IMMUNOGEN INC
Form 10-Q
November 03, 2006

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2006**

**OR**

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

**For the transition period from to**

**Commission file number 0-17999**

**ImmunoGen, Inc.**

| **Massachusetts** | **04-2726691** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**128 Sidney Street, Cambridge, MA 02139**
(Address of principal executive offices, including zip code)

**(617) 995-2500**
(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. **ý** Yes **o** No

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

Large accelerated filer **o** Accelerated filer **ý** Non-accelerated filer **o**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

**o** Yes **ý** No

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

Shares of common stock, par value $.01 per share: 41,541,834 shares outstanding as of November 1, 2006.

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**IMMUNOGEN, INC.**
**CONSOLIDATED BALANCE SHEETS**
**In thousands, except per share amounts**

| | September 30, 2006 (unaudited) | June 30, 2006 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 6,276 | $ 4,813 |
| Marketable securities | 64,000 | 70,210 |
| Accounts receivable | 2,266 | 1,569 |
| Unbilled revenue | 5,102 | 5,419 |
| Inventory | 1,920 | 1,235 |
| Prepaid and other current assets | 1,114 | 1,298 |
| Total current assets | 80,678 | 84,544 |
| | | |
| Property and equipment, net of accumulated depreciation | 9,121 | 9,319 |
| Other assets | 218 | 265 |
| | | |
| Total assets | $ 90,017 | $ 94,128 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Accounts payable | $ 1,869 | $ 1,346 |
| Accrued compensation | 1,146 | 925 |
| Other accrued liabilities | 3,470 | 3,129 |
| Current portion of deferred revenue | 5,879 | 5,323 |
| Total current liabilities | 12,364 | 10,723 |
| | | |
| Deferred revenue, net of current portion | 10,297 | 10,705 |
| Other long-term liabilities | 371 | 350 |
| Total liabilities | 23,032 | 21,778 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock, $.01 par value; authorized 75,000 shares; issued and outstanding 45,160 shares and 45,149 shares as of September 30, 2006 and June 30, 2006, respectively | 452 | 451 |
| Additional paid-in capital | 322,494 | 321,885 |
| Treasury stock, 3,675 shares at September 30, 2006 and June 30, 2006 (at cost) | (11,071) | (11,071) |
| Accumulated deficit | (244,814) | (238,561) |
| Accumulated other comprehensive loss | (76) | (354) |
| Total stockholders' equity | 66,985 | 72,350 |
| Total liabilities and stockholders' equity | $ 90,017 | $ 94,128 |

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

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

| | Three Months Ended September 30, | |
|---|---|---|
| | **2006** | **2005** |
| Revenues: | | |
| Research and development support | $ 5,507 | $ 5,685 |
| License and milestone fees | 1,406 | 1,261 |
| Clinical materials reimbursement | 857 | 831 |
| Total revenues | 7,770 | 7,777 |
| Expenses: | | |
| Cost of clinical materials reimbursed | 646 | 905 |
| Research and development | 11,416 | 9,492 |
| General and administrative | 2,797 | 2,793 |
| Total expenses | 14,859 | 13,190 |
| Loss from operations | (7,089) | (5,413) |
| Interest income, net | 865 | 719 |
| Net realized losses on investments | (1) | (4) |
| Gain on sale of assets | - | 2 |
| Other expense | (18) | - |
| Loss before income tax expense | $ (6,243) | $ (4,696) |
| Income tax expense | 10 | 10 |
| Net loss | $ (6,253) | $ (4,706) |
| Basic and diluted net loss per common share | $ (0.15) | $ (0.11) |
| Basic and diluted weighted average common shares outstanding | 41,482 | 41,065 |

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

**IMMUNOGEN, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(UNAUDITED)**
**In thousands, except per share amounts**

| | Three months ended September 30, | |
|---|---|---|
| | **2006** | **2005** |
| Cash flows from operating activities: | | |
| Net loss | $ (6,253) | $ (4,706) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 691 | 650 |
| Gain on sale of fixed assets | - | (2) |
| Loss on sale of marketable securities | 1 | 4 |
| Stock-based compensation | 647 | 706 |
| Deferred rent | 17 | 1 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (697) | (297) |
| Unbilled revenue | 317 | (860) |
| Inventory | (686) | 696 |
| Prepaid and other current assets | 184 | 396 |
| Other assets | 48 | 48 |
| Accounts payable | 522 | (747) |
| Accrued compensation | 221 | 299 |
| Other accrued liabilities | 281 | 274 |
| Deferred revenue | 149 | 75 |
| Net cash used in operating activities | (4,558) | (3,463) |
| | | |
| Cash flows from investing activities: | | |
| Proceeds from maturities or sales of marketable securities | 55,857 | 139,457 |
| Purchases of marketable securities | (49,369) | (136,669) |
| Capital expenditures | (493) | (498) |
| Proceeds from sale of fixed assets | - | 2 |
| Net cash provided by investing activities | 5,995 | 2,292 |
| | | |
| Cash flows from financing activities: | | |
| Proceeds from stock options exercised | 26 | 241 |
| Net cash provided by financing activities | 26 | 241 |
| | | |
| Net change in cash and cash equivalents | 1,463 | (930) |
| | | |
| Cash and cash equivalents, beginning balance | 4,813 | 3,423 |

| | | |
|---|---|---|
| Cash and cash equivalents, ending balance | $ 6,276 | $ 2,493 |
| | | |
| Supplemental disclosure: | | |
| Cash paid for income taxes | $ 15 | $ 10 |

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

**IMMUNOGEN, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**A. Summary of Significant Accounting Policies**

*Basis of Presentation*

The accompanying consolidated financial statements at September 30, 2006 and June 30, 2006 and for the three months ended September 30, 2006 and 2005 include the accounts of ImmunoGen, Inc. (the "Company") and its wholly-owned subsidiaries, ImmunoGen Securities Corp. and ImmunoGen Europe Limited. Although the consolidated financial statements are unaudited, they 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 US for interim financial information. Certain information and footnote disclosures normally included in the Company's annual financial statements have been condensed or omitted. The preparation of interim financial statements requires the use of management's estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim financial statements and the reported amounts of revenues and expenditures during the reported period. 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, 2006.

*Revenue Recognition*

The Company enters into out-licensing and development agreements with collaborative partners for the development of monoclonal antibody-based cancer therapeutics. The Company follows the provisions of the Securities and Exchange Commission's Staff Accounting Bulletin No. 104 (SAB No. 104), *Revenue Recognition*, and Emerging Issues Task Force 00-21 *Accounting for Revenue Arrangements with Multiple Elements* (EITF 00-21). In accordance with SAB No. 104 and EITF 00-21, the Company recognizes collaboration revenue related to research activities as they are performed, as long as there is persuasive evidence of an arrangement, the fee is fixed or determinable, and collection of the related receivable is probable. The Company recognizes revenue on preclinical and clinical materials when the materials have passed all quality testing required for collaborator acceptance and title has transferred to the collaborator. The terms of the Company's agreements contain multiple elements, which typically include non-refundable license fees, payments for research activities and clinical material manufacturing obligations, payments based upon the achievement of certain milestones, and royalties on product sales. The Company evaluates such arrangements to determine if the deliverables are separable into units of accounting and then applies applicable revenue recognition criteria to each unit of accounting.

At September 30, 2006, the Company had the following three types of collaborative contracts with the counterparties identified below:

- License to a single target antigen (single-target license):

Biogen Idec, Inc.

Biotest AG

Boehringer Ingelheim International GmbH

Centocor, Inc., a wholly-owned subsidiary of Johnson & Johnson

Genentech, Inc. (multiple single-target licenses)

Millennium Pharmaceuticals, Inc.

- Broad option agreements to acquire rights to a limited number of targets over a specified time period (broad license):

Amgen, Inc. (formerly Abgenix, Inc.)

Genentech, Inc.

Millennium Pharmaceuticals, Inc.

- Broad agreement to discover, develop and commercialize antibody-based anticancer products:

sanofi-aventis

Generally, all of these collaboration agreements provide that the Company will (i) at the collaborator's request, manufacture preclinical and clinical materials at the Company's cost, or, in some cases, cost plus a margin, (ii) receive payments upon the collaborators' achievements of certain milestones and (iii) receive royalty payments, generally until the later of the last applicable patent expiration or 12 years after product launch. The Company is required to provide technical training and any process improvements and know-how to its collaborators during the term of the collaboration agreements.

Generally, upfront payments on single-target licenses are deferred over the period of the Company's substantial involvement during development. ImmunoGen employees are available to assist the Company's collaborators during the development of their products. The Company estimates this development phase to begin at the inception of the collaboration agreement and conclude at the end of non-pivotal Phase II testing. The Company believes this period of involvement is, on average and depending on the nature of the license, six and one-half years. At each reporting period, the Company analyzes individual product facts and circumstances and reviews the estimated period of its substantial involvement to determine whether a significant change in its estimates has occurred and adjusts the deferral period accordingly. As a result of a change in the estimated period of substantial involvement during the three months ended September 30, 2006, the Company recognized approximately $13,000 of additional license and milestone fees. This change in estimate had no impact in the loss per share for the three months ended September 30, 2006. In the event that a single-target license were to be terminated, the Company would recognize as revenue any portion of the upfront fee that had not previously been recorded as revenue, but was classified as deferred revenue at the date of such termination.

The Company defers upfront payments received from its broad licenses over the period during which the collaborator may elect to receive a license. These periods are specific to each collaboration agreement, but are between seven and 12 years. If a collaborator selects an option to acquire a license under these agreements, any option fee is deferred and recorded over the life of the option, generally 12 to 18 months. If a collaborator exercises an option and the Company grants a single-target license to the collaborator, the Company defers the license fee and accounts for the fee as it would an upfront payment on a single-target license, as discussed above. Upon exercise of an option to acquire a license, the Company would recognize any remaining deferred option fee over the period of the Company's substantial involvement under the license acquired. In the event that a broad license agreement were to be terminated, the Company would recognize as revenue any portion of the upfront fee that had not previously been recorded as revenue, but was classified as deferred revenue at the date of such termination. In the event that a collaborator elects to discontinue development of a specific product candidate under a single-target license, but retains its right to use the Company's technology to develop an alternative product candidate to the same target or a target substitute, the Company would cease amortization of any remaining portion of the upfront fee until there is substantial pre-clinical activity on another product candidate and the Company's remaining period of substantial involvement can be estimated.

The Company's discovery, development and commercialization agreement with sanofi-aventis included an upfront payment of $12.0 million that sanofi-aventis paid to ImmunoGen in August 2003. The Company deferred the upfront payment and recognizes it ratably over the period of the Company's substantial involvement of five years, which includes the term of the collaborative research program of three years and two 12-month extensions that sanofi-aventis has exercised. The discovery, development and commercialization agreement also provides that ImmunoGen receive committed research funding totaling $79.3 million over the full five years of the research collaboration, which includes the initial three-year period and the two 12-month extensions. The committed research funding is based upon resources that ImmunoGen is required to contribute to the collaboration. The Company records the research funding as it is earned based upon its actual resources utilized in the collaboration. In August 2005, sanofi-aventis exercised the first of the two 12-month extensions. This extension will provide the Company with $18.2 million in additional committed funding over the twelve months beginning September 1, 2006. In August 2006, sanofi-aventis exercised its remaining option to extend the term of its research collaboration with the Company for an additional year. The Company is to receive a minimum of $10.4 million in committed research support funding from sanofi-aventis over the twelve-month period beginning September 1, 2007.

At the conclusion of the second sanofi-aventis research program year on August 31, 2005, a review of research activities during this period was conducted. This review identified $1.1 million in billable research activities performed under the program during the fiscal year ended June 30, 2005, which had not been billed or recorded as revenue. Accordingly, the Company has included this additional $1.1 million of research and support revenue in the accompanying consolidated statement of operations for the three months ended September 30, 2005. The Company does not believe such previously unrecorded revenue was material to the results of operations or the financial position of the Company for any interim period of 2005 or for the three months ended September 30, 2005.

When milestone fees are specifically tied to a separate earnings process, revenue is recognized when the milestone is achieved. In addition, when appropriate, the Company recognizes revenue from certain research payments based upon the level of research services performed during the period of the research contract. Deferred revenue represents amounts received under collaborative agreements and not yet earned pursuant to these policies. Where the Company has no continuing involvement, the Company will record non-refundable license fees as revenue upon receipt and will record milestone revenue upon achievement of the milestone by the collaborative partner.

The Company may produce preclinical and clinical materials for its collaborators. The Company is reimbursed for its fully burdened cost to produce clinical materials and, in some cases, fully burdened cost plus a profit margin. The Company recognizes revenue on preclinical and clinical materials when the materials have passed all quality testing required for collaborator acceptance and title has transferred to the collaborator.

The Company also produces research material for potential collaborators under material transfer agreements. Additionally, research activities are performed, including developing antibody-specific conjugation processes, on behalf of the Company's collaborators and potential collaborators during the early evaluation and preclinical testing stages of drug development. Generally, the Company is reimbursed for its fully burdened cost of producing these materials or providing these services. The Company records the amounts received for the materials produced or services performed as a component of research and development support.

*Marketable Securities*

The Company invests in marketable securities of highly rated financial institutions and investment-grade debt instruments and limits the amount of credit exposure with any one entity. The Company has classified its marketable securities as “available-for-sale” and, accordingly, carries such securities at aggregate fair value. Unrealized gains and losses, if any, are reported as other comprehensive income (loss) in stockholders’ equity. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretions are included in interest income. Realized gains and losses on available-for-sale securities are included in net realized losses on investments. The cost of securities sold is based on the specific identification method. Interest and dividends are included in interest income.

*Unbilled Revenue*

The majority of the Company's unbilled revenue at September 30, 2006 and 2005 represents (i) committed research funding earned based on actual resources utilized under the Company's discovery, development and commercialization agreement with sanofi-aventis; (ii) reimbursable expenses incurred under the Company's discovery, development and commercialization agreement with sanofi-aventis that the Company has not yet invoiced; and (iii) research funding earned based on actual resources utilized under the Company's development and license agreements with Biogen Idec, Centocor and Genentech.

*Inventory*

Inventory costs primarily 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, 2006 and June 30, 2006 is summarized below (in thousands):

| | **September 30, 2006** | **June 30, 2006** |
|---|---|---|
| Raw materials | $ 335 | $ - |
| Work in process | 1,585 | 1,235 |
| Total | $ 1,920 | $ 1,235 |

Inventory at September 30, 2006 and June 30, 2006 is stated net of write-downs of $2.5 million and $2.9 million as of, respectively. The write-downs represent the cost of DM1, DM4 and ansamitocin P3 that the Company considers to be

in excess of a 12-month supply based on current collaborator firm, fixed orders and projections.

All Tumor-Activated Prodrug (TAP) product candidates currently in preclinical and clinical testing include either DM1 or DM4 as a cell-killing agent, and these agents are the subject of the Company's collaborations. DM1 and DM4 (collectively referred to as DMx) are both manufactured from a precursor, ansamitocin P3.

Due to yield fluctuations, the actual amount of ansamitocin P3 and DMx that will be produced in future periods under supply agreements is highly uncertain. As such, the amount of ansamitocin P3 and/or DMx produced could be more than is required
to support the development of the Company's and its collaborators' products. Such excess product, as determined under the Company's inventory reserve policy, has been charged to research and development expense to date.

The Company produces preclinical and clinical materials for its collaborators either in anticipation of or in support of clinical trials, or for process development and analytical purposes. Under the terms of supply agreements with its collaborators, the Company generally receives rolling six month firm, fixed orders for conjugate that the Company is required to manufacture, and rolling 12-month manufacturing projections for the quantity of conjugate the collaborator expects to need in any given 12-month period. The amount of clinical material produced is directly related to the number of on-going clinical trials for which the Company is producing clinical material for itself and its collaborators, the speed of enrollment in those trials and the dosage schedule of each clinical trial. Because these elements are difficult to estimate over the course of a trial, substantial differences between collaborators' actual manufacturing orders and their projections could result in usage of DMx and ansamitocin P3 varying significantly from estimated usage at an earlier reporting period. To the extent that a collaborator has provided the Company with a firm fixed order, the collaborator is contractually required to reimburse the Company the full cost of the conjugate and any agreed margin thereon, even if the collaborator subsequently cancels the manufacturing run.

The Company accounts for the DMx and ansamitocin P3 inventory as follows:

a) That portion of the DMx and/or ansamitocin P3 that the Company intends to use in the production of its own products is expensed upon receipt of the materials;

b) To the extent that the Company has collaborator projections for up to 12 months of firm, fixed orders and/or projections, the Company capitalizes the value of DMx and ansamitocin P3 that will be used in the production of conjugate subject to these firm, fixed orders and/or projections;

c) The Company considers more than a 12-month supply of ansamitocin P3 and/or DMx that is not supported by collaborators' firm, fixed orders or projections to be excess. The Company establishes a reserve to reduce to zero the value of any such excess ansamitocin P3 or DMx inventory with a corresponding charge to cost of clinical materials reimbursement expense; and

d) The Company also considers any other external factors and information of which it becomes aware and assesses the impact of such factors or information on the net realizable value of the DMx and ansamitocin P3 inventory at each reporting period.

The Company did not record any cost of clinical materials reimbursement expense related to excess inventory during the three months ended September 30, 2006. However, in the three months ended September 30, 2005, the Company recorded $127,000 to write down certain batches of ansamitocin P3 and DMx and certain work-in-process amounts to their net realizable value. If the Company increases its on-hand supply of DMx or ansamitocin P3, a corresponding change to the Company's collaborators' projections could result in significant changes in the Company's estimate of the net realizable value of DMx and ansamitocin P3 inventory. Reductions in collaborators' projections could indicate that the Company has additional excess DMx and/or ansamitocin P3 inventory and the Company would then evaluate the need to record further write-downs, included as charges to cost of clinical materials reimbursement.

*Computation of Net Loss Per Common Share*

Basic net loss per common share is calculated based upon the weighted average number of common shares outstanding during the period. Diluted net loss per common share incorporates the dilutive effect of stock options and warrants. The total number of options and warrants convertible into ImmunoGen Common Stock and the resulting ImmunoGen Common Stock equivalents, as calculated in accordance with the treasury-stock accounting method, are included in the following table (in thousands):

| | Three Months Ended September 30, | |
|---|---|---|
| | 2006 | 2005 |
| Options and warrants convertible into Common Stock | 5,863 | 6,092 |
| Common Stock equivalents | 711 | 1,886 |

ImmunoGen Common Stock equivalents have not been included in the calculations of dilutive net loss per common share calculations for the three months ended September 30, 2006 and 2005 because their effect is anti-dilutive due to the Company's net loss position.

*Comprehensive Loss*

The Company presents comprehensive income (loss) in accordance with Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income." For the three months ended September 30, 2006 and 2005, total comprehensive loss equaled $6.0 million and $4.7 million, respectively. Comprehensive loss was comprised entirely of the Company's net loss and the change in its unrealized gains and losses on its available-for-sale marketable securities for all periods presented.

*Stock-Based Compensation*

As of September 30, 2006, the Company has one share-based compensation plan, which is the ImmunoGen, Inc. Restated Stock Option Plan. The Company's Restated Stock Option Plan as amended, or the Plan, which is shareholder-approved, permits the grant of share options to its employees, consultants and directors for up to 8.55 million shares of common stock. 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.

Effective July 1, 2005, the Company adopted the fair value recognition provisions of Financial Accounting Standards Board (FASB) Statement 123(R), *Share-Based Payment* (Statement 123(R)), using the modified-prospective-transition method. Under that transition method, compensation cost recognized includes: (a) compensation cost for all share-based payments granted, but not yet vested as of July 1, 2005, based on the grant-date fair value estimated in accordance with the original provisions of Statement 123 (as defined below), and (b) compensation cost for all share-based payments granted subsequent to July 1, 2005, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R). Such amounts have been reduced by the Company's estimate of forfeitures of all unvested awards. Prior to July 1, 2005, the Company accounted for its stock-based compensation plans under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), and related interpretations for all awards granted to employees. Under APB 25, when the exercise price of options granted to employees under these plans equals the market price of the common stock on the date of grant, no compensation expense is recorded. When the exercise price

of options granted to employees under these plans is less than the market price of the common stock on the date of grant, compensation expense is recognized over the vesting period. Results for prior periods have not been restated. For stock options granted to non-employees, the Company recognizes compensation expense in accordance with the requirements of Statement of Financial Accounting Standards (SFAS) No. 123, “Accounting for Stock Based Compensation” (Statement 123). Statement 123 requires that companies recognize compensation expense based on the estimated fair value of options granted to non-employees over their vesting period, which is generally the period during which services are rendered by such non-employees.

As a result of adopting Statement 123(R) on July 1, 2005, the Company’s net loss for the three months ended September 30, 2006 and 2005 was $583,000 and $610,000, respectively, or $0.01 per share for both periods, greater than if it had continued to account for share-based compensation under APB 25.

The fair value of each stock option is estimated on the date of grant using the Black-Scholes option-pricing model that uses the assumptions noted in the following table. 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 employee population. The risk-free rate of the stock options is based on the US Treasury rate in effect at the time of grant for the expected term of the stock options.

| | Three Months Ended September 30, | |
|---|---|---|
| | **2006** | **2005** |
| Dividend Yield | None | None |
| Volatility | 84.86% | 89.38% |
| Risk-free interest rate | 5.01% | 3.99% |
| Expected life (years) | 6.7 | 5.9 |

Using the Black-Scholes option-pricing model, the weighted average grant date fair value of options granted during the three months ended September 30, 2006 and 2005 was $2.37 and 4.96, respectively.

As of September 30, 2006, the estimated fair value of unvested employee awards was $4.6 million net of estimated forfeitures. The weighted-average remaining vesting period for these awards is approximately two years.

During the three months ended September 30, 2006, holders of options issued under the Plan exercised their rights to acquire an aggregate of 11,250 shares of common stock at a price of $2.30 per share. The total proceeds to the Company from these option exercises were approximately $26,000.

*Reclassifications*

Certain prior year balances have been reclassified to conform to current year presentation.

*Segment Information*

During the three months ended September 30, 2006, the Company continued to operate in one reportable business segment under the management approach of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which is the business of discovery of monoclonal antibody-based cancer therapeutics.

Revenues from sanofi-aventis accounted for approximately 67% and 79% of total revenues for the three months ended September 30, 2006 and 2005, respectively. Revenues from Genentech accounted for 24% and 10% of total revenues for the three months ended September 30, 2006 and 2005, respectively. There were no other significant individual customers in the three months ended September 30, 2006 and 2005.

**B. Agreements**

*Biotest AG*

In July 2006, the Company entered into a development and license agreement with Biotest AG. The agreement grants Biotest AG exclusive rights to use the Company's TAP technology with antibodies to a target found on multiple myeloma cells to create anticancer therapeutics. Under the agreement, the Company has received a $1 million upfront payment, and is entitled to receive up to $35.5 million in milestone payments and royalties on the sales of any

resulting products. The Company will receive manufacturing payments for any preclinical and clinical materials made at the request of Biotest. The agreement also provides ImmunoGen with the right to elect to participate, at specific stages during the clinical evaluation of any compound created under this agreement, in the US development and commercialization of that compound in lieu of receiving royalties on US sales of that product and the milestone payments not yet earned. The Company can exercise this right by payment to Biotest of an agreed-upon fee of $5 million or $15 million, depending on the stage of development. Upon exercise of this right, ImmunoGen and Biotest would share equally the associated costs of product development and commercialization in the US along with the profit, if any, from US product sales.

*sanofi-aventis*

In August 2006, sanofi-aventis exercised its remaining option to extend the term of the research collaboration with the Company for another year, and committed to pay the Company a minimum of $10.4 million in research support over the twelve months beginning September 1, 2007. Additionally, effective September 1, 2006, ImmunoGen is no longer obligated to present new targets for antibody-based anticancer therapeutics to sanofi-aventis, enabling the Company to use such targets in the development of its own proprietary products. After August 2008, sanofi-aventis will need to license the right to use ImmunoGen's maytansinoid TAP technology with antibodies to targets that were not part of the research collaboration between the Company and sanofi-aventis. The Companies have agreed to negotiate a multi-target agreement to provide sanofi-aventis with access to the Company's TAP technology for such antibody targets.

The Company has agreements with other companies with respect to its compounds, as described elsewhere in this Quarterly Report and in its 2006 Annual Report on Form 10-K.

**C. Capital Stock**

The Company recorded approximately $10,000 and $37,000 in compensation expense during the three months ended September 30, 2006 and 2005, respectively, related to stock units outstanding under the Company's 2001 Non-Employee Director Stock Plan. The value of the stock units is adjusted to market value at each reporting period.

Under the Company's 2004 Non-Employee Director Compensation and Deferred Share Unit Plan, the Company issued 35,047 and 13,817 deferred share units during the three months ended September 30, 2006 and 2005, respectively. The Company recorded approximately $54,000 and $56,000 in compensation expense related to deferred share units outstanding under the 2004 Plan during the three months ended September 30, 2006 and 2005. The value of the share units is adjusted to market value at each reporting period.

**D. Subsequent Event**

In October 2006, sanofi-aventis informed the Company that clinical testing of AVE1642 had begun, triggering a $2 million milestone payment to the Company. This milestone will be included in license and milestone fees revenue for the period ending December 31, 2006. Additionally, in October 2006, sanofi-aventis licensed non-exclusive rights to use ImmunoGen's proprietary resurfacing technology to humanize antibodies. This technology was developed to enable antibodies initially of murine origin to appear to be human to the human immune system. This license provides sanofi-aventis with the non-exclusive right to use ImmunoGen's proprietary humanization technology through August 31, 2011, and can be extended thereafter. Under the terms of the license, ImmunoGen will receive a $1 million license fee, half of which is due within 30 days of contract signing, and in addition, ImmunoGen is entitled to receive milestone payments potentially totaling $4.5 million plus royalties on sales for each compound humanized under this agreement.

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

**OVERVIEW**

Since the Company's inception, we have been principally engaged in the development of antibody-based anticancer therapeutics. The combination of our expertise in antibodies and cancer biology has resulted in the development of both proprietary product candidates and technologies. Our proprietary Tumor-Activated Prodrug, or TAP, technology combines extremely potent small molecule cytotoxic agents with monoclonal antibodies that bind specifically to cancer cells. Our TAP technology is designed to increase the potency of tumor-targeting antibodies and kill cancer cells with only modest damage to healthy tissue. The cytotoxic agents we use in our TAP compounds currently in preclinical and clinical testing are DM1 and DM4, chemical derivatives of a naturally occurring substance called maytansine. We also use our expertise in antibodies and cancer to develop other types of therapeutics, such as naked-antibody anticancer product candidates.

We have entered into collaborative agreements that enable companies to use our TAP technology to develop commercial product candidates containing their antibodies. We have also used our proprietary TAP technology in conjunction with our in-house antibody expertise to develop our own anticancer product candidates. Under the terms of our collaborative agreements, we are entitled to upfront fees, milestone payments, and royalties on any commercial product sales. We are reimbursed for our fully burdened costs to manufacture preclinical and clinical materials and, under certain collaborative agreements, the reimbursement includes a profit margin. Currently, our collaborative partners include Amgen, Inc. (formerly Abgenix, Inc.), Biogen Idec, Biotest AG, Boehringer Ingelheim International GmbH, Centocor, Inc. (a wholly-owned subsidiary of Johnson & Johnson), Genentech, Inc., Millennium Pharmaceuticals, Inc., and sanofi-aventis. We expect that substantially all of our revenue for the foreseeable future will result from payments under our collaborative arrangements.

In July 2003, we announced a discovery, development and commercialization collaboration with Aventis Pharmaceuticals, Inc. (now sanofi-aventis). Under the terms of this agreement, in consideration of an upfront payment of $12 million, sanofi-aventis gained commercialization rights to three of the then most advanced product candidates in our preclinical pipeline and the commercialization rights to new product candidates developed within the collaboration during its research portion. This collaboration allows us to benefit from sanofi-aventis' clinical development and commercialization capabilities. Under the terms of the sanofi-aventis agreement, we also are entitled to receive committed research funding totaling approximately $79.3 million over the full five years of the research collaboration, which includes the initial three-year term of the research program ending August 31, 2006 plus the two 12-month extensions beginning September 1, 2006.

In August 2005, sanofi-aventis exercised its contractual right to extend the term of its research program with us and committed to fund $18.2 million in research support over the twelve months beginning September 1, 2006. In August 2006, sanofi-aventis exercised its remaining option to extend the term of the research collaboration with us for an additional year, and committed to pay ImmunoGen a minimum of $10.4 million in research support over the twelve months beginning September 1, 2007. Additionally, effective September 1, 2006, we are no longer obligated to present new targets for antibody-based anticancer therapeutics to sanofi-aventis, enabling us to be able to use such targets in the development of our own proprietary products. After August 2008, sanofi-aventis will need to license the right to use our maytansinoid TAP technology with antibodies to targets that were not part of the research collaboration between us and sanofi-aventis. ImmunoGen and sanofi-aventis have agreed to negotiate a multi-target agreement to provide sanofi-aventis with access to our TAP technology for such antibody targets.

On January 27, 2006, Genentech notified us that the trastuzumab-DM1 Investigational New Drug (IND) application submitted by Genentech to the FDA had become effective. Under the terms of our May 2000 exclusive license agreement with Genentech for antibodies to HER2, this event triggered a $2.0 million milestone payment to us.

On January 25, 2006, Millennium Pharmaceuticals, Inc. notified us that, as part of its ongoing portfolio management process and based on the evaluation of recent clinical data in the context of other opportunities in its pipeline, Millennium had decided not to continue the development of its MLN2704 compound. Millennium retains its right to use our maytansinoid TAP technology with antibodies targeting PSMA.

On March 27, 2006, Millennium extended the agreement that provides Millennium with certain rights to test our TAP technology with antibodies to specific targets and to license the right to use the technology to develop products on the terms defined in the agreement. This agreement was scheduled to expire on March 30, 2006 unless extended by Millennium. It is now scheduled to expire on March 30, 2007. In consideration for this extension, Millennium paid us an extension fee equal to $250,000.

In August 2003, Vernalis completed its acquisition of British Biotech. In connection with this acquisition, the merged company, called Vernalis plc, announced that it intended to review its merged product candidate portfolio, including its collaboration with ImmunoGen on huN901-DM1. After discussion with Vernalis, in January 2004 we announced that we would take over further

development of the product candidate. Pursuant to the terms of the termination agreement executed on January 7, 2004, Vernalis retained responsibility for the conduct and expense of the study it initiated in the US (Study 001) until June 30, 2004, and the study it had started in the United Kingdom (Study 002) through completion. We took over responsibility for Study 001 on July 1, 2004 and, in September 2005, we announced the initiation of our own clinical trial with huN901-DM1 in multiple myeloma (Study 003). On December 15, 2005, we executed an agreement to amend the residual obligation terms of the January 7, 2004 termination agreement with Vernalis. Under the terms of the amendment, we assumed responsibility for Study 002 as of December 15, 2005, including the cost of its completion. Under the amendment, Vernalis paid us $365,000 in consideration of the expected cost of the obligations assumed by us with the amendment. New clinical data will be reported from the Company's ongoing Study 002 on November 10, 2006 at the 18th EORTC-NCI-AACR International Conference on Molecular Targets and Cancer Therapeutics (EORTC) in Prague.

On January 8, 2004, we announced that we intended to advance cantuzumab mertansine, or an improved version of the compound, into human testing to assess the clinical utility of the compound in certain indications. In October 2004, we announced that we decided to move huC242-DM4 into clinical trials instead of cantuzumab mertansine (huC242-DM1). We initiated a Phase I clinical trial with huC242-DM4 in June 2005 and expect to report the first data from this trial at the EORTC conference on November 8, 2006.

Based upon the results of our clinical trials, if and when they are completed, we will evaluate whether to continue clinical development of huN901-DM1 and huC242-DM4, and, if so, whether we will seek a collaborative partner or partners to continue the clinical development and commercialization of either or both of these compounds.

To date, we have not generated revenues from commercial product sales and we expect to incur significant operating losses for the foreseeable future. We do not anticipate that we will have a commercially approved product within the near future. Research and development expenses and cash expenditures are expected to increase significantly in the near term as we continue our development efforts, including an expanded clinical trial program and development of commercial-grade materials. As of September 30, 2006, we had approximately $70.3 million in cash and marketable securities. We anticipate that our current capital resources and future collaboration payments, including the committed research funding due us under the sanofi-aventis collaboration over the remainder of the research program, will enable us to meet our operational expenses and capital expenditures for at least the current and next one to two fiscal years.

We anticipate that the increase in total cash expenditures will be partially offset by collaboration-derived proceeds, including milestone payments and the committed research funding to which we are entitled pursuant to the sanofi-aventis collaboration. 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 pursue additional strategic partners, secure alternative financing arrangements, and/or defer or limit some or all of our research, development and/or clinical projects.

*Critical Accounting Policies*

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the US. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to our collaborative agreements and inventory. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

*Revenue Recognition*

We estimate the period of our significant involvement during development for each of our collaborative agreements. We recognize any upfront fees received from our collaborators ratably over this estimated period of significant involvement. We generally believe our period of significant involvement occurs between the date we sign a collaboration agreement and completion of non-pivotal Phase II testing of our collaborator's product that is the subject of the collaboration agreement. We estimate that this time period is generally six and one-half years, depending on the characteristics of the license. The actual period of our involvement could differ significantly based upon the results of our collaborators' preclinical and clinical trials, competitive products that are introduced into the market and the general uncertainties surrounding drug development. Any difference between our estimated period of involvement during development and our actual period of involvement could have a material effect upon our results of operations. We assess our period of significant involvement with each collaboration on a quarterly basis and adjust the period of involvement prospectively, as appropriate.

We recognize the $12.0 million upfront fee we received from sanofi-aventis ratably over our estimated period of significant involvement of five years. This estimated period includes the initial three-year term of the collaborative research program and the two 12-month extensions sanofi-aventis exercised in August 2005 and 2006.

*Inventory*

We review our estimates of the net realizable value of our inventory at each reporting period. Our estimate of the net realizable value of our inventory is subject to judgment and estimation. The actual net realizable value of our inventory could vary significantly from our estimates. We consider quantities of DM1 and DM4, collectively referred to as DMx, and ansamitocin P3 in excess of 12 month projected usage that is not supported by collaborators' firm, fixed orders and projections to be excess. To date, we have fully reserved any such material identified as excess with a corresponding charge to cost of clinical materials. Our collaborators' estimates of their clinical material requirements are based upon expectations of their clinical trials, including the timing, size, dosing schedule and maximum tolerated dose of each clinical trial. Our collaborators' actual requirements for clinical materials may vary significantly from their projections. Sizeable differences between our collaborators' actual manufacturing orders and their projections could result in our actual 12-month usage of DMx and ansamitocin P3 varying significantly from our estimated usage at an earlier reporting period.

*Stock Based Compensation*

As of September 30, 2006, the Company has one share-based compensation plan, which is the ImmunoGen, Inc. Restated Stock Option Plan. Effective July 1, 2005, we adopted the fair value recognition provisions of Financial Accounting Standards Board (FASB) Statement 123(R), *Share-Based Payment* (Statement 123(R)), using the modified-prospective-transition method. Under that transition method, compensation cost includes: (a) compensation cost for all share-based payments granted, but not yet vested as of July 1, 2005, based on the grant-date fair value estimated in accordance with the original provisions of Statement 123 (as defined below), and (b) compensation cost for all share-based payments granted subsequent to July 1, 2005, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R). Such amounts have been reduced by the Company's 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. 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 employee population. The risk-free rate of the stock options is based on the US Treasury rate in effect at the time of

grant for the expected term of the stock options. The compensation cost that has been incurred during the three months ended September 30, 2006 is $583,000. As of September 30, 2006, the estimated fair value of unvested employee awards was $4.6 million net of estimated forfeitures. The weighted-average remaining vesting period for these awards is approximately two years.

**RESULTS OF OPERATIONS**

***Comparison of Three Months ended September 30, 2006 and 2005***

Our total revenues for each of the three months ended September 30, 2006 and 2005 were both $7.8 million. While revenues in the quarter ended September 30, 2006 were essentially unchanged from the same period in the prior fiscal year, lower research and development support revenue was partially offset by higher license and milestone fees, and to a lesser extent, clinical materials reimbursement revenue.

Research and development support was $5.5 million for the three months ended September 30, 2006 compared with $5.7 million for the three months ended September 30, 2005. These amounts primarily represent committed research funding earned based on actual resources utilized under our discovery, development and commercialization agreement with sanofi-aventis, as well as amounts earned for resources utilized under our development and license agreements with Biogen Idec, Centocor, and Genentech. Of the $5.7 million reported in the first quarter of fiscal 2006, $1.1 million represents funding related to research and development efforts performed during the Company's 2005 fiscal year under the sanofi-aventis collaboration but billed and recognized in fiscal 2006. Also included in research and development support revenue are fees related to samples of research-grade material shipped to collaborators. To date, our development fees represent the fully burdened reimbursement of costs incurred in producing research-grade materials and developing antibody-specific conjugation processes on behalf of our collaborators and potential collaborators during the early evaluation and preclinical testing stages of drug development. The amount of development fees we earn is directly related to the number of our collaborators and potential collaborators, the stage of development of our collaborators' compounds and the resources our collaborators allocate to the development effort. As such, the amount of development fees may vary widely from quarter to quarter and year to year.

Revenues from license and milestone fees for the three months ended September 30, 2006 increased $145,000 to $1.4 million from $1.3 million in the same period ended September 30, 2005. Total revenue from license and milestone fees recognized from each of our collaborative partners in the three-month periods ended September 30, 2006 and 2005 is included in the following table (in thousands):

| | Three months ended September 30, | |
|---|---|---|
| | **2006** | **2005** |
| Collaborative Partner: | | |
| Amgen (formerly Abgenix) | $ 100 | $ 100 |
| Sanofi-aventis | 600 | 600 |
| Biogen Idec | 22 | 12 |
| Biotest | 38 | - |
| Centocor | 38 | 42 |
| Genentech | 390 | 397 |
| Millennium | 218 | 110 |
| Total | $ 1,406 | $ 1,261 |

Deferred revenue of $16.2 million as of September 30, 2006 primarily represents payments received from our collaborators pursuant to our license and supply agreements, which we have yet to earn pursuant to our revenue recognition policy.

Clinical materials reimbursement increased by approximately $26,000 to $857,000 in the three months ended September 30, 2006, compared to $831,000 in the three months ended September 30, 2005. During the three months ended September 30, 2006, we shipped clinical materials in support of the AVE9633 clinical trials and trastuzumab-DM1 clinical trials, as well as preclinical materials in support of the development efforts of certain other collaborators. During the three months ended September 30, 2005, we shipped clinical materials in support of the AVE9633 clinical trials, as well as preclinical materials in support of the development efforts of certain other collaborators. Under certain collaborative agreements, we are reimbursed for our fully burdened cost to produce clinical materials plus a profit margin. The amount of clinical materials reimbursement we earn, and the related cost of clinical materials reimbursed, is directly related to (i) the number of on-going clinical trials our collaborators 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 (ii) our production of clinical-grade material on behalf of our collaborators, either in anticipation of clinical trials, or for process

development and analytical purposes. As such, the amount of clinical materials reimbursement and the related cost of clinical materials reimbursed may vary significantly from quarter to quarter and year to year.

*Research and Development Expenses*

We report research and development expense net of certain reimbursements we receive from our collaborators. Our net research and development expenses relate to (i) research to identify and evaluate new targets and to develop and evaluate new antibodies and cytotoxic drugs, (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. Our research and development efforts have been primarily focused in the following areas:

- § activities pursuant to our discovery, development and commercialization agreement with sanofi-aventis;
- § activities related to the preclinical and clinical development of huN901-DM1 and huC242-DM4;
- § process development related to production of the huN901 antibody and huN901-DM1 conjugate for clinical materials;
- § process development related to production of the huC242 antibody and huC242-DM4 conjugate for clinical materials;
- § process improvements related to the production of DM1, DM4 and strain development of their precursor, ansamitocin P3;
- § funded development activities with contract manufacturers for the huN901 antibody, the huC242 antibody, and DM1, DM4 and their precursor, ansamitocin P3;
- § operation and maintenance of our conjugate manufacturing plant;
- § process improvements to our TAP technology;
- § identification and evaluation of potential antigen targets;
- § evaluation of internally developed and in-licensed antibody candidates; and
- § development and evaluation of additional cytotoxic agents.

DM1 and DM4 are the cytotoxic agents that we currently use in the manufacture of our two TAP product candidates in clinical testing. We have also investigated the viability of other maytansinoid effector molecules, which, collectively with DM1 and DM4, we refer to as DMx. In order to make commercial manufacture of DMx conjugates viable, we have devoted substantial resources to improving the strain of the microorganism that produces ansamitocin P3, the precursor to DMx, to enhance manufacturing yields. We also continue to devote considerable resources to improve other DMx manufacturing processes.

On January 8, 2004, we announced that pursuant to the terms and conditions of a termination agreement between us and Vernalis, Vernalis relinquished its rights to develop and commercialize huN901-DM1. As a result, we regained the rights to develop and commercialize huN901-DM1. Under the terms of this termination agreement with Vernalis, we assumed responsibility for one of the studies underway with the compound (Study 001) on July 1, 2004. Since then, we have expanded this study based upon the data from the initial patients enrolled. Additionally, we initiated a Phase I clinical trial with huN901-DM1 in CD56-positive multiple myeloma (Study 003) in September 2005. On December 15, 2005, we executed an amendment to this termination agreement with Vernalis. Under the terms of the amendment, we assumed responsibility as of December 15, 2005, at our own expense, to complete the huN901-DM1

clinical study (Study 002) that had been initiated in the United Kingdom. Vernalis paid us $365,000 in consideration of the expected cost of the obligations assumed by us under the amendment. We intend to evaluate whether to out-license all or part of the development and commercial rights to this compound as we move through the clinical trial process.

In January 2004, we announced that we planned to advance cantuzumab mertansine, or an improved version of the compound, into a clinical trial that we would manage. In October 2004, we decided to move forward in developing a modified version of cantuzumab mertansine which we call huC242-DM4. Patient dosing was initiated for the Phase I study of huC242-DM4 in June 2005. We intend to evaluate whether to out-license all or part of the development and commercial rights to this compound as we move through the clinical trial process for this compound. New compounds created during the collaboration were also licensed to sanofi-aventis.

In July 2003, we licensed the three then-most advanced product candidates in our preclinical portfolio to sanofi-aventis under the terms of our discovery, development and commercialization collaboration. These three product candidates were an anti-CD33 TAP compound for acute myeloid leukemia (AVE9633), an anti-IGF-1R antibody (AVE1642), and an anti-CD19 TAP compound (SAR 3419) for certain B-cell malignancies, including non-Hodgkin’s lymphoma.

Clinical testing of AVE9633 was initiated in March 2005. In October 2006, clinical testing of AVE1642, a therapeutic antibody that binds to the Insulin-like Growth Factor 1 Receptor (IGF-1R), was initiated. SAR 3419 is in preclinical development. Additional compounds also are in various stages of development.

Our agreement with sanofi-aventis required us to present for inclusion in the collaborative research program certain antibodies or antibody targets that we believe will have utility in oncology, with the exception of those antibodies or antibody targets that are the subject of our preexisting or future collaboration and license agreements. Sanofi-aventis then had the right to either include in or exclude from the collaborative research program these proposed antibodies and antibody targets. If sanofi-aventis elected to exclude any antibodies or antibody targets, we could elect to develop the compounds for our own pipeline. Effective September 1, 2006, we are no longer obligated to present new targets for antibody-based anticancer therapeutics to sanofi-aventis, enabling us to use such targets in the development of our own proprietary products. Over the original, three-year term of the research program and two agreed-upon one-year extensions, we will receive a minimum of $79.3 million of committed research funding and will devote a significant amount of our internal research and development resources to advancing the research program. Under the terms of the agreement, we may advance any TAP or antibody products that sanofi-aventis has elected not to either initially include or later advance in the research program. After August 2008, sanofi-aventis will need to license the right to use our maytansinoid TAP technology with antibodies to targets that were not part of our research collaboration. Sanofi-aventis and ImmunoGen have agreed to negotiate a multi-target agreement to provide sanofi-aventis with access to our maytansinoid TAP technology for such antibody targets.

The potential product candidates that have been or that may eventually be excluded from the sanofi-aventis collaboration are in an early stage of discovery research and we are unable to accurately estimate which potential products, if any, will eventually move into our internal preclinical research program. We are unable to reliably estimate the costs to develop these products as a result of the uncertainties related to discovery research efforts as well as preclinical and clinical testing. Our decision to move a product candidate into the clinical development phase is predicated upon the results of preclinical tests. We cannot accurately predict which, if any, of the discovery research stage product candidates will advance from preclinical testing and move into our internal clinical development program. The clinical trial and regulatory approval processes for our product candidates that have advanced or we intend to advance to clinical testing are lengthy, expensive and uncertain in both timing and outcome. As a result, the pace and timing of the clinical development of our product candidates is highly uncertain and may not ever result in approved products. Completion dates and development costs will vary significantly for each product candidate and are difficult to predict. A variety of factors, many of which are outside our control, could cause or contribute to the prevention or delay of the successful completion of our clinical trials, or delay or prevent our obtaining necessary regulatory approvals. The costs to take a product through clinical trials are dependent upon, among other factors, the clinical indications, the timing, size and dosing schedule of each clinical trial, the number of patients enrolled in each trial, and the speed at which patients are enrolled and treated. Product candidates may be found ineffective or cause harmful side effects during clinical trials, may take longer to progress through clinical trials than anticipated, may fail to receive necessary regulatory approvals or may prove impracticable to manufacture in commercial quantities at reasonable cost or with acceptable quality.

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

Research and development expense for the three months ended September 30, 2006 increased $1.9 million to $11.4 million from $9.5 million for the three months ended September 30, 2005. The number of research and development

personnel increased to 152 at September 30, 2006 compared to 144 at September 30, 2005. Research and development salaries and related expenses increased by $479,000 in the three months ended September 30, 2006 compared to the three months ended September 30, 2005. Included in salaries and related expenses for the three months ended September 30, 2006 and 2005 is $347,000 and $352,000, respectively, of stock compensation costs incurred with the adoption of SFAS 123(R) on July 1, 2005. Contract service expense increased by $1.9 million in the three months ended September 30, 2006 compared to the same period ended September 30, 2005. This increase is primarily related to the manufacturing and process development activity related to our compounds in clinical trials. Partially offsetting these increases, overhead utilization, which are expenses charged to clinical materials reimbursement, increased by $806,000 in the three months ended September 30, 2006 compared to the three months ended September 30, 2005.

We expect future research and development expenses to increase as we expand our clinical trial activity. 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, | |
|---|---|---|
| | 2006 | 2005 |
| Research | $ 3,674 | $ 3,509 |
| Preclinical and Clinical Testing | 1,927 | 1,690 |
| Process and Product Development | 1,311 | 1,370 |
| Manufacturing Operations | 4,504 | 2,923 |
| | | |
| Total Research and Development Expense | $ 11,416 | $ 9,492 |

***Research***: Research includes expenses associated with activities to identify and evaluate new targets and to develop and evaluate new antibodies and cytotoxic agents for our products and in support of our collaborators. Such expenses primarily include personnel, fees to in-license certain technology, facilities and lab supplies. Research expenses for the three months ended September 30, 2006 increased $165,000 to $3.7 million from $3.5 million for the three months ended September 30, 2005. The increase in research expenses was primarily the result of an increase in salaries and related expense.

***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, 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, 2006 increased $237,000 to $1.9 million compared to $1.7 million for the three months ended September 30, 2005. This increase is primarily due to an increase in salaries and related expense, as well as an increase in clinical trial costs resulting from the advancement of our clinical trials.

***Process and Product Development****:* Process and product development expenses include costs for development of clinical and commercial manufacturing processes. Such expenses include the costs of personnel, contract services and facility expenses. For the three months ended September 30, 2006, total development expenses decreased $59,000 to $1.3 million, compared to $1.4 million for the three months ended September 30, 2005. The decrease is primarily due to a decrease in contract service expense, partially offset by an increase in salaries and related expense.

***Manufacturing Operations:*** Manufacturing operations expense includes costs to manufacture preclinical and clinical materials for our own product candidates and costs to support the operation and maintenance of our conjugate manufacturing plant. Such expenses include personnel, raw materials for our preclinical and clinical trials, development costs with contract manufacturing organizations, manufacturing supplies, and facilities expense. Manufacturing costs related to the production of material for our collaborators are recorded as cost of clinical material reimbursed in our statement of operations. For the three months ended September 30, 2006, manufacturing operations expense increased $1.6 million to $4.5 million compared to $2.9 million in the same period last year. The increase in the first quarter of fiscal 2007 as compared to fiscal 2006 was primarily the result of (i) an increase in contract service expense substantially due to higher antibody purchases as well as development costs with contract manufacturing organizations for the potential production of later-stage materials and (ii) and increase in disposable and chemical costs. Partially offsetting these increases was higher overhead utilization from the manufacture of clinical materials on

behalf of our collaborators during the three months ended September 30, 2006 as compared to the same period ended September 30, 2005.

*General and Administrative Expenses*

General and administrative expenses for the three months ended September 30, 2006 were level with the three months ended September 30, 2005 at $2.8 million. An increase in patent expense was substantially offset by a decrease in facilities expense. Patent costs rose primarily due to increased patents filed in additional countries, resulting in additional fees. The decrease in facilities expense was due to an adjustment made during the three months ended September 30, 2006 to reverse an incorrect accrual recorded in fiscal 2006 related to operating expenses and real estate taxes associated with the 64 Sidney Street office. The Company does not believe such previously recorded expense was material to the results of operations or the financial position of the Company for fiscal year 2006 or for the three months ended September 30, 2006.

*Interest Income*

Interest income for the three months ended September 30, 2006 increased $147,000 to $865,000 from $718,000 for the three months ended September 30, 2005. The increase in interest income is primarily the result higher rates of return resulting from higher yields on investments.

*Net Realized Losses on Investments*

Net realized losses on investments were $1,000 and $4,000 for the three months ended September 30, 2006 and 2005, respectively. The difference is attributable to the timing of investment sales.

**LIQUIDITY AND CAPITAL RESOURCES**

We require cash to fund our operating expenses, including the advancement of our own clinical programs, and to make capital expenditures. Historically, we have funded our cash requirements primarily through equity financings in public markets and payments from our collaborators, including equity investments, license fees and research funding. As of September 30, 2006, we had approximately $70.3 million in cash and marketable securities. Net cash used for operations during the three months ended September 30, 2006 was $4.6 million compared to $3.5 million during the three months ended September 30, 2005. The principal use of cash in operating activities for all periods presented was to fund our net loss. The increase in operational cash use during the first quarter of fiscal 2007 compared to the first quarter of fiscal 2006 is principally due to the increased net loss, as a result of increased research and development costs compared to last year.

Net cash provided by investing activities during the three months ended September 30, 2006 was $6.0 million compared to $2.3 million during the three months ended September 30, 2005. The variance primarily relates to an increase in the sale and maturities of marketable securities. Capital expenditures, primarily for the purchase of new equipment, were $493,000 and $498,000 for the three-month periods ended September 30, 2006 and 2005, respectively.

Net cash provided by financing activities was $26,000 for the three months ended September 30, 2006 compared to net cash provided by financing activities of $241,000 for the three months ended September 30, 2005. For the three months ended September 30, 2006, net cash provided by financing activities reflects the proceeds to us from the exercise of 11,250 stock options under our Restated Stock Option Plan, at a price of $2.30 per share. For the three months ended September 30, 2005, net cash provided by financing activities reflects the proceeds to us from the exercise of 55,494 stock options under the Company’s Restated Stock Option Plan, at prices ranging from $1.94 to $6.27 per share.

We anticipate that our current capital resources and future collaborator payments, including committed research funding that we expect to receive from sanofi-aventis pursuant to the terms of our collaboration agreement, will enable us to meet our operational expenses and capital expenditures for at least the current and the next one to two fiscal years. We believe that our existing capital resources in addition to our established collaborative agreements will provide funding sufficient to allow us to meet our obligations under all collaborative agreements while also allowing us to develop product candidates and technologies not covered by collaborative agreements. However, we cannot provide assurance that such collaborative agreement funding will, in fact, be received. Should we 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.

*Recent Accounting Pronouncements*

In July 2006, the FASB issued Financial Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes,* which applies to all tax positions related to income taxes subject to No. 109 (SFAS 109), *Accounting for Income Taxes*. This includes tax positions considered to be "routine" as well as those with a high degree of uncertainty. FIN 48 utilizes a two-step approach for evaluating tax positions. Recognition (step one) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) is only addressed if step one has been satisfied (i.e., the position is more-likely-than-not to be sustained). Under step two, the tax benefit is measured as the largest amount of benefit, determined on a cumulative probability basis that is more-likely-than-not to be realized upon ultimate settlement. FIN 48's use of the term "more-likely-than-not" in steps one and two is consistent with how that term is used in SFAS 109 (i.e., a likelihood of occurrence greater than 50 percent).

Those tax positions failing to qualify for initial recognition are recognized in the first subsequent interim period they meet the more-likely-than-not standard, or are resolved through negotiation or litigation with the taxing authority, or upon expiration of the statute of limitations. Derecognition of a tax position that was previously recognized would occur when a company subsequently determines that a tax position no longer meets the more-likely-than-not threshold of being sustained. FIN 48 specifically prohibits the use of a valuation allowance as a substitute for derecognition of tax positions. Additionally, FIN 48 requires expanded disclosure requirements, which include a tabular rollforward of the beginning and ending aggregate unrecognized tax benefits as well as specific detail related to tax uncertainties for which it is reasonably possible the amount of unrecognized tax benefit will significantly increase or decrease within twelve months. These disclosures are required at each annual reporting period unless a significant change occurs in an interim period. FIN 48 is effective for fiscal years beginning after December 15, 2006 (our fiscal year 2008). We do not believe the adoption will have material impact on our results of operation or financial position.

*Forward-Looking Statements*

Various statements in this Quarterly Report on Form 10-Q are forward-looking statements concerning our future products, revenues, expenses, liquidity and cash needs, as well as our plans and strategies. Forward-looking statements give management's current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historic or current events. They use words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "should," "may," "will," and other words and terms of similar meaning. These forward-looking statements are based upon current expectations and we assume no obligation to update this information. Any or all of our forward-looking statements in this Quarterly Report on Form 10-Q may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks or uncertainties. Consequently, no forward-looking statement can be guaranteed. Actual results may vary materially from those set forth in the forward-looking statements. Forward-looking statements, therefore, should be considered in light of all of the information included or referred to in this Quarterly Report on Form 10-Q, including the cautionary information set forth under Part II, Item 1A., Risk Factors.

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

We maintain an investment portfolio in accordance with our Investment Policy. The primary objectives of our Investment Policy are to preserve principal, maintain proper liquidity to meet operating needs and maximize yields. Although our investments are subject to credit risk, our Investment Policy specifies credit quality standards for our investments and limits the amount of credit exposure from any single issue, issuer or type of investment. Our investments are also subject to interest rate risk and will decrease in value if market interest rates increase. However, due to the conservative nature of our investments and relatively short duration, interest rate risk is mitigated. We do not own derivative financial instruments in our investment portfolio. Accordingly, we do not believe that there is any material market risk exposure with respect to derivative or other financial instruments that would require disclosure under this item.

**ITEM 4. Controls and Procedures**

(a) *Evaluation of Disclosure Controls and Procedures*

As of the end of the period covered by this report, the Company's principal executive officer and principal financial officer evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and have concluded, based on such evaluation, that the design and operation of the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company, including its consolidated subsidiaries, was made known to them by others within those entities, particularly during the period in which this Quarterly Report on Form 10-Q was being prepared.

(b) *Changes in Internal Controls*

There were no changes, identified in connection with the evaluation described above, in the Company's internal controls over financial reporting or in other factors that could significantly affect those controls that have materially affected or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

**ITEM 1. Legal Proceedings.**

None.

**ITEM 1A. Risk Factors.**

**We have a history of operating losses and expect to incur significant additional operating losses.**

We have generated operating losses since our inception. As of September 30, 2006, we had an accumulated deficit of $244.8 million. For the three months ended September 30, 2006, and the fiscal years ended June 30, 2006, 2005, and 2004, we generated losses of $6.3 million, $17.8 million, $11.0 million and $5.9 million, respectively. We may never be profitable. We expect to incur substantial additional operating expenses over the next several years as our research, development, preclinical testing, clinical studies and collaborator support activities increase. We intend to continue to invest significantly in our product candidates. Further, we expect to invest significant resources supporting our existing collaborators as they work to develop, test and commercialize TAP and other antibody compounds, and we or our collaborators may encounter technological or regulatory difficulties as part of this development and commercialization process that we cannot overcome or remedy. We may also incur substantial marketing and other costs in the future if we decide to establish marketing and sales capabilities to commercialize our product candidates. None of our product candidates has generated any commercial revenue and our only revenues to date have been primarily from upfront and milestone payments, research and development support and clinical materials reimbursement from our collaborative partners. We do not expect to generate revenues from the commercial sale of our product candidates for several years, and we may never generate revenues from the commercial sale of products. Even if we do successfully develop products that can be marketed and sold commercially, we will need to generate significant revenues from those products to achieve and maintain profitability. Even if we do become profitable, we may not be able to sustain or increase profitability on a quarterly or annual basis.

**If we are unable to obtain additional funding when needed, we may have to delay or scale back some of our programs or grant rights to third parties to develop and market our products.**

We will continue to expend substantial resources developing new and existing product candidates, including costs associated with research and development, acquiring new technologies, conducting preclinical and clinical trials, obtaining regulatory approvals and manufacturing products as well as providing certain support to our collaborators in the development of their products. We believe that our current working capital and future payments, if any, from our collaboration arrangements, including committed research funding that we expect to receive from sanofi-aventis pursuant to the terms of our collaboration agreement, will be sufficient to meet our current and projected operating and capital requirements for at least the current and the next one to two fiscal years. However, we may need additional financing sooner due to a number of factors including:

- if either we or any of our collaborators incur higher than expected costs or experience slower than expected progress in developing product candidates and obtaining regulatory approvals;
- lower revenues than expected under our collaboration agreements; or
- acquisition of technologies and other business opportunities that require financial commitments.

Additional funding may not be available to us on favorable terms, or at all. We may raise additional funds through public or private financings, collaborative arrangements or other arrangements. Debt financing, if available, may

involve covenants that could restrict our business activities. If we are unable to raise additional funds through equity or debt financing when needed, we may be required to delay, scale back or eliminate expenditures for some of our development programs or grant rights to develop and market product candidates that we would otherwise prefer to internally develop and market. If we are required to grant such rights, the ultimate value of these product candidates to us may be reduced.

In addition to the foregoing risk factors, for a complete set of risk factors, please refer to the section entitled “Risk Factors” in our Annual Report on Form
10-K for our fiscal year ended June 30, 2006, on file with the Securities and Exchange Commission.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

**ITEM 3. Defaults Upon Senior Securities.**

None.

**ITEM 4. Submission of Matters to a Vote of Security Holders.**

None.

**ITEM 5. Other Information.**

None.

**ITEM 6. Exhibits.**

(a) Exhibits

10.1 Amendment No. 1 to the Collaboration and License Agreement with sanofi-aventis.
10.2 Collaborative Development and License Agreement with Biotest AG.
10.3 Amendment No. 1 to Collaborative Development and License Agreement with Biotest AG.
10.4 2004 Non-Employee Director Compensation and Deferred Share Unit Plan, as Amended September 5, 2006.
31.1 Certification of Chief 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 Chief Executive Officer and Principal Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.

**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.**

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| Date: November 3, 2006 | By: | /s/ Mitchel Sayare<br>Mitchel Sayare<br>President and Chief Executive Officer<br>(principal executive officer) |
| Date: November 3, 2006 | By: | /s/ Daniel M. Junius<br>Daniel M. Junius<br>Executive Vice President and Chief Financial Officer<br>(principal financial officer) |