

IMMUNOGEN INC  
Form 10-Q  
May 02, 2014  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2014**

**OR**

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

**For the transition period from            to**

**Commission file number 0-17999**

**ImmunoGen, Inc.**

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

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

**830 Winter Street, Waltham, MA 02451**

(Address of principal executive offices, including zip code)

**(781) 895-0600**

(Registrant's telephone number, including area code)

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

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

Large accelerated filer x

Accelerated filer o

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

Smaller reporting company o

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

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

Shares of common stock, par value \$.01 per share: 85,813,733 shares outstanding as of April 23, 2014.



Table of Contents

IMMUNOGEN, INC.

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2014

TABLE OF CONTENTS

Item		Page Number
	<b>Part I</b>	
<u>1.</u>	<u>Financial Statements (Unaudited):</u>	
<u>1a.</u>	<u>Consolidated Balance Sheets as of March 31, 2014 and June 30, 2013</u>	3
<u>1b.</u>	<u>Consolidated Statements of Operations and Comprehensive Loss for the three and nine months ended March 31, 2014 and 2013</u>	4
<u>1c.</u>	<u>Consolidated Statements of Cash Flows for the nine months ended March 31, 2014 and 2013</u>	5
<u>1d.</u>	<u>Notes to Consolidated Financial Statements</u>	6
<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>	33
<u>4.</u>	<u>Controls and Procedures</u>	33
	<b>Part II</b>	
<u>1A.</u>	<u>Risk Factors</u>	34
<u>6.</u>	<u>Exhibits</u>	35
	<u>Signatures</u>	36

Table of Contents**ITEM 1. Financial Statements****IMMUNOGEN, INC.****CONSOLIDATED BALANCE SHEETS****(UNAUDITED)****In thousands, except per share amounts**

	<b>March 31, 2014</b>	<b>June 30, 2013</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 164,076	\$ 194,960
Accounts receivable	36	
Unbilled revenue	1,987	2,121
Inventory	2,484	703
Restricted cash	319	319
Prepaid and other current assets	3,442	2,581
Total current assets	172,344	200,684
Property and equipment, net of accumulated depreciation	12,046	10,783
Long-term restricted cash	1,912	1,912
Other assets	392	217
Total assets	\$ 186,694	\$ 213,596
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Accounts payable	\$ 4,743	\$ 4,498
Accrued compensation	6,396	6,153
Other accrued liabilities	7,221	6,049
Current portion of deferred lease incentive	1,016	979
Current portion of deferred revenue	1,821	1,494
Total current liabilities	21,197	19,173
Deferred lease incentive, net of current portion	5,079	5,626
Deferred revenue, net of current portion	59,348	63,384
Other long-term liabilities	3,136	3,566
Total liabilities	88,760	91,749
Commitments and contingencies (Note E)		
Shareholders' equity:		
Preferred stock, \$0.01 par value; authorized 5,000 shares; no shares issued and outstanding		
Common stock, \$0.01 par value; authorized 150,000 shares; issued and outstanding 85,807 and 84,725 shares as of March 31, 2014 and June 30, 2013, respectively	858	847
Additional paid-in capital	718,708	697,767
Accumulated deficit	(621,632)	(576,767)
Total shareholders' equity	97,934	121,847
Total liabilities and shareholders' equity	\$ 186,694	\$ 213,596

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



Table of Contents

**IMMUNOGEN, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**

**(UNAUDITED)**

**In thousands, except per share amounts**

	<b>Three Months Ended March 31,</b>		<b>Nine Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Revenues:</b>				
License and milestone fees	\$ 305	\$ 22,010	\$ 39,150	\$ 23,372
Royalty revenue	2,558		6,946	
Research and development support	1,948	2,257	5,860	5,670
Clinical materials revenue	2,064	734	2,197	2,662
<b>Total revenues</b>	<b>6,875</b>	<b>25,001</b>	<b>54,153</b>	<b>31,704</b>
<b>Operating Expenses:</b>				
Research and development	38,280	21,318	81,171	66,674
General and administrative	6,040	4,995	18,013	16,098
<b>Total operating expenses</b>	<b>44,320</b>	<b>26,313</b>	<b>99,184</b>	<b>82,772</b>
<b>Loss from operations</b>	<b>(37,445)</b>	<b>(1,312)</b>	<b>(45,031)</b>	<b>(51,068)</b>
<b>Other (expense) income, net</b>	<b>(7)</b>	<b>(39)</b>	<b>166</b>	<b>132</b>
<b>Net loss</b>	<b>\$ (37,452)</b>	<b>\$ (1,351)</b>	<b>\$ (44,865)</b>	<b>\$ (50,936)</b>
<b>Basic and diluted net loss per common share</b>	<b>\$ (0.44)</b>	<b>\$ (0.02)</b>	<b>\$ (0.53)</b>	<b>\$ (0.61)</b>
<b>Basic and diluted weighted average common shares outstanding</b>	<b>85,684</b>	<b>84,279</b>	<b>85,375</b>	<b>83,923</b>
<b>Total comprehensive loss</b>	<b>\$ (37,452)</b>	<b>\$ (1,351)</b>	<b>\$ (44,865)</b>	<b>\$ (50,936)</b>

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

	Nine Months ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net loss	\$ (44,865)	\$ (50,936)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	3,428	3,509
Loss (gain) on sale/disposal of fixed assets	20	(22)
Gain on forward contracts	(2)	(150)
Non-cash licensing fee	12,830	
Stock and deferred share unit compensation	12,395	9,839
Deferred rent	92	(81)
Changes in operating assets and liabilities:		
Accounts receivable	(36)	(5,317)
Unbilled revenue	134	(909)
Inventory	(1,781)	1,176
Prepaid and other current assets	(613)	777
Other assets	(113)	(9)
Accounts payable	245	(672)
Accrued compensation	243	121
Other accrued liabilities	(84)	1,088
Deferred revenue, net of non-cash upfront license payment	(16,849)	(7,101)
Proceeds from landlord for tenant improvements	227	
Net cash used for operating activities	(34,729)	(48,687)
Cash flows from investing activities:		
Purchases of property and equipment, net	(4,711)	(2,415)
Payments (proceeds) from settlement of forward contracts	(1)	58
Net cash used for investing activities	(4,712)	(2,357)
Cash flows from financing activities:		
Proceeds from common stock issuance, net		93,991
Proceeds from stock options exercised	8,557	2,218
Net cash provided by financing activities	8,557	96,209
Net change in cash and cash equivalents	(30,884)	45,165
Cash and cash equivalents, beginning balance	194,960	160,938
Cash and cash equivalents, ending balance	\$ 164,076	\$ 206,103

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





Table of Contents

**IMMUNOGEN, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2014**

**A. Summary of Significant Accounting Policies**

*Basis of Presentation*

The accompanying unaudited consolidated financial statements at March 31, 2014 and June 30, 2013 and for the three and nine months ended March 31, 2014 and 2013 include the accounts of ImmunoGen, Inc., or the Company, and its wholly owned subsidiaries, ImmunoGen Securities Corp. and ImmunoGen Europe Limited. The consolidated financial statements include all of the adjustments, consisting only of normal recurring adjustments, which management considers necessary for a fair presentation of the Company's financial position in accordance with accounting principles generally accepted in the U.S. for interim financial information. Certain information and footnote disclosures normally included in the Company's annual financial statements have been condensed or omitted. The preparation of interim financial statements requires the use of management's estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim financial statements and the reported amounts of revenues and expenditures during the reported periods. The results of the interim periods are not necessarily indicative of the results for the entire year. Accordingly, the interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2013.

*Subsequent Events*

The Company has evaluated all events or transactions that occurred after March 31, 2014 up through the date the Company issued these financial statements. In April 2014, the Company modified its lease agreement at 830 Winter Street, Waltham, MA to extend the lease from 2020 to 2026. The Company may extend the lease for two additional terms of five years. As part of this lease amendment, the Company will receive a construction allowance of approximately \$1.1 million to build out office space to the Company's specifications. The Company did not have any other material recognizable or unrecognizable subsequent events during this period.

*Revenue Recognition*

The Company enters into licensing and development agreements with collaborative partners for the development of monoclonal antibody-based anticancer therapeutics. The terms of these agreements contain multiple deliverables which may include (i) licenses, or options to obtain licenses, to the Company's 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)

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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 whether 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 March 31, 2014, the Company had the following two types of agreements with the parties identified below:

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

Amgen (four exclusive single-target licenses)

Bayer HealthCare (one exclusive single-target license)

Biotest (one exclusive single-target license)

Table of Contents

Lilly (one exclusive single-target license)

Novartis (two 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)

- Option/research 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):

Sanofi

Novartis

Lilly

CytomX

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 Roche's Kadcyla®, however, the minimum royalty term is 10 years and the maximum royalty term is 12 years on a country-by-country basis. Royalty rates may vary over the royalty term depending on the Company's intellectual property rights. The Company may provide technical assistance and share any technology improvements with its collaborators during the term of the collaboration agreements. The Company does not directly control when 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 improvements will be made, the likelihood that technological improvements made will be used by the Company's collaborators and the nature of the research services to be performed on behalf of its collaborators and market rates for similar services.

Upfront payments on development and commercialization licenses are deferred if facts and circumstances dictate that the license does not have stand-alone value. Prior to the adoption of Accounting Standards Update (ASU) No. 2009-13, Revenue Arrangements with Multiple Deliverables on July 1, 2010, the Company determined that its licenses lacked stand-alone value and were combined with other elements of the arrangement and any amounts associated with the license were deferred and amortized over

Table of Contents

a certain period, which the Company refers to as the Company's period of substantial involvement. The determination of the length of the period over which to defer revenue is subject to judgment and estimation and can have an impact on the amount of revenue recognized in a given period. Historically the Company's involvement with the development of a collaborator's product candidate has been significant at the early stages of development, and lessens as it progresses into clinical trials. Also, as a drug candidate gets closer to commencing pivotal testing the Company's collaborators have sought an alternative site to manufacture their products, as the Company's facility does not produce pivotal or commercial drug product. Accordingly, the Company generally estimates this period of substantial involvement 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 substantial involvement is, depending on the nature of the license, on average six and one-half years. Quarterly, the Company reassesses its periods of substantial involvement over which the Company amortizes its upfront license fees and makes adjustments as appropriate. In the event a collaborator elects to discontinue development of a specific product candidate under a development and commercialization license, but retains its right to use the Company's technology to develop an alternative product candidate to the same target or a target substitute, the Company would cease amortization of any remaining portion of the upfront fee until there is substantial preclinical activity on another product candidate and its remaining period of substantial involvement can be estimated. In the event that a development and commercialization license were to be terminated, the Company would recognize as revenue any portion of the upfront fee that had not previously been recorded as revenue, but was classified as deferred revenue, at the date of such termination.

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

Upfront payments on 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 be below its contract selling prices for its existing collaborations for the foreseeable future. During the nine months ended March 31, 2014 and 2013, 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 \$1.6 million and \$755,000, respectively. The majority of the Company's costs to produce these preclinical and clinical materials are fixed and then allocated to each batch based on the number of batches produced during the period. Therefore, the Company's costs to produce these materials are significantly impacted by the number of batches produced during the period. The volume of preclinical and clinical materials the Company produces is directly related to the number of clinical trials for which the Company and its collaborators are preparing 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

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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 first moves into clinical testing or advances into different clinical trial phases. Regulatory milestones are typically payable upon submission for marketing approval with the U.S. Food and

## Table of Contents

Drug Administration, or FDA, or other countries' regulatory authorities or on receipt of actual marketing approvals for the compound or for additional indications. Sales milestones are typically payable when annual sales reach certain levels.

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

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

Under the Company's 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 second month of the quarter after the licensee has sold the royalty-bearing product or products. The Company recognizes royalty revenues when it can reliably estimate such amounts and collectability is reasonably assured. As such, the Company generally recognizes royalty revenues in the quarter reported to the Company by its licensees, or one quarter following the quarter in which sales by the Company's licensees occurred.

## Right-to-Test Agreements

The Company's right-to-test agreements generally 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.



For right-to-test agreements where the options to secure development and commercialization licenses to the Company's ADC technology are considered substantive, the Company does not consider the development and commercialization licenses to be a deliverable at the inception of the agreement. For those right-to-test agreements entered into prior to the adoption of ASU No. 2009-13 where the options to secure development and commercialization licenses are considered substantive, the Company has deferred the upfront payments received and recognizes this revenue over the period during which the collaborator could elect to take options for development and commercialization licenses. These periods are specific to each collaboration agreement. If a collaborator takes an option to acquire a development and commercialization license under these agreements, any substantive option fee is deferred and recognized over the life of the option, generally 12 to 18 months. If a collaborator exercises an option and takes a development and commercialization license to a specific target, the Company attributes the exercise fee to the development and commercialization license. Upon exercise of an option to acquire a development and commercialization license, the Company would also attribute any remaining deferred option fee to the development and commercialization license and apply the multiple-element revenue recognition criteria to the development and commercialization license and any other deliverables to determine the appropriate revenue recognition, which will be consistent with the Company's accounting policy for upfront payments on single-target licenses. In the event a right-to-

Table of Contents

test agreement were to be terminated, the Company would recognize as revenue any portion of the upfront fee that had not previously been recorded as revenue, but was classified as deferred revenue, at the date of such termination. None of the Company's right-to-test agreements entered into subsequent to the adoption of ASU No. 2009-13 has been determined to contain substantive options.

For right-to-test agreements where the options to secure development and commercialization licenses to the Company's 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. None of the Company's right-to-test agreements entered into prior to the adoption of ASU No. 2009-13 has been determined to contain non-substantive options.

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.

*Fair Value of Financial Instruments*

Fair value is defined under ASC Topic 820, Fair Value Measurements and Disclosures, as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy to measure fair value which is based on three levels of inputs, of which the first two are considered observable and the last unobservable, as follows:

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

As of March 31, 2014, the Company held certain assets that are required to be measured at fair value on a recurring basis. The following table represents the fair value hierarchy for the Company's financial assets measured at fair value on a recurring basis as of March 31, 2014 (in thousands):

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		Fair Value Measurements at March 31, 2014 Using			Significant
		Quoted Prices in			Unobservable
		Active Markets for			Inputs
		Identical Assets			(Level 3)
		(Level 1)			
		Significant Other			
		Observable Inputs			
		(Level 2)			
		Total			
Cash, cash equivalents and restricted cash	\$	166,307	\$	166,307	\$

As of June 30, 2013, the Company held certain assets that are required to be measured at fair value on a recurring basis. The following table represents the fair value hierarchy for the Company's financial assets measured at fair value on a recurring basis as of June 30, 2013 (in thousands):

		Fair Value Measurements at June 30, 2013 Using			Significant
		Quoted Prices in			Unobservable
		Active Markets for			Inputs
		Identical Assets			(Level 3)
		(Level 1)			
		Significant Other			
		Observable Inputs			
		(Level 2)			
		Total			
Cash, cash equivalents and restricted cash	\$	197,191	\$	197,191	\$

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

## *Unbilled Revenue*

The majority of the Company's unbilled revenue at March 31, 2014 and June 30, 2013 represents research funding earned prior to those dates based on actual resources utilized under the Company's agreements with various collaborators.

Table of Contents*Inventory*

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

Inventory at March 31, 2014 and June 30, 2013 is summarized below (in thousands):

	March 31, 2014	June 30, 2013
Raw materials	\$ 547	\$ 75
Work in process	1,937	628
Total	\$ 2,484	\$ 703

Raw materials inventory consists entirely of DM1 and DM4, proprietary cell-killing agents the Company developed as part of its ADC technology. The Company considers more than a twelve month supply of raw materials that is not supported by firm, fixed orders and/or projections from its collaborators to be excess and establishes a reserve to reduce to zero the value of any such excess raw material inventory with a corresponding charge to research and development expense. In accordance with this policy, the Company recorded \$236,000 and \$798,000 of expense related to excess inventory during the nine-month periods ended March 31, 2014 and 2013, respectively. The Company recorded \$32,000 of expense related to excess inventory during the three-month period ended March 31, 2014. There were no expenses recorded for excess inventory during the same period last year.

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. As such, no reserve for work in process inventory is required.

*Computation of Net Loss per Common Share*

Basic and diluted net loss per share is calculated based upon the weighted average number of common shares outstanding during the period. 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). The Company's restricted stock participates 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 that are outstanding during the period, except where such non-participating securities would be anti-dilutive.

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The Company's common stock equivalents, as calculated in accordance with the treasury-stock method, are shown in the following table (in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Options outstanding to purchase common stock and unvested restricted stock	8,605	7,945	8,605	7,945
Common stock equivalents under treasury stock method	1,814	2,433	1,956	2,302

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

### *Stock-Based Compensation*

As of March 31, 2014, the Company is authorized to grant future awards under one employee share-based compensation plan, which is the ImmunoGen, Inc. 2006 Employee, Director and Consultant Equity Incentive Plan, or the 2006 Plan. At the annual meeting of shareholders on November 13, 2012, an amendment to the 2006 Plan was approved and an additional 3,500,000 shares were authorized for issuance under this plan. As amended, the 2006 Plan provides for the issuance of Stock Grants, the grant of

Table of Contents

Options and the grant of Stock-Based Awards for up to 12,000,000 shares of the Company's common stock, as well as any shares of common stock that are represented by awards granted under the previous stock option plan, the ImmunoGen, Inc. Restated Stock Option Plan, or the Former Plan, that are forfeited, expire or are cancelled without delivery of shares of common stock; provided, however, that no more than 5,900,000 shares shall be added to the 2006 Plan from the Former Plan, pursuant to this provision. Option awards are granted with an exercise price equal to the market price of the Company's stock at the date of grant. Options vest at various periods of up to four years and may be exercised within ten years of the date of grant.

The 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.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Dividend	None	None	None	None
Volatility	60.44%	60.44%	60.44%	60.44%
Risk-free interest rate	1.94%	1.13%	1.74%	0.85%
Expected life (years)	6.3	6.3	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 March 31, 2014 and 2013 were \$9.52 and \$8.28 per share, respectively, and \$10.54 and \$8.67 per share for options granted during the nine months ended March 31, 2013 and 2012, respectively.

Stock compensation expense related to stock options and restricted stock awards granted under the 2006 Plan was \$3.7 million and \$12.1 million during the three and nine months ended March 31, 2014, respectively, compared to stock compensation expense of \$2.9 million and \$9.6 million for the three and nine months ended March 31, 2013, respectively. As of March 31, 2014, the estimated fair value of unvested employee awards was \$25.5 million, net of estimated forfeitures. The weighted-average remaining vesting period for these awards is approximately two and a quarter years.

During the nine months ended March 31, 2014, holders of options issued under the Company's equity plans exercised their rights to acquire an aggregate of approximately 1.0 million shares of common stock at prices ranging from \$3.19 to \$15.83 per share. The total proceeds to the Company from these option exercises were approximately \$8.6 million.

*Financial Instruments and Concentration of Credit Risk*

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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. All of the Company's cash and cash equivalents are maintained with three financial institutions in the U.S. The Company uses a Euro-denominated bank account to manage the foreign currency exposures that exist as part of our ongoing business operations. Our foreign currency risk management strategy is principally designed to mitigate the future potential financial impact of changes in the value of transactions, anticipated transactions and balances denominated in foreign currency, resulting from changes in foreign currency exchange rates.

### *Segment Information*

During the nine months ended March 31, 2014, 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 and nine months ended March 31, 2014 and 2013 are included in the following table:

Collaborative Partner:	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Biotest	13%	1%	3%	5%
Lilly	15%	1%	18%	2%
Novartis	22%	51%	40%	48%
Roche	37%	42%	31%	33%

There were no other customers of the Company with significant revenues in the three and nine months ended March 31, 2014 and 2013.

*Recent Accounting Pronouncements*

In July 2013, the FASB issued guidance to address the diversity in practice related to the financial statement presentation of unrecognized tax benefits as either a reduction of a deferred tax asset or a liability when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This guidance is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

**B. Collaborative Agreements***Roche*

In May 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 February 2013, the U.S. FDA granted marketing approval to the HER2-targeting ADC compound, Kadcyla. Roche received marketing approval for Kadcyla in Japan and in the European Union (EU) in September 2013 and November 2013, respectively. Roche is responsible for the manufacturing, product development and marketing of Kadcyla and any other 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 Kadcyla or any other resulting products. Total milestones are categorized as follows: development milestones \$13.5 million; and regulatory milestones \$30.5 million. The Company received two \$5 million regulatory milestone payments in connection with marketing approval of Kadcyla in Japan and in the EU. Based on an evaluation of the effort contributed to the achievement of these milestones, the Company determined these milestones were not substantive. In consideration that there were no undelivered elements remaining, no continuing performance obligations and all other revenue recognition criteria had been met, the Company recognized the \$10 million non-refundable payments as revenue upon achievement of the milestones, which is included in license and milestone fees for the nine months ended March 31, 2014. Through March 31, 2014, the Company has received and recognized \$13.5 million and \$20.5 million in development and regulatory milestone payments, respectively, related to Kadcyla. The next potential milestone the Company will be entitled to receive will be a \$5 million regulatory milestone for marketing approval of Kadcyla for a first extended indication as defined in the agreement.



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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 Kadcyla from Roche one quarter in arrears. In accordance with the Company's revenue recognition policy, \$2.6 million of royalties on net sales of Kadcyla for the three-month period ended December 31, 2013 were recorded and included in royalty revenue for the three months ended March 31, 2014 and \$6.9 million of royalties on net sales of Kadcyla for the nine-month period ended December 31, 2013 is included in royalty revenue for the nine months ended March 31, 2014. No such royalties were recorded in the prior year period.

### *Amgen*

Under a now-expired right-to-test agreement entered into with Abgenix (now Amgen) in December 2000, in September 2009, November 2009 and December 2012, Amgen took three exclusive development and commercialization licenses, for which the Company received an exercise fee of \$1 million for each license taken. Under the same now-expired right-to-test agreement, 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. For each of these development and commercialization licenses, 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 development and commercialization license are categorized as follows: development milestones \$9 million;

Table of Contents

regulatory milestones \$20 million; and sales milestones \$5 million. Amgen is responsible for the manufacturing, product development and marketing of any products resulting from the agreement. Amgen no longer has the right to take additional development and commercialization licenses under the agreement.

Since a deliverable to the original right-to-test agreement was determined to be materially modified at the time the non-exclusive license was converted to exclusive in October 2013, the Company accounted for the multiple-element agreement in accordance with ACS 605-25 (as amended by ASU No. 2009-13). As a result, all of the deferred revenue recorded on the date of the modification and the new consideration received as part of the modification was allocated to all of the remaining deliverables at the time of amendment of the right-to-test agreement based on the estimated selling price of each element. The remaining amount represents consideration for previously delivered elements and was recognized upon the execution of the modification.

The outstanding licenses, including the exclusive license delivered upon the signing of the amendment, contain the rights to future technological improvements as well as options to purchase materials and research and development services. The Company concluded that additional materials and research and development services would be paid at a contractual price equal to the estimated selling price based estimated prices that would be charged by third parties for similar services. The estimated selling price of the right to technological improvements is the Company's best estimate of selling price and was determined by estimating the probability that technological improvements will be made and the probability that such technological improvements made will be used by Amgen. In estimating these probabilities, we considered factors such as the technology that is the subject of the development and commercialization licenses, our history of making technological improvements, and when such improvements, if any, were likely to occur relative to the stage of development of any product candidates pursuant to the development and commercialization licenses. The Company's estimate of probability considered the likely period of time that any improvements would be utilized, which was estimated to be ten years following delivery of a commercialization and development license. The value of any technological improvements made available after this ten year period was considered to be *de minimis* due to the significant additional costs that would be incurred to incorporate such technology into any existing product candidates. The estimate of probability was multiplied by the estimated selling price of the development and commercialization licenses and the resulting cash flow was discounted at a rate of 13%, representing the Company's estimate of its cost of capital at the time of amendment of the right-to-test agreement.

The \$430,000 determined to be the estimated selling price of the future technological improvements is being recognized as revenue ratably over the period the Company is obligated to make available any technological improvements, which is equivalent to the estimated term of the agreement. The Company estimates the term of a development and commercialization license to be approximately 25 years, which reflects management's estimate of the time necessary to develop and commercialize products pursuant to the license plus the estimated royalty term. The Company reassesses the estimated term at the end of each reporting period.

After accounting for the undelivered elements at the estimated selling price, the Company had \$2.2 million of remaining allocable consideration which was determined to represent consideration for the previously delivered elements, including the exclusive license that was delivered upon the execution of the modification. This amount was recorded as revenue and is included in license and milestone fees for the nine months ended March 31, 2014.

The next potential milestone the Company will be entitled to receive under the September 2009 and November 2009 development and commercialization licenses will be a development milestone for the first dosing of a patient in a Phase II clinical trial, which will result in a \$3 million payment being due. The next potential milestones the Company will be entitled to receive under the December 2012 and May 2013 development and commercialization licenses will be a development milestone for IND approval which will result in a \$1 million payment being due to the Company. 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.

*Sanofi*

In December 2006, the Company entered into a right-to-test agreement with Sanofi. The agreement provides Sanofi with the right to (a) test the Company's maytansinoid ADC technology with Sanofi's antibodies to targets under a right-to-test, or research, license, (b) take exclusive options, with certain restrictions, to specified targets for specified option periods and (c) upon exercise of those options, take exclusive licenses to use the Company's maytansinoid ADC technology to develop and commercialize products directed to the specified targets on terms agreed upon at the inception of the right-to-test agreement. For each development and commercialization license taken, the Company is entitled to receive an exercise fee of \$2 million and up to a total of \$30 million in milestone payments, plus royalties on the commercial sales of any resulting products. The total milestones are categorized as follows: development milestones \$10 million; and regulatory milestones \$20 million. In December 2013, Sanofi took its first exclusive development and commercialization license under the right-to-test agreement, for which the Company received an exercise fee of \$2 million. The Company has deferred the exercise fee and is recognizing the \$2 million as revenue ratably over the Company's

[Table of Contents](#)