timing of orders of such clinical materials from our partners and an increase in costs capitalized into inventory due to a greater number of manufactured batches of conjugated materials on behalf of our collaborators in the period. Partially offsetting these decreases, third-party fill/finish costs increased driven primarily by timing of certain scale-up activities related to the mirvetuximab soravtansine program.

Table of Contents

General and Administrative Expenses

General and administrative expenses for the three months ended September 30, 2016 increased \$1.1 million compared to the same period last year. This increase is primarily due to an increase in professional fees driven by reengineering consulting services in the current period.

Restructuring Charge

On September 26, 2016, the Board of Directors approved a plan to reengineer the business, resulting in a reduction of the workforce by approximately 17%, or 65 positions, which included the separation of 60 current employees. Communication of the plan to the impacted employees was substantially completed on September 29, 2016. All of the workforce reduction is expected to be completed during the quarter ending December 31, 2016. As a result of the workforce reduction, in the current period, we recorded a restructuring charge totaling \$3.1 million related to termination benefits and other related charges, of which \$2.5 million was recorded as a one-time termination benefit, and \$593,000 recorded as a benefit under an ongoing benefit plan. An additional one-time termination charge of approximately \$257,000 is anticipated to be recorded in the quarter ending December 31, 2016. No cash payments were made during the current period. The related cash payments will begin to be paid out in October 2016 and will be substantially paid out by June 30, 2017. Additionally, approximately 762,000 stock options will forfeit in the quarter ending December 31, 2016 in connection with the workforce reduction, and as a result, we recorded an approximate \$837,000 credit to stock compensation expense related to these known future forfeitures which is included in research and development expense and general and administrative expense for the current period.

In addition to the termination benefits and other related charges, the Company will seek to sub-lease 10,281 square feet of unoccupied office space in Waltham that was leased in February 2016. Based on an estimate of the potential time it will take to find a tenant of approximately six months, the anticipated sub-lease terms, and consideration of the tenant allowance that was given to us to build out the space, we determined it did not need to record a loss on the sub-lease. We then evaluated the balance of the leasehold improvements for potential impairment as of September 30, 2016. In performing the recoverability test, we concluded that a substantial portion of the leasehold improvements were not recoverable. We recorded an impairment charge of \$970,000 related to these assets after comparing the fair value (using probability weighted scenarios with discounted cash flows) to the leasehold improvements' carrying value, leaving a remaining cost basis of \$193,000 as of September 30, 2016.

In September 2016, the Compensation Committee of the Board of Directors approved cash and stock option retention incentive awards for certain remaining eligible employees who continue employment with the Company in order to execute the Company's strategic priorities. The cash awards will be payable to these employees in either October 2017 or March 2018 based on continued employment and services performed during these periods. Stock option awards covering 847,000 shares were granted and will vest annually in equal installments over three years from the date of grant and are included in the option summary table within the "Stock-Based Compensation" section of Note B to our Consolidated Financial Statements.

Investment Income, net

Investment income for the three months ended September 30, 2016 and 2015 was \$146,000 and \$51,000, respectively. The increase in the current period is due to a greater average cash balance driven by the proceeds received in the fourth quarter of fiscal 2016 resulting from the senior convertible notes issuance, which is discussed further in Note D to our Consolidated Financial Statements.

Non-Cash Interest Expense on Liability Related to Sale of Future Royalty

In April 2015, Immunity Royalty Holdings, L.P. (IRH) purchased our right to receive 100% of the royalty payments on commercial sales of Kadcyla subsequent to March 31, 2014, arising under our development and commercialization license with Genentech, until IRH has received aggregate royalties equal to \$235 million or \$260 million, depending on when the aggregate royalties received by IRH reach a specified milestone. As described in Note E to our Consolidated Financial Statements, this royalty sale transaction has been recorded as a liability that amortizes over

Table of Contents

the estimated royalty payment period as Kadcyła royalties are remitted directly to the purchaser. During the three months ended September 30, 2016, we recorded \$4.8 million of non-cash interest expense which includes amortization of deferred financing costs. We impute interest on the transaction and record interest expense at the effective interest rate, which we currently estimate to be 9.5%. There are a number of factors that could materially affect the estimated interest rate, in particular, the amount and timing of royalty payments from future net sales of Kadcyła, and we will assess this estimate on a periodic basis. As a result, future interest rates could differ significantly and any such change in interest rate will be adjusted prospectively.

## Interest Expense on Convertible Senior Notes

In June 2016, the Company issued Convertible 4.5% Senior Notes with an aggregate principal amount of \$100 million. The Convertible Notes are senior unsecured obligations and bear interest at a rate of 4.5% per year, payable semi-annually in arrears on January 1 and July 1 of each year, commencing on January 1, 2017. The Company recorded approximately \$1.2 million of interest expense in the three months ended September 30, 2016.

## Other Income (Expense), net

Other income (expense), net for the three months ended September 30, 2016 and 2015 was \$129,000 and \$38,000, respectively. We incurred \$129,000 and \$(44,000) in foreign currency exchange gains (losses) related to obligations with non-U.S. dollar-based suppliers and Euro cash balances maintained to fulfill them during the three months ended September 30, 2016 and 2015, respectively.

## LIQUIDITY AND CAPITAL RESOURCES

	September 30, 2016	June 30, 2016
	(In thousands)	
Cash and cash equivalents	\$ 196,000	\$ 245,026
Working capital	151,059	192,667
Shareholders' (deficit) equity	(122,538)	(82,304)



	Three Months Ended September 30,	
	2016	2015
	(In thousand)	
Cash used for operating activities	\$ (47,844)	\$ (31,351)
Cash used for investing activities	(1,182)	(3,377)
Cash provided by financing activities	—	4,462

## 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, payments from our collaborators, including license fees, milestones, research funding, royalties, and more recently, convertible debt. We have also sold our rights to receive royalties on Kadcyra for up-front consideration. As of September 30, 2016, we had approximately \$196.0 million in cash and cash equivalents. Net cash used for operations was \$47.8 million and \$31.4 million for the three months ended September 30, 2016 and 2015, respectively. The principal use of cash for operating activities for both periods presented was to fund our net loss.

Net cash used for investing activities was \$1.2 million and \$3.4 million for the three months ended September 30, 2016 and 2015, respectively, and represents cash outflows for capital expenditures, primarily for the purchase of new equipment and leasehold improvements.

## Table of Contents

Net cash provided by financing activities was \$4.5 million for the three months ended September 30, 2015, which represents proceeds from the exercise of approximately 402,000 stock options. There were no stock option exercises in the three months ended September 30, 2016 due to a decline in the Company's stock price.

As discussed above, in April 2015, Immunity Royalty Holdings, L.P. purchased our right to receive 100% of the royalty payments on commercial sales of Kadcyra. At consummation of the transaction in April 2015, we received gross cash proceeds of \$200 million. We recorded these cash proceeds as a deferred royalty obligation liability which is being amortized over the expected royalty recovery period. As part of this transaction, the Company incurred approximately \$5.9 million in transaction costs.

The Company anticipates that its current capital resources and expected future collaborator payments will enable it to meet its operational expenses and capital expenditures into the second quarter of calendar year 2018. Without such collaborator payments, it would last into the first quarter of calendar year 2018. 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. Such strategic partner transactions and alternative financing arrangements may not be available when required or may not be available on favorable terms. See Note A of the consolidated financial statements for further discussion.

## Contractual Obligations

There have been no 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, 2016.

## Change in Fiscal Year

On June 15, 2016, the Company's Board of Directors approved a change in our fiscal year from a fiscal year ending on the last day of June of each year to a calendar fiscal year ending on the last day of December of each year, effective January 1, 2017. Accordingly we will be issuing six month transitional financial statements as of December 31, 2016, and calendar year financial statements thereafter.

## Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), to clarify the principles for recognizing revenue. This update provides a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the

Effective Date, which delayed the effective date of the new standard from January 1, 2017 to January 1, 2018. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations, which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which clarifies certain aspects of identifying performance obligations and licensing implementation guidance. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients related to disclosures of remaining performance obligations, as well as other amendments to guidance on collectibility, non-cash consideration and the presentation of sales and other similar taxes collected from customers. These standards have the same effective date and transition date of January 1, 2018. The new revenue standard allows for either full retrospective or modified retrospective application. We are currently evaluating the timing of its adoption, the transition method to apply and the impact that this guidance will have on its consolidated financial statements and related disclosures.

In August 2014, the FASB issued Accounting Standards Update 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going

Table of Contents

Concern. This new standard gives a company's management the final responsibilities to decide whether there's substantial doubt about the company's ability to continue as a going concern and to provide related footnote disclosures. The standard provides guidance to management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that companies commonly provide in their footnotes. Under the new standard, management must decide whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the company's ability to continue as a going concern within one year after the date that the financial statements are issued, or within one year after the date that the financial statements are available to be issued when applicable. This guidance is effective for annual reporting ending after December 15, 2016, and interim periods thereafter, with early application permitted. Accordingly, the standard is effective for us at December 31, 2016. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements. Refer to Note A, Nature of Business and Plan of Operations, of our consolidated financial statements for further discussion.

In April 2015, the FASB issued Accounting Standards Update 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. To simplify presentation of debt issuance costs, this new standard requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this update. This guidance is effective for annual reporting beginning after December 15, 2015, including interim periods within the year of adoption, and calls for retrospective application, with early application permitted. We implemented the recommendations of this update, resulting in a reduction of prepaid and other current assets and non-current other assets of approximately \$1 million and \$6.8 million, respectively, as of June 30, 2016, with corresponding reductions of the debt liabilities as shown on the face of the accompanying consolidated balance sheet to the financial statements.

In January 2016, the FASB issued Accounting Standards Update 2016-1, Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825). The amendments in this Update supersede the guidance to classify equity securities with readily determinable fair values into different categories (that is, trading or available-for-sale) and require equity securities (including other ownership interests, such as partnerships, unincorporated joint ventures, and limited liability companies) to be measured at fair value with changes in the fair value recognized through net income. The amendments allow equity investments that do not have readily determinable fair values to be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment. The amendments also require enhanced disclosures about those investments. The amendments improve financial reporting by providing relevant information about an entity's equity investments and reducing the number of items that are recognized in other comprehensive income. This guidance is effective for annual reporting beginning after December 15, 2017, including interim periods within the year of adoption, and calls for prospective application, with early application permitted. Accordingly, the standard is effective for us on January 1, 2018. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update 2016-2, Leases (Topic 842) that primarily requires lessees to recognize most leases on their balance sheets but record expenses on their income statements in a manner similar to current accounting. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. Accordingly, the standard is

effective for us on January 1, 2019. We are currently evaluating the impact of this guidance on our financial statements and the timing of adoption.

In March 2016, the FASB issued Accounting Standards Update 2016-9, Improvements to Employee Share-Based Payment Accounting (Topic 718) that changes the accounting for certain aspects of share-based payments to employees. The guidance requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid in capital pools. The guidance also allows for the employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. The guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods with early adoption permitted. Accordingly, the standard is effective for us on January 1, 2017. We are currently evaluating the impact of this guidance on our financial statements.

Table of Contents

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. These statements also relate to our future prospects, developments and business strategies.

These forward-looking statements can be identified by their use of terms and phrases, such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “predict,” “project,” “will” and other similar terms and phrases, including references to assumptions. They may also use words such as “will,” “would,” “should,” “could” or “may”. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from those contemplated by our forward-looking statements. These known and unknown risks, uncertainties and other factors are described in detail in the “Risk Factors” section and in other sections of this Annual Report on Form 10-K for the year ended June 30, 2016. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Avastin®, Kadcyła® and Keytruda® are registered trademarks of their respective owners

Probody™ is a trademark of CytomX Therapeutics, Inc.

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, 2016. 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 September 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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, 2016. There have been no material changes from the factors disclosed in our 2016

Table of Contents

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*	Collaborative Development and License Agreement dated as of July 7, 2006, and Amendment No. 1 thereto dated August 23, 2006, by and between the Registrant and Biotest AG
10.2	Compensation Policy for Non-Employee Directors, as amended through September 14, 2016
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.



Table of Contents

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: November 4,  
2016

By: /s/Mark J. Enyedy  
Mark J. Enyedy  
President, Chief Executive Officer (Principal Executive Officer)

Date: November 4,  
2016

By: /s/ David B. Johnston  
David B. Johnston  
Executive Vice President, Chief Financial Officer (Principal Financial and Accounting  
Officer)