IMMUNOGEN INC
Form 10-Q
August 04, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

OR

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

For the transition period from to

Commission file number 0-17999

ImmunoGen, Inc.

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

(State or other jurisdiction of incorporation or organization)

830 Winter Street, Waltham, MA 02451

(Address of principal executive offices, including zip code)

(781) 895-0600

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12-b2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

Shares of common stock, par value $.01 per share: 89,597,770 shares outstanding as of August 1, 2017.

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IMMUNOGEN, INC.

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2017

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ITEM 1. Financial Statements

IMMUNOGEN, INC.

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

In thousands, except per share amounts

	June 30, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	$ 150,337	$ 159,964
Accounts receivable	1,024	2,026
Unbilled revenue	1,807	6,778
Inventory	3,482	2,192
Prepaid and other current assets	4,758	5,386
Total current assets	161,408	176,346
Property and equipment, net of accumulated depreciation	16,821	19,498
Other assets	3,148	3,020
Total assets	$ 181,377	$ 198,864
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Accounts payable	$ 5,152	$ 7,895
Accrued compensation	7,212	6,946
Other accrued liabilities	12,332	11,150
Current portion of deferred lease incentive	784	784
Current portion of liability related to the sale of future royalties, net of deferred financing costs of $812 and $850, respectively	15,678	14,470
Current portion of deferred revenue	26,192	14,531
Total current liabilities	67,350	55,776
Deferred lease incentive, net of current portion	5,521	5,914
Deferred revenue, net of current portion	18,912	19,086
Convertible 4.5% senior notes, net of deferred financing costs of $2,701 and $3,035, respectively	97,299	96,965
Liability related to the sale of future royalties, net of current portion and deferred financing costs of $2,750 and $3,144, respectively	161,339	169,858
Other long-term liabilities	4,185	4,115
Total liabilities	354,606	351,714
Commitments and contingencies (Note H)		
Shareholders' deficit:		
	—	—

Preferred stock, $.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 89,597 and 87,301 shares as of June 30, 2017 and December 31, 2016, respectively	896	873
Additional paid-in capital	784,657	778,847
Accumulated deficit	(958,782)	(932,570)
Total shareholders' deficit	(173,229)	(152,850)
Total liabilities and shareholders' deficit	$ 181,377	$ 198,864

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

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IMMUNOGEN, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(UNAUDITED)

In thousands, except per share amounts

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues:				
License and milestone fees	$ 31,080	$ 76	$ 49,810	$ 10,153
Non-cash royalty revenue related to the sale of future royalties	6,439	5,944	14,052	13,324
Research and development support	902	1,335	2,380	2,394
Clinical materials revenue	599	53	1,277	1,251
Total revenues	39,020	7,408	67,519	27,122
Operating Expenses:				
Research and development	35,319	38,652	68,207	74,746
General and administrative	8,836	9,298	16,955	20,533
Restructuring charge	—	—	386	—
Total operating expenses	44,155	47,950	85,548	95,279
Loss from operations	(5,135)	(40,542)	(18,029)	(68,157)
Investment income, net	143	106	258	214
Non-cash interest expense on liability related to the sale of future royalties and convertible senior notes	(3,501)	(4,956)	(7,076)	(9,928)
Interest expense on convertible senior notes	(1,125)	(138)	(2,250)	(138)
Other income, net	751	(392)	885	159
Net loss	$ (8,867)	$ (45,922)	$ (26,212)	$ (77,850)
Basic and diluted net loss per common share	$ (0.10)	$ (0.53)	$ (0.30)	$ (0.89)
Basic and diluted weighted average common shares outstanding	87,174	87,062	87,167	87,029
Total comprehensive loss	$ (8,867)	$ (45,922)	$ (26,212)	$ (77,850)

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

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IMMUNOGEN, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

In thousands, except per share amounts

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net loss	$ (26,212)	$ (77,850)
Adjustments to reconcile net loss to net cash used for operating activities:		
Non-cash royalty revenue related to sale of future royalties	(14,052)	(13,324)
Non-cash interest expense on liability related to sale of future royalties and convertible senior notes	7,076	9,928
Depreciation and amortization	2,934	2,940
Loss on sale/disposal of fixed assets and impairment charges	180	5
Stock and deferred share unit compensation	5,801	11,862
Deferred rent	49	105
Change in operating assets and liabilities:		
Accounts receivable	1,002	(80)
Unbilled revenue	4,971	(524)
Inventory	(1,290)	630
Prepaid and other current assets	628	1,737
Other assets	(128)	(487)
Accounts payable	(2,394)	(525)
Accrued compensation	266	5,269
Other accrued liabilities	802	1,900
Deferred revenue	11,487	(716)
Proceeds from landlord for tenant improvements	—	144
Net cash used for operating activities	(8,880)	(58,986)
Cash flows from investing activities:		
Purchases of property and equipment	(779)	(5,249)
Net cash used for investing activities	(779)	(5,249)
Cash flows from financing activities:		
Proceeds from stock options exercised	32	370
Proceeds from issuance of convertible 4.5% notes, net of $3,392 of transaction costs	—	96,608
Net cash provided by financing activities	32	96,978
Net change in cash and cash equivalents	(9,627)	32,743
Cash and cash equivalents, beginning of period	159,964	212,283

Cash and cash equivalents, end of period	$ 150,337	$ 245,026

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

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IMMUNOGEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

A.Nature of Business and Plan of Operations

ImmunoGen, Inc. (the Company) was incorporated in Massachusetts in 1981 and is focused on the development of antibody-drug conjugates, or ADCs, for the treatment of cancer.

In August 2014, the FASB issued ASU 2014 15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. (ASU 2015-14). Under the new standard, management must evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued. This evaluation initially does not take into consideration the potential mitigating effect of management's plans that have not been fully implemented as of the date the financial statements are issued. When substantial doubt exists under this methodology, management evaluates whether the mitigating effect of its plans sufficiently alleviates substantial doubt about the Company's ability to continue as a going concern. The mitigating effect of management's plans, however, is only considered if both (1) it is probable that the plans will be effectively implemented within one year after the date that the financial statements are issued, and (2) it is probable that the plans, when implemented, will mitigate the relevant conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. Generally, to be considered probable of being effectively implemented, the plans must have been approved before the date that the financial statements are issued. This standard was adopted by the Company at December 31, 2016.

The Company has incurred operating losses and negative cash flows from operations since inception, incurred a net loss of approximately $26.2 million during the six months ended June 30, 2017, and has an accumulated deficit of approximately $958.8 million as of June 30, 2017. The Company has primarily funded these losses through payments received from its collaborations and equity and convertible debt financings. To date, the Company has no product revenue and management expects operating losses to continue for the foreseeable future. At June 30, 2017, the Company had $150.3 million of cash and cash equivalents on hand. The Company anticipates that its current capital resources and expected future collaborator payments will enable it to meet its operational expenses and capital expenditures (operating plan) into the third quarter of calendar year 2018. Without such collaborator payments, the Company's existing capital resources at June 30, 2017 would not be sufficient to support the current operating plan through August 4, 2018, which is twelve months after the date that the June 2017 financial statements were issued. Management expects to seek additional funds from collaboration partners through a combination of upfront license payments, milestone payments, royalty payments, research funding, and clinical material reimbursement or from equity or debt financings. Because those plans have not been finalized, receipt of additional funding is not considered probable under the new standard. If the Company does not obtain sufficient funds when needed, the Company expects

it would scale back its operating plan by deferring or limiting some or all of its research, development or clinical projects, or initiate further reductions to its workforce. Because such contingency plans have not been finalized (because the specifics would depend on the situation at the time), such actions also are not considered probable for purposes of the new standard. Because, under the new standard, neither receipt of future collaboration payments, nor management's contingency plans to mitigate the risk and extend cash resources through August 4, 2018, are considered probable, substantial doubt is deemed to exist about the Company's ability to continue as a going concern.

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

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B.Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements at June 30, 2017 and December 31, 2016 and for the three and six months ended June 30, 2017 and 2016 include the accounts of ImmunoGen, Inc., or the Company, and its wholly owned subsidiaries, ImmunoGen Securities Corp., ImmunoGen Europe Limited and Hurricane, LLC. The consolidated financial statements include all of the adjustments, consisting only of normal recurring adjustments, which management considers necessary for a fair presentation of the Company's financial position in accordance with accounting principles generally accepted in the U.S. for interim financial information. The December 31, 2016 condensed consolidated balance sheet data presented for comparative purposes was derived from our audited financial statements but certain information and footnote disclosures normally included in the Company's annual financial statements have been condensed or omitted. 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 Transition Report on Form 10-K for the six months ended December 31, 2016.

Subsequent Events

The Company has evaluated all events or transactions that occurred after June 30, 2017 up through the date the Company issued these financial statements. The Company did not have any material recognizable or unrecognizable subsequent events during this period.

Revenue Recognition

The Company enters into licensing and development agreements with collaborative partners for the development of ADC 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, or FASB, Accounting Standards Codification, or 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 June 30, 2017, the Company had the following two material types of agreements with the parties identified below:

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

Amgen (two exclusive single-target licenses – one of which has been sublicensed to Oxford BioTherapeutics Ltd.)

Bayer (one exclusive single-target license)

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Biotest (one exclusive single-target license)

CytomX (one exclusive single-target license)

Fusion Pharmaceuticals (one exclusive single-target license)

Lilly (three exclusive single-target licenses)

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

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

Sanofi (five fully-paid, exclusive single-target licenses)

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

Debiopharm (one exclusive single-target license)

CytomX (one exclusive single-target license)

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

Takeda, through its wholly owned subsidiary, Millennium Pharmaceuticals, Inc.

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 Kadcyla®, however, the minimum royalty term is 10 years and the maximum royalty term is 12 years on a country by country basis, regardless of patent protection. Royalty rates may vary over the royalty term depending on the Company's intellectual property rights and/or the presence of comparable

competing products. In the case of Sanofi, their licenses are fully-paid and no further milestones or royalties will be received. In the case of Debiopharm, no royalties will be received. 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

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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, and, if made, will be used by the Company's collaborators and the nature of the research services to be performed on behalf of its collaborators and market rates for similar services.

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

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

The Company may also provide cytotoxic agents to its collaborators or produce preclinical and clinical materials at negotiated prices which are generally consistent with what other third parties would charge. The Company recognizes revenue on cytotoxic agents and on preclinical and clinical materials when the materials have passed all quality testing required for collaborator acceptance and title and risk of loss have transferred to the collaborator. Arrangement consideration allocated to the manufacture of preclinical and clinical materials in a multiple deliverable arrangement is below the Company's full cost, and the Company's full cost is not expected to ever be below its contract selling prices for its existing collaborations. During the six months ended June 30, 2017 and 2016, 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 $929,000 and $2.8 million, 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 affected by the number of batches produced during the period. The volume of preclinical and clinical materials the Company produces is directly related to the scale and scope of preclinical activities and the number of clinical trials the Company and its collaborators are preparing for or currently have underway, the speed of enrollment in those trials, the dosage schedule of each clinical trial and the time period such trials last. Accordingly, the volume of preclinical and clinical materials produced, and therefore the Company's per batch costs to manufacture these preclinical and clinical materials, may vary significantly from period to period.

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

The Company's development and commercialization license agreements have milestone payments which for reporting purposes are aggregated into three categories: (i) development milestones, (ii) regulatory milestones, and (iii) sales

milestones. Development milestones are typically payable when a product candidate initiates or advances into different clinical trial phases. Regulatory milestones are typically payable upon submission for marketing approval with the U.S. Food and Drug Administration, or FDA, or other countries' regulatory authorities or on receipt of actual marketing approvals for the compound or for additional indications. Sales milestones are typically payable when annual sales reach certain levels.

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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 license period 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 significant effort to the achievement of such milestones are recognized as revenue upon achievement of the milestone, as long 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, except for the Sanofi and Debiopharm licenses, 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 or third month of the quarter after the licensee has sold the royalty bearing product or products. The Company recognizes royalty revenues when it can reliably estimate such amounts and collectability is reasonably assured. As such, the Company generally recognizes royalty revenues in the quarter reported to the Company by its licensees, or one quarter following the quarter in which sales by the Company's licensees occurred.

Right to Test Agreements

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

The accounting for right to test agreements is dependent on the nature of the options granted to the collaborative partner. Options are considered substantive if, at the inception of a right to test agreement, the Company is at risk as to whether the collaborative partner will choose to exercise the options to secure development and commercialization licenses. Factors that are considered in evaluating whether options are substantive include the overall objective of the arrangement, the benefit the collaborator might obtain from the agreement without exercising the options, the cost to exercise the options relative to the total upfront consideration, and the additional financial commitments or economic penalties imposed on the collaborator as a result of exercising the options. None of the Company's right to test agreements entered into subsequent to the adoption of Accounting Standards Update, or ASU, No. 2009 13, "Revenue Arrangements with Multiple Deliverables" on July 1, 2010 has been determined to contain substantive options. For right to test agreements where the options to secure development and commercialization licenses to the Company's

ADC technology are not considered substantive, the Company considers the development and commercialization licenses to be a deliverable at the inception of the agreement and applies the multiple element revenue recognition criteria to determine the appropriate revenue recognition. Subsequent to the adoption of ASU No. 2009-13, the Company determined that its research licenses lack stand-alone value and are considered for aggregation with the other elements of the arrangement and accounted for as one unit of accounting.

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The Company does not 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.

Financial Instruments and Concentration of Credit Risk

Cash and cash equivalents are primarily maintained with three financial institutions in the U.S. Deposits with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and, therefore, bear minimal risk. The Company's cash equivalents consist of money market funds with underlying investments primarily being U.S. Government issued securities and high quality, short term commercial paper. Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents and marketable securities. The Company held no marketable securities as of June 30, 2017 and December 31, 2016. The Company's investment policy, approved by the Board of Directors, limits the amount it may invest in any one type of investment, thereby reducing credit risk concentrations.

Cash and Cash Equivalents

All highly liquid financial instruments with maturities of three months or less when purchased are considered cash equivalents. As of June 30, 2017 and December 31, 2016, the Company held $150.3 million and $160.0 million, respectively, in cash and money market funds consisting principally of U.S. Government-issued securities and high quality, short-term commercial paper which were classified as cash and cash equivalents.

Non-cash Investing Activities

The Company had approximately $14,000 and $356,000 of accrued capital expenditures as of June 30, 2017 and December 31, 2016, respectively, which have been treated as a non-cash investing activity and, accordingly, are not reflected in the consolidated statement of cash flows.

Fair Value of Financial Instruments

Fair value is defined under ASC Topic 820, "Fair Value Measurements and Disclosures," as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

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

- Level 1 - Quoted prices in active markets for identical assets or liabilities.

- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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As of June 30, 2017, 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, 2017 (in thousands):

	Fair Value Measurements at June 30, 2017 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$ 131,469	$ 131,469	$ —	$ —

As of December 31, 2016, the Company held certain assets that are required to be measured at fair value on a recurring basis. The following table represents the fair value hierarchy for the Company's financial assets measured at fair value on a recurring basis as of December 31, 2016 (in thousands):

	Fair Value Measurements at December 31, 2016 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$ 144,176	$ 144,176	$ —	$ —

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

The carrying amounts reflected in the consolidated balance sheets for accounts receivable, unbilled revenue, prepaid and other current assets, accounts payable, accrued compensation, and other accrued liabilities approximate fair value due to their short term nature. The gross carrying amount and estimated fair value of the convertible 4.5% senior notes was $100.0 million and $181.5 million, respectively, as of June 30, 2017 compared to $100.0 million and $79.0 million, respectively, as of December 31, 2016. The increase in estimated fair value as of June 30, 2017 compared to December 31, 2016 is due primarily to an increase in the Company's stock price. The fair value of the Convertible Notes is influenced by interest rates, the Company's stock price and stock price volatility and is determined by prices for the Convertible Notes observed in a market which is a Level 2 input for fair value purposes.

Unbilled Revenue

The majority of the Company's unbilled revenue at June 30, 2017 represents research funding earned prior to that date based on actual resources utilized under the Company's agreements with various collaborators. In addition to that type

of unbilled revenue, also included in unbilled revenue at December 31, 2016 was a $5 million partner milestone achieved in December 2016 which was subsequently invoiced and paid in the first quarter of 2017.

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 net realizable value as determined on a first-in, first-out (FIFO) basis.

Inventory at June 30, 2017 and December 31, 2016 is summarized below (in thousands):

	June 30, 2017	December 31, 2016
Raw materials	$ 124	$ 357
Work in process	3,358	1,835
Total	$ 3,482	$ 2,192

Raw materials inventory consists entirely of proprietary cell killing agents the Company developed as part of its ADC technology. All raw materials inventory is currently procured from two suppliers. The Company considers more

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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 $403,000 of expense related to excess inventory in the six months ended June 30, 2017 as a result of inventory purchased in the current period in order to manufacture drug product to supply the Company's mirvetuximab soravtansine studies. There were no expenses recorded for excess inventory during the three month period ended June 30, 2017 and the three and six-month periods ended June 30, 2016.

Work in process inventory consists of conjugate manufactured for sale to the Company's collaborators to be used in preclinical and clinical studies. All conjugate is made to order at the request of the collaborators and subject to the terms and conditions of respective supply agreements. Based on historical reprocessing or reimbursement required for conjugate that did not meet specification and status of current conjugate on hand or conjugate shipped to collaborators but not yet released per the terms of the respective supply agreements, no reserve for work in process inventory was determined to be required at June 30, 2017. As discussed above, the Company's costs to manufacture conjugate on behalf of its partners are greater than the supply prices charged to partners, and therefore costs are capitalized into inventory at the supply prices which represents net realizable value.

Computation of Net Loss per Common Share

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Options outstanding to purchase common stock and unvested restricted stock	15,588	11,919	15,588	11,919
Common stock equivalents under treasury stock method for options	1,224	232	463	297
Shares issuable upon conversion of convertible notes	23,878	23,878	23,878	23,878
	23,878	2,886	23,878	1,443

Common stock equivalents under if-converted method for convertible notes

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 June 30, 2017, the Company is authorized to grant future awards under one employee share based compensation plan, which is the ImmunoGen, Inc. 2016 Employee, Director and Consultant Equity Incentive Plan, or the 2016 Plan. At the annual meeting of shareholders on December 9, 2016, the 2016 Plan was approved and provides for the issuance of Stock Grants, the grant of Options and the grant of Stock Based Awards for up to 5,500,000 shares of the

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Company's common stock, as well as up to 14,250,000 shares of common stock which represent awards granted under the previous stock option plan, the ImmunoGen, Inc. 2006 Employee, Director and Consultant Equity Incentive Plan, or the 2006 Plan, that forfeit, expire, or cancel without delivery of shares of common stock or which resulted in the forfeiture of shares of common stock back to the Company subsequent to December 9, 2016. At the annual meeting of shareholders on June 13, 2017, the 2016 Plan was amended to increase the number of shares authorized for issuance thereunder by 1,000,000. 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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Dividend	None	None	None	None
Volatility	68.17 %	64.13 %	67.10 %	64.06 %
Risk-free interest rate	1.90 %	1.40 %	2.01 %	1.46 %
Expected life (years)	6.0	6.3	6.0	6.3

Using the Black-Scholes option-pricing model, the weighted average grant date fair values of options granted during the three months ended June 30, 2017 and 2016 were $2.86 and $3.44 per share, respectively, and $1.75 and $4.10 per share for options granted during the six months ended June 30, 2017 and 2016, respectively.

A summary of option activity under the 2006 and 2016 Plans as of June 30, 2017, and changes during the six month period then ended is presented below (in thousands, except weighted-average data):

	Number of Stock Options	Weighted-Average Exercise Price
Outstanding at December 31, 2016	13,679	$ 10.70
Granted	1,428	$ 2.84
Exercised	(10)	3.30
Forfeited/Canceled	(1,916)	$ 10.47
Outstanding at June 30, 2017	13,181	$ 9.89

During the six months ended June 30, 2017, holders of options issued under the Company's equity plans exercised their rights to acquire an aggregate of approximately 10,000 shares of common stock at price of $3.30 per share. The total proceeds to the Company from these option exercises were approximately $32,000.

In August 2016, February 2017 and June 2017, the Company granted 117,800, 529,830 and 239,000 shares of restricted common stock with grant date fair values of $3.15, $2.47 and $4.71, respectively, to certain officers of the Company. These restrictions will lapse in three equal installments upon the achievement of specified performance goals

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within the next five years. The Company determined it is not currently probable that these performance goals will be achieved, and therefore, no expense has been recorded to date.

A summary of restricted stock activity under the 2006 and 2016 Plans (inclusive of the performance awards noted above) as of June 30, 2017 and changes during the six month period ended June 30, 2017 is presented below (in thousands except weighted-average data):

	Number of Restricted Stock Shares
Unvested at December 31, 2016	199
Awarded	2,253
Vested	(25)
Forfeited	(20)
Unvested at June 30, 2017	2,407

Stock compensation expense related to stock options and restricted stock awards granted under the 2016 and 2006 Plans was $3.1 million and $5.7 million during the three and six months ended June 30, 2017, respectively, compared to stock compensation expense of $4.5 million and $11.6 million for the three and six months ended June 30, 2016, respectively. During the six months ended June 30, 2016, the Company recorded $3.1 million of stock compensation cost related to the modification of certain outstanding common stock options with the former Chief Executive Officer's succession plan. The decrease in expense is also attributable to lower fair values associated with awards expensed in the current period, level of forfeitures experienced since the prior year due to the restructuring disclosed in Note G and greater forfeitures recorded in the current period substantially resulting from the departure of certain senior-level employees. As of June 30, 2017, the estimated fair value of unvested employee awards was $15.0 million, net of estimated forfeitures. The weighted-average remaining vesting period for these awards is approximately two years. Also included in stock compensation expense for the three and six months ended June 30, 2017 and 2016 is expense recorded for directors' deferred share units, the details of which are discussed in Note F.

Segment Information

During the six months ended June 30, 2017, the Company continued to operate in one operating segment which is the business of discovery of monoclonal antibody-based anticancer therapeutics.

The percentages of revenues recognized from significant customers of the Company in the six months ended June 30, 2017 and 2016 are included in the following table:

Collaborative Partner:	Three Months Ended June 30, 2017		2016		Six Months Ended June 30, 2017		2016	
Bayer	—	%	—	%	—	%	37	%
CytomX	3	%	10	%	22	%	5	%
Roche	17	%	80	%	21	%	49	%
Sanofi	77	%	—	%	53	%	—	%

There were no other customers of the Company with significant revenues in the six months ended June 30, 2017 and 2016.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014 9, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”), to clarify the principles for recognizing revenue. This update provides a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. In August 2015,

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the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which delayed the effective date of the new standard from January 1, 2017 to January 1, 2018. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations, which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which clarifies certain aspects of identifying performance obligations and licensing implementation guidance. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients related to disclosures of remaining performance obligations, as well as other amendments to guidance on collectability, non-cash consideration and the presentation of sales and other similar taxes collected from customers. These standards have the same effective date and transition date of January 1, 2018. The new revenue standard allows for either full retrospective or modified retrospective application. The Company anticipates using the modified retrospective approach to implement this standard. The Company is in the process of analyzing its existing revenue agreements to evaluate the impact of adoption. The Company has less than twenty contracts that have remaining performance obligations that will need to be evaluated under the provisions of the new standard as of January 1, 2018. In performing this assessment, the Company noted that we will be required to recognize royalty income in the same period as the related sales occur on Kadcyla rather than one quarter in arrears, which is the point in which the amount is fixed and determinable. This will require the Company to make an estimate of the royalties as the information is not provided to the Company until 90 days after the end of the quarter. Additionally, some partner milestones, depending on the probability of occurring, may be recognized sooner and at different values than they currently would be under the current accounting standards. The Company is in the process of estimating the impact of adopting the new standard on its consolidated financial statements, however, the Company expects to record a material adjustment upon adoption, which will be recorded as a cumulative effect of initially applying the standard to opening accumulated deficit as of January 1, 2018. The Company will continue to provide disclosures under the legacy accounting for the year ended December 31, 2018.

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

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

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

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standard is effective for the Company on January 1, 2019. The Company is currently evaluating the impact of this guidance on our financial statements and the timing of adoption.

In March 2016, the FASB issued ASU 2016-9, Improvements to Employee Share-Based Payment Accounting (Topic 718) that changes the accounting for certain aspects of share-based payments to employees. The guidance requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid in capital pools. The guidance also allows for the employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. The guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods with early adoption permitted. Accordingly, the standard was adopted by the Company on January 1, 2017. As a result of the adoption of this guidance, the net operating loss deferred tax assets for federal and state purposes increased by $9.2 million and $1.2 million, respectively, and will be offset by corresponding increases in the valuation allowance. The adoption of the guidance has no impact on the Company's consolidated financial statements. The Company elected not to adopt the provision that would allow actual forfeitures to be recognized in lieu of maintaining a forfeitures reserve. As such, the Company will continue to estimate forfeitures.

C. Agreements

Significant Collaborative Agreements

Roche

In 2000, the Company granted Genentech, now a unit of Roche, an exclusive license to use the Company's maytansinoid ADC technology with antibodies, such as trastuzumab, or other proteins that target HER2. Under the terms of this agreement, Roche has exclusive worldwide rights to develop and commercialize maytansinoid ADC compounds targeting HER2. In 2013, the HER2 targeting ADC compound, Kadcyla, was approved for marketing in the U.S., Japan and the European Union, or EU. Roche has also received marketing approval in various other countries around the world. Roche is responsible for the manufacturing, product development and marketing of any products resulting from the agreement. The Company received a $2 million non refundable upfront payment from Roche upon execution of the agreement. The Company is also entitled to receive up to a total of $44 million in milestone payments, plus royalties on the commercial sales of Kadcyla or any other resulting products. Total milestones are categorized as follows: development milestones—$13.5 million; and regulatory milestones—$30.5 million. Through June 30, 2017, 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. 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, $14.1 million of non-cash royalties on net sales of Kadcyla for the six month period ended March 31, 2017 were recorded and included in non-cash royalty revenue for the six-month period ended June 30, 2017 and $13.3 million of non-cash royalties on net sales of Kadcyla for the

six month period ended March 31, 2016 is included in non-cash royalty revenue for the six-month period ended June 30, 2016. Kadcyla sales occurring after January 1, 2015 are covered by a royalty purchase agreement whereby the associated cash is remitted to Immunity Royalty Holdings, L.P, or IRH, as discussed further in Note E.

Sanofi

On May 30, 2017, the Company and an affiliate of Sanofi amended the license agreements covering all compounds in development by Sanofi using the Company's technology. Under the terms of the amended 2003 collaboration and license agreement, the Company granted Sanofi a fully-paid, exclusive license to develop, manufacture, and commercialize four experimental compounds in development. The Company and Sanofi also amended a separate 2013 exclusive license to grant Sanofi a fully-paid, exclusive license to develop, manufacture and commercialize another experimental compound being studied for the treatment of solid tumors. As consideration for

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these amendments, the Company received a $30 million payment and agreed to forego a limited co-promotion option in the U.S. with respect to the compounds covered by the 2003 agreement, as well as future milestones or royalties under both license agreements.

In accordance with ACS-605-25 (as amended by ASU No. 2009-13), the Company determined that there were no remaining deliverables upon execution of the amendments, and accordingly, the $30 million has been recognized as revenue and is included in license and milestone fee revenue for the three and six months ended June 30, 2017.

Bayer

In 2008, the Company granted Bayer an exclusive development and commercialization license to the Company's maytansinoid ADC technology for use with antibodies or other proteins that target mesothelin. Bayer HealthCare is responsible for the research, development, manufacturing, and marketing of any products resulting from the license. The Company received a $4 million upfront payment upon execution of the agreement which was recognized as revenue ratably over the Company's estimated period of substantial involvement which concluded in September 2012. For each compound developed and marketed by Bayer under this collaboration the Company is entitled to receive a total of $170.5 million in milestone payments, plus tiered royalties between 4 - 7% on the commercial sales of any resulting products. The total milestones are categorized as follows: development milestones—$16 million; regulatory milestones—$44.5 million; and sales milestones—$110 million. Through June 30, 2017, the Company has received and recognized an aggregate of $13 million in milestone payments under this agreement. In January 2016, Bayer initiated a Phase 2 clinical study designed to support registration of its ADC product candidate, anetumab ravtansine, triggering a $10 million development milestone payment to the Company which is included in license and milestone fee revenue for the six months ended June 30, 2016. The next potential milestone the Company will be entitled to receive will be a development milestone for commencement of a pivotal clinical trial for a second indication for anetumab ravtansine, which will result in a $2 million payment being due. At the time of execution of this agreement, there was significant uncertainty as to whether these milestones would be achieved. In consideration of this, as well as the Company's past involvement in the research and supply of cytotoxic agent for this product candidate, these milestones were deemed substantive.

CytomX

In January 2014, we entered into a reciprocal right to test agreement with CytomX. The agreement provides CytomX with the right to test our payload agents and linkers with CytomX antibodies that utilize their proprietary antibody-masking technology, termed ProbodiesTM for a specified number of targets and to subsequently take an exclusive, worldwide license to use our technology to develop and commercialize Probody-drug conjugates directed to the specified targets on terms agreed upon at the inception of the right to test agreement. We received no upfront cash payment in connection with the execution of the right to test agreement. Instead, we received reciprocal rights to test our payload agents and linkers with ImmunoGen antibodies masked using CytomX technology to create Probody-drug conjugates directed to a specified number of targets and to subsequently take exclusive, worldwide licenses to develop and commercialize such conjugates directed to the specified targets on terms agreed upon at the inception of the right to test agreement. The terms of the right to test agreement require us and CytomX to each take its respective development and commercialization licenses by the end of the term of the research license. In addition, both we and CytomX are required to perform specific research activities under the right to test agreement on behalf of the other party for no monetary consideration.

In February 2016, CytomX took its development and commercialization license for a specified target. An amendment of the agreement executed simultaneously with that license granted CytomX the right, for a specified period of time, to substitute the specified target with another as yet unspecified target. Accordingly, the revenue associated with this license was deferred until the expiration of that substitution right in January 2017, whereupon we recognized $12.7

million of the $13 million of arrangement consideration allocated to the development and commercialization license, which is included in license and milestone fee revenue for the six months ended June 30, 2017. With respect to the development and commercialization license taken by CytomX, the Company is entitled to receive up to a total of $160 million in milestone payments plus royalties on the commercial sales of any resulting product. The total milestones are categorized as follows: development milestones—$10 million; regulatory milestones—$50 million; and sales milestones—$100 million. In June 2017, CytomX enrolled its first patient in a Phase 1 clinical trial for its product

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candidate, CX-2009, triggering a $1 million development milestone payment which is included in license and milestone fee revenue for the three and six months ended June 30, 2017. The next payment the Company could receive would be a $3 million development milestone payment with commencement of a Phase 2 clinical trial. At the time of execution of the right-to-test agreement, there was significant uncertainty as to whether the milestone related to the Phase 2 clinical trial would be achieved. In consideration of this, as well as the Company's expected involvement in the research and manufacturing of any product candidate, this milestone was deemed substantive. CytomX is responsible for the manufacturing, product development and marketing of any product resulting from the development and commercialization license taken by CytomX under this collaboration.

Debiopharm

On May 24, 2017, Debiopharm International SA (Debiopharm) acquired the Company’s IMGN529 program, a clinical-stage anti-CD37 ADC for the treatment of patients with B-cell malignancies, such as non-Hodgkin lymphomas (NHL). Under the terms of the Exclusive License and Asset Purchase agreement, the Company received a $25 million upfront payment for specified assets related to IMGN529 and a paid-up license to the Company’s ADC technology, and is entitled to a $5 million milestone payment to be paid after substantial completion of the transfer of ImmunoGen technologies related to the program (technology transfer), which the parties expect to achieve by the end of 2017. In addition, ImmunoGen is eligible for a second success-based milestone payment of $25 million upon IMGN529 entering a Phase 3 clinical trial. The milestone payment will be significantly reduced if a Phase 3 trial using the Company’s technology but not the IMGN529 antibody commences prior to IMGN529 entering a Phase 3 trial. The Company does not believe this scenario is likely to occur.

In accordance with ACS 605 25 (as amended by ASU No. 2009 13), the Company identified all of the deliverables at the inception of the agreement. The significant deliverables were determined to be the license, the tech transfer and certain related physical materials. Since the technology being used is no longer the focus of the Company’s research efforts, and IMGN529 is already in clinical trials which significantly lessens the probability that it would be changed, the value of the rights to future technological improvements which was granted in the agreement was considered immaterial.

The Company has determined that the license, together with the technology transfer, represent one unit of accounting as the license does not have standalone value from the Company’s responsibility tro complete the technology transfer because 1) there are no other vendors selling similar licenses on a standalone basis, 2) the transfer can only be performed by the Company and 3) Debiopharm is unable to use the license for its intended purpose without the technology transfer. The related physical materials have stand-alone value as these items could be produced by other vendors.

The estimated selling price for the license/technology transfer is the Company’s best estimate of selling price and was determined based on market conditions, similar arrangements entered into by third parties, including the Company’s understanding of pricing terms offered by its competitors for single-target licenses that utilize the Company’s ADC technology, the clinical stage of the product being sold, and entity-specific factors such as the pricing terms of the Company’s previous single target licenses, recent preclinical and clinical testing results of therapeutic products that use

the Company's ADC technology, and the Company's pricing practices and pricing objectives. The estimated selling price of the related materials was based on third party evidence given the nature of the items and the market rates for similar items.

The total arrangement consideration of $30 million (which comprises the $25 million upfront payment and the transfer fee of $5 million) was allocated to the units of accounting based on the relative selling price method as follows: $29.7 million to the license/technology transfer and $300,000 to the physical materials. The Company will record $29.7 million of revenue as outlined above when the technology transfer work is substantially complete, which is the final item delivered in the unit of accounting and the value of the physical materials will be recorded as revenue when delivered. As of June 30, 2017, $25 million was recorded in short-term deferred revenue, which represents the full amount of the upfront payment received.

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For additional information related to these agreements, as well as the Company's other significant collaborative agreements, please read Note C, Agreements, to the consolidated financial statements included within the Company's 2016 Transition Report on Form 10-K

D. Convertible 4.5% Senior Notes

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

The Convertible Notes are governed by the terms of an indenture between the Company, as issuer, and Wilmington Trust, National Association, as the trustee. The Convertible Notes are senior unsecured obligations and bear interest at a rate of 4.5% per year, payable semi-annually in arrears on January 1 and July 1 of each year, commencing on January 1, 2017. The Company recorded approximately $2.3 million and $138,000 of interest expense in the six months ended June 30, 2017 and 2016, respectively. The Convertible Notes will mature on July 1, 2021, unless earlier repurchased or converted. Holders may convert their notes at their option at any time prior to the close of business on the business day immediately preceding the stated maturity date. Upon conversion, the Company will deliver for each $1,000 principal amount of converted notes a number of shares equally to the conversion rate, which will initially be 238.7775 shares of common stock, equivalent to an initial conversion price of approximately $4.19. The conversion rate will be subject to adjustment in some circumstances, but will not be adjusted for any accrued and unpaid interest. In addition, if a "make-whole fundamental change" (as defined in the offering memorandum) occurs prior to the stated maturity date, the Company will increase the conversion rate for a holder who elects to convert its notes in connection with such make-whole fundamental change in certain circumstances. If the Company undergoes a fundamental change, subject to certain conditions, holders may require the Company to repurchase for cash all or part of their notes at a purchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change purchase date. In addition, upon an event of default, the holders may require the Company to repurchase for cash all of their notes at a purchase price equal to 100% of the principal amount, plus accrued and unpaid interest. Upon bankruptcy, this becomes an automatic repurchase obligation. Also, if the Company fails to comply with certain reporting requirements as described in the indenture it will constitute an event of default, however the Company may elect to pay additional interest at an annual rate equal to 0.5% of the principal amount for the 90 days following such event as a remedy for the default. Subsequent to the 90 days, if still in default, the principal amount of the notes and accrued interest may become immediately due and payable. If a "restricted event" occurs as described in the indenture that causes the notes not to become freely tradable by holders other than our affiliates after the first anniversary of the original issuance date of the notes, the Company would also become obligated to pay additional interest at an annual rate equal to 0.5% of the principal amount. The combined additional interest rate under these two circumstances, however, cannot exceed 0.5%.

The Company analyzed the terms of the Convertible Notes and determined that under current accounting guidance the notes would be entirely accounted for as debt and none of the terms of the notes require separate accounting. As part of the issuance of the Convertible Notes, the Company incurred $3.4 million of transaction costs, which are netted against the Convertible Notes in the accompanying consolidated balance sheet and are being amortized to interest expense ratably over the term of the Convertible Notes.

E. Liability Related to Sale of Future Royalties

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

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Company will continue to account for these royalties as revenue and recorded the $200 million in proceeds from this transaction as a liability related to sale of future royalties (Royalty Obligation) that will be amortized using the interest method over the estimated life of the royalty purchase agreement.

The following table shows the activity within the liability account during the six-month period ended June 30, 2017 (in thousands):

	Period from December 31, 2016 to June 30, 2017
Liability related to sale of future royalties, net — beginning balance	$ 184,328
Non-cash Kadcyla royalty revenue	(14,052)
Non-cash interest expense recognized	6,741
Liability related to sale of future royalties, net — ending balance	$ 177,017

As royalties are remitted to IRH, the balance of the Royalty Obligation will be effectively repaid over the life of the agreement. In order to determine the amortization of the Royalty Obligation, the Company is required to estimate the total amount of future royalty payments to be received and remitted to IRH as noted above over the life of the agreement. The sum of these amounts less the $200 million proceeds the Company received will be recorded as interest expense over the life of the Royalty Obligation. Since inception, the Company's estimate of this total interest expense resulted in an effective annual interest rate of approximately 7.7%. The Company periodically assesses the estimated royalty payments to IRH and to the extent such payments are greater or less than its initial estimates, or the timing of such payments is materially different than its original estimates, the Company will prospectively adjust the amortization of the Royalty Obligation. There are a number of factors that could materially affect the amount and timing of royalty payments from Genentech, most of which are not within the Company's control. Such factors include, but are not limited to, changing standards of care, the introduction of competing products, manufacturing or other delays, biosimilar competition, patent protection, adverse events that result in governmental health authority imposed restrictions on the use of the drug products, significant changes in foreign exchange rates as the royalties remitted to IRH are made in U.S. dollars (USD) while significant portions of the underlying sales of Kadcyla are made in currencies other than USD, and other events or circumstances that could result in reduced royalty payments from Kadcyla, all of which would result in a reduction of non-cash royalty revenues and the non-cash interest expense over the life of the Royalty Obligation. Conversely, if sales of Kadcyla are more than expected, the non-cash royalty revenues and the non-cash interest expense recorded by the Company would be greater over the term of the Royalty Obligation.

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

F. Capital Stock

2001 Non-Employee Director Stock Plan

During the three and six months ended June 30, 2017, the Company recorded approximately $21,000 and $32,000 in expense related to stock units outstanding under the Company's 2001 Non-Employee Director Stock Plan, or the 2001 Plan, compared to $(35,000) and $(67,000) in expense reduction recorded during the three and six months ended June 30, 2016. The value of the stock units are classified as a liability and adjusted to market value at each reporting period as the redemption amount of stock units for this plan will be paid in cash. No stock units have been issued under the 2001 Plan subsequent to June 30, 2004.

Compensation Policy for Non-Employee Directors

On December 9, 2016 the Board amended the Compensation Policy for Non-Employee Directors to create a transition period due to the change in the year-end. Effectively, one-half of the annual compensation awards described

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below was awarded to the directors on December 9, 2016 and a full-year's compensation was awarded at the subsequent annual meeting held in June 2017.

Pursuant to the Compensation Policy for Non-Employee Directors, the redemption amount of deferred share units issued will be paid in shares of common stock of the Company on the date a director ceases to be a member of the Board. Annual retainers vest quarterly over approximately one year from the date of grant, contingent upon the individual remaining a director of ImmunoGen as of each vesting date. The number of deferred share units awarded is fixed per the plan on the date of the award. All unvested deferred stock awards will automatically vest immediately prior to the occurrence of a change of control.

During the three and six months ended June 30, 2017, the Company recorded approximately $47,000 and $85,000 in compensation expense, respectively, related to deferred share units issued and outstanding under the Company's Compensation Policy for Non-Employee Directors, compared to $108,00 and $215,000 in compensation expense recorded during the three and six months ended June 30, 2016, respectively. Pursuant to the Compensation Policy for Non-Employee Directors, in January 2017, the Company issued a retiring director 53,248 shares of common stock of the Company to settle outstanding deferred share units.

In addition to the deferred share units, the Non-Employee Directors are also entitled to receive a fixed number of stock options determined using the Black-Scholes option pricing model measured on the date of grant, which would be the date of the annual meeting of shareholders. These options vest quarterly over approximately one year from the date of grant. Any new directors will receive a pro-rated award, depending on their date of election to the Board. The directors received a total of 80,000 stock options in November of 2015, 40,000 options in December 2016, and 80,000 options in June 2017, and the related compensation expense for the six months ended June 30, 2017 and 2016 is included in the amounts discussed in the "Stock-Based Compensation" section of footnote B above.

G. Restructuring Charge

On September 26, 2016, the Board of Directors approved a plan to reengineer the business, resulting in a reduction of the workforce by approximately 17%, or 65 positions, which included the separation of 60 employees at the time of plan approval. Communication of the plan to the impacted employees was substantially completed on September 29, 2016. All of the workforce reduction was completed as of December 31, 2016. As a result of the workforce reduction, in the six months ended December 31, 2016, the Company recorded a restructuring charge totaling $4.4 million related to termination benefits and other related charges, of which $2.8 million was recorded as a one-time termination benefit, and $593,000 recorded as a benefit under an ongoing benefit plan. The related cash payments initiated in October 2016 and were substantially paid out by June 30, 2017. Additionally, approximately 762,000 stock options forfeited in connection with the workforce reduction, and as a result, the Company recorded an approximate $837,000 credit to stock compensation expense in September 2016, which was included in research and development expense and general and administrative expense in that period.

In addition to the termination benefits and other related charges, the Company is seeking to sub-lease 10,281 square feet of unoccupied office space in Waltham that was leased in February 2016. As of September 30, 2016, based on an

estimate of the potential time it would take to find a tenant of approximately nine months, the anticipated sub-lease terms, and consideration of the tenant allowance that was given to the Company to build out the space, the Company determined it did not need to record a loss on the sub-lease. The Company also evaluated the balance of the leasehold improvements for potential impairment as of September 30, 2016. In performing the recoverability test, the Company concluded that a substantial portion of the leasehold improvements were not recoverable. The Company recorded an impairment charge of $970,000 related to these assets after comparing the fair value (using probability weighted scenarios with discounted cash flows) to the leasehold improvements' carrying value, leaving a $193,000 remaining cost basis. As of March 31, 2017, based on further evaluation of the prospects for sub-leasing the space, the Company determined that additional time would be required to find a tenant. Accordingly, the calculation for the potential sub-lease loss was updated and it was determined that the remaining balance of the leasehold improvements was impaired. Also, due to the additional time that is expected to secure a tenant, a lease loss was recorded based on the change in estimate of the sub-lease assumption. The total of these charges was $386,000. There has been no change to this estimate at June 30, 2017.

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A summary of activity against the restructuring charge related to the employee terminations during the six-month period ended June 30, 2017 is as follows (in thousands):

	Period from December 31, 2016 to June 30, 2017
Balance December 31, 2016	$ 1,751
Payments for the period	(1,573)
Balance June 30, 2017	$ 178

In September 2016, the Compensation Committee of the Board of Directors approved cash and stock option retention incentive awards for certain remaining eligible employees who continue employment with the Company in order to execute the Company's strategic priorities. The cash awards will be payable to these employees in either October 2017 or March 2018 based on continued employment and services performed during these periods. Stock option awards covering 750,000 shares granted, that remain outstanding, will vest annually in equal installments over three years from the date of grant, and the related compensation expense for the six months ended June 30, 2017 is included in the amounts discussed in the "Stock-Based Compensation" section of footnote B above.

H. Commitments and Contingencies

Leases

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

In February 2016, the Company entered into a lease agreement with PDM 930 Unit, LLC for the rental of 10,281 square feet of additional office space at 930 Winter Street, Waltham, MA through August 31, 2021. The Company received approximately $617,000 as a construction allowance to build out the office space to the Company's specifications. The Company is required to pay certain operating expenses for the leased premises based on its

pro-rata share of such expenses for the entire rentable space of the building. The Company is actively seeking to sub-lease this space.

The Company also leases manufacturing and office space at 333 Providence Highway, Norwood, MA under an agreement through 2018 with an option to extend the lease for an additional term of five years. The Company is required to pay certain operating expenses for the leased premises subject to escalation charges for certain expense increases over a base amount.

Effective April 2013, the Company entered into a lease agreement with River Ridge Limited Partnership for the rental of 7,507 square feet of additional office space at 100 River Ridge Drive, Norwood, MA. The initial term of the lease is for five years and two months commencing in July 2013 with an option for the Company to extend the lease for an additional term of five years. The Company is required to pay certain operating expenses for the leased premises subject to escalation charges for certain expense increases over a base amount. The Company entered into a sublease in December 2014 for this space, effective from January 2015 through July 2018. Due to past payment delinquency, the short span of time remaining on the lease and the estimated amount of time it would take to find another sub-tenant, the remainder of this lease was accrued as a charge in the amount of $169,000 in the first quarter of 2017.

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

2017 (six months remaining)	$ 3,973
2018	7,736
2019	7,235
2020	7,283
2021	7,107
Thereafter	30,794
Total minimum lease payments	$ 64,128

There are no obligations under capital leases as of June 30, 2017, as all of the capital leases were single payment obligations which have all been made.

Collaborations

The Company is contractually obligated to make potential future success-based development, regulatory or sales milestone payments in conjunction with certain collaborative agreements. These payments are contingent upon the occurrence of certain future events and, given the nature of these events, it is unclear when, if ever, the Company may be required to pay such amounts. Further, the timing of any future payment is not reasonably estimable. As of June 30, 2017, the maximum amount that may be payable in the future under the Company's current collaborative agreements is $160.0 million.

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

Manufacturing Commitments

As of June 30, 2017, the Company has noncancelable obligations under several agreements related to in-process and future manufacturing of antibody and cytotoxic agents required for clinical supply of the Company's product candidates totaling $3.3 million, of which $2.0 million will be paid in 2017 and $1.3 million will be paid in 2018.

In February 2017, the Company executed a letter agreement with one of its antibody manufacturers to reserve capacity through calendar 2021. The total commitment over the five-year term of the agreement is €46.2 million, however only €8.4 million euros is noncancelable as of June 30, 2017.

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

OVERVIEW

ImmunoGen is a biotechnology company that is progressing toward becoming a fully-integrated company delivering innovative antibody-drug conjugate, or ADC, therapies that meaningfully improve the lives of people with cancer. An ADC with our proprietary technology comprises an antibody that binds to a target found on tumor cells and is conjugated to one of our potent anti-cancer agents as a "payload" to kill the tumor cell once the ADC has bound to its target. ADCs are an expanding approach to the treatment of cancer, with two approved products and the number of agents in development more than doubling during the last five years.

We have established a leadership position in ADCs. Our proprietary portfolio is led by mirvetuximab soravtansine, a first-in-class ADC targeting folate-receptor alpha, or FR . In late 2016, we initiated a Phase 3 registration

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trial, FORWARD I, with mirvetuximab soravtansine for use as single-agent therapy to treat patients with platinum-resistant ovarian cancer whose tumors express high or medium levels of FR and who have received up to three prior treatment regimens. In June 2017 we reported data on 113 ovarian cancer patients treated with mirvetuximab soravtansine from three Phase 1 expansion cohorts. From this pooled analysis, in the subset of 36 patients meeting the key eligibility criteria for FORWARD I, the confirmed overall response rate, or ORR, was 47 percent (95% CI 30, 65) and median progression-free survival, or mPFS, was 6.7 months (95% CI 4.1, 8.3). The safety profile of this pooled population was consistent with data previously reported (ASCO 2016), consisting of low grade, manageable adverse events. The Phase 3 FORWARD I trial is ongoing with sites enrolling in the United States, Canada and Europe.

Additionally, we are accruing patients in a companion study, FORWARD II, to evaluate mirvetuximab soravtansine in combination regimens to expand the number of patients with ovarian cancer eligible for treatment with the ADC. FORWARD II consists of cohorts assessing mirvetuximab soravtansine in combination with, in separate doublets, Avastin® (bevacizumab), pegylated liposomal doxorubicin, or PLD, carboplatin, and Keytruda® (pembrolizumab) for evaluation in combination with mirvetuximab soravtansine as part of the FORWARD II study. Based on the encouraging profile of these combinations, we have advanced expansion cohorts for the Avastin and Keytruda combinations to Phase 2 testing. We reported the first clinical data from FORWARD II in June 2017 demonstrating that mirvetuximab soravtansine may complement currently available therapies in a range of treatment settings, including earlier lines of therapy.

We have built a productive platform that continues to generate innovative and proprietary ADCs, including IMGN779, our CD33-targeting product candidate for acute myeloid leukemia, or AML. IMGN779 combines a high-affinity, humanized anti-CD33 antibody with one of our novel indolino-benzodiazepine payloads, called IGNs, which alkylate DNA without crosslinking, resulting in potent anti-leukemia activity with relative sparing of normal hematopoietic progenitor cells. We reported the first clinical data from this trial in June 2017 demonstrating a favorable safety profile with repeat dosing, no dose-limiting toxicities and dose-dependent biological and anti-leukemia activity. IMGN779 is progressing through dose escalation in a Phase 1 trial in AML. We also are advancing IMGN632, a preclinical CD123-targeting ADC that uses an even more potent IGN payload agent with a new engineered linker and novel antibody, which we are developing for hematological malignancies. We expect to file an Investigational New Drug, or IND, application for IMGN632 in the third quarter of 2017.

In addition to fueling our organic growth, we also selectively license limited rights to use of our ADC technology to other companies. These collaborations allow us to generate revenue, mitigate expenses, enhance our capabilities and extend the reach of our proprietary platform. The most advanced partner program is Roche’s marketed product, Kadcyla® (ado-trastuzumab emtansine), the first ADC to demonstrate superiority over standard of care in a randomized pivotal trial, EMILIA, and gain FDA approval. Our ADC platform is used in candidates in clinical development with Amgen, Bayer, Biotest, CytomX, Debiopharm, Lilly, Novartis, and Sanofi. We also have a partnership with Takeda, which is in the preclinical stage. We expect that substantially all of our revenue for the foreseeable future will result from payments under our collaborative arrangements. In addition to the discussion below for agreements with activity in the periods presented, details for all of our significant agreements can be found in our 2016 Transition Report on Form 10-K.

Roche—In May 2000, we granted Genentech, now a unit of Roche, an exclusive license to use our maytansinoid ADC technology with antibodies, such as trastuzumab, or other proteins that target HER2. Pursuant to this agreement, Roche developed and received marketing approval for its HER2-targeting ADC compound, Kadcyla, in the U.S., Europe, Japan and numerous other countries. We receive royalty reports and payments related to sales of Kadcyla from Roche one quarter in arrears. In accordance with our revenue recognition policy, $14.1 million of non-cash royalties on net sales of Kadcyla for the six-month period ended March 31, 2017 were recorded and included in non-cash royalty revenue for the six months ended June 30, 2017 and $13.3 million of non-cash royalties on net sales

of Kadcyla for the six-month period ended March 31, 2016 were included in non-cash royalty revenue for the six months ended June 30, 2016. Kadcyla sales occurring after January 1, 2015 are covered by a royalty purchase agreement whereby the associated cash is remitted to Immunity Royalty Holdings, L.P, or IRH, as discussed further in Note E to the consolidated financial statements.

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Sanofi— On May 30, 2017, we and an affiliate of Sanofi amended the license agreements covering all compounds in development by Sanofi using our technology. Under the terms of the amended 2003 collaboration and license agreement, we granted Sanofi a fully-paid, exclusive license to develop, manufacture, and commercialize four experimental compounds in development. We also amended a separate 2013 exclusive license to grant Sanofi a fully-paid, exclusive license to develop, manufacture and commercialize another experimental compound being studied for the treatment of solid tumors. As consideration for these amendments, we received a $30 million payment and agreed to forego a limited co-promotion option in the U.S. with respect to the compounds covered by the 2003 agreement, as well as future milestones or royalties under both license agreements.

In accordance with ACS 605 25 (as amended by ASU No. 2009 13), we determined that there were no remaining deliverables upon execution of the amendments, and accordingly, the $30 million has been recognized as revenue and is included in license and milestone fee revenue for the three and six months ended June 30, 2017.

Bayer—In October 2008, we granted Bayer an exclusive development and commercialization license to our ADC technology for use with antibodies or other proteins that target mesothelin. We received a $4 million upfront payment upon execution of the agreement, and—for each compound developed and marketed by Bayer under this collaboration—we are entitled to receive a total of $170.5 million in milestone payments, plus royalties on the commercial sales of any resulting products. The total milestones are categorized as follows: development milestones—$16 million; regulatory milestones—$44.5 million; and sales milestones—$110 million. Through June 30, 2017, we have recognized an aggregate of $13 million in milestone payments under this agreement, including a $10 million development milestone related to initiation of a Phase 2 clinical study designed to support registration of its ADC product candidate, anetumab ravtansine, which is included in license and milestone fee revenue for the six months ended June 30, 2016.

CytomX— In January 2014, we entered into a reciprocal right to test agreement with CytomX. The agreement provides CytomX with the right to test our payload agents and linkers with CytomX antibodies that utilize their proprietary antibody-masking technology, termed ProbodiesTM for a specified number of targets and to subsequently take an exclusive, worldwide license to use our technology to develop and commercialize Probody-drug conjugates directed to the specified targets on terms agreed upon at the inception of the right to test agreement. We received no upfront cash payment in connection with the execution of the right to test agreement. Instead, we received reciprocal rights to test our payload agents and linkers with ImmunoGen antibodies masked using CytomX technology to create Probody-drug conjugates directed to a specified number of targets and to subsequently take exclusive, worldwide licenses to develop and commercialize such conjugates directed to the specified targets on terms agreed upon at the inception of the right to test agreement. The terms of the right to test agreement require us and CytomX to each take its respective development and commercialization licenses by the end of the term of the research license. In addition, both we and CytomX are required to perform specific research activities under the right to test agreement on behalf of the other party for no monetary consideration.

In February 2016, CytomX took its development and commercialization license that targets CD166. An amendment of the agreement executed simultaneously with that license granted CytomX the right, for a specified period of time, to substitute the specified target with another as yet unspecified target. Accordingly, the revenue associated with this license was deferred until the expiration of that substitution right in January 2017, whereupon we recognized $12.7 million of the $13 million of arrangement consideration allocated to the development and commercialization license, which is included in license and milestone fee revenue for the six months ended June 30, 2017. With respect to the development and commercialization license taken by CytomX, we are entitled to receive up to a total of $160 million in milestone payments plus royalties on the commercial sales of any resulting product. The total milestones are categorized as follows: development milestones—$10 million; regulatory milestones—$50 million; and sales milestones—$100 million. In June 2017, CytomX enrolled its first patient in a Phase 1 clinical trial for its product candidate, CX-2009, triggering a $1 million development milestone payment which is included in license and

milestone fee revenue for the three and six months ended June 30, 2017.

To date, we have not generated revenues from commercial sales of internal products and we expect to incur significant operating losses for the foreseeable future. As of June 30, 2017, we had approximately $150.3 million in cash and cash equivalents compared to $160.0 million in cash and cash equivalents as of December 31, 2016.

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

Critical Accounting Policies

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

There were no significant changes to our critical accounting policies from those disclosed in our Transition Report on Form 10-K for the six months ended December 31, 2016.

RESULTS OF OPERATIONS

Comparison of Three Months ended June 30, 2017 and 2016

Revenues

Our total revenues for the three months ended June 30, 2017 and 2016 were $39.0 million and $7.4 million, respectively. The $31.6 million increase in revenues in the three months ended June 30, 2017 from the same period in the prior year is attributable to increases in license and milestone fees, non-cash royalty revenue and clinical materials

revenue, partially offset by a decrease in research development support revenue, all of which are discussed below.

License and milestone fees

The amount of license and milestone fees we earn is directly related to the number of our collaborators, the collaborators' advancement of the product candidates, and the overall success in the clinical trials of the product candidates. As such, the amount of license and milestone fees may vary significantly from quarter to quarter and year to

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year. Total revenue from license and milestone fees recognized from each of our collaborative partners in the three-month periods ended June 30, 2017 and 2016 is included in the following table (in thousands):

	Three Months Ended June 30,	
License and Milestone Fees	2017	2016
Collaborative Partner:		
Amgen	$ 5	$ 4
CytomX	1,004	—
Lilly	5	6
Novartis	45	45
Sanofi	30,000	—
Takeda	21	21
Total	$ 31,080	$ 76

Revenues from license and milestone fees for the three months ended June 30, 2017 increased $31.0 million to $31.1 million from $76,000 in the same period ended June 30, 2016. Included in license and milestone fees for the three months ended June 30, 2017 is a $30 million paid-up license fee related to an amendment to our collaboration and license agreement with Sanofi and a $1 million development milestone achieved under our license agreement with CytomX.

Deferred revenue of $45.1 million as of June 30, 2017 includes a $25 million upfront payment related to the exclusive license and asset purchase agreement executed with Debiopharm in May 2017, with the remainder of the balance primarily representing consideration received from our collaborators pursuant to our license agreements, which we have yet to earn pursuant to our revenue recognition policy.

Royalty revenue

Kadcyla is an ADC marketed product resulting from one of our development and commercialization licenses with Roche, through its Genentech unit. We receive royalty reports and payments related to sales of Kadcyla from Roche one quarter in arrears. In accordance with our revenue recognition policy, $6.4 million of non-cash royalties on net sales of Kadcyla for the three-month period ended March 31, 2017 were recorded and included in revenue for the three months ended June 30, 2017 and $5.9 million of royalties on net sales of Kadcyla for the three-month period ended March 31, 2016 is included in revenue for the three months ended June 30, 2016. In April 2015, we consummated a royalty purchase transaction relating to the royalty payments on commercial sales of Kadcyla — see Liquidity and Capital Resources below for further details.

Research and development support revenue

The amount of research and development support revenue we earn is directly related to the number of our collaborators and potential collaborators, the stage of development of our collaborators' product candidates and the resources our collaborators allocate to the development effort. As such, the amount of development fees may vary widely from quarter to quarter and year to year. Research and development support revenue was $902,000 for the three months ended June 30, 2017 compared with $1.3 million for the three months ended June 30, 2016.

Clinical materials revenue

The amount of clinical materials revenue we earn, and the related cost of clinical materials charged to research and development expense, is directly related to the number of clinical trials our collaborators who use us to manufacture clinical materials are preparing or have underway, the speed of enrollment in those trials, the dosage schedule of each clinical trial and the time period, if any, during which patients in the trial receive clinical benefit from the clinical materials, and the demand our collaborators have for clinical grade material for process development and analytical purposes. As such, the amount of clinical materials revenue and the related cost of clinical materials charged to research and development expense may vary significantly from quarter to quarter and year to year. Clinical materials revenue

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increased by $546,000 during the three months ended June 30, 2017 to $599,000 compared to $53,000 during the three months ended June 30, 2016. During the periods presented, we shipped clinical materials in support of certain collaborators' clinical trials. We are compensated at negotiated prices which are generally consistent with what other third parties would charge.

Research and Development Expenses

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

Research and development expense for the three months ended June 30, 2017 decreased $3.4 million to $35.3 million from $38.7 million for the three months ended June 30, 2016. 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 June 30,	
Research and Development Expense	2017	2016
Research	$ 5,668	$ 6,566
Preclinical and Clinical Testing	14,321	18,934
Process and Product Development	2,635	3,516
Manufacturing Operations	12,695	9,636
Total Research and Development Expense	$ 35,319	$ 38,652

Research

Research includes expenses primarily associated with activities to identify and evaluate new targets and to develop and evaluate new antibodies, linkers and cytotoxic agents for our products and in support of our collaborators. Such expenses primarily include personnel, contract services, research licensing fees, facilities and lab supplies. Research expenses for the three months ended June 30, 2017 decreased $898,000 compared to the three months ended June 30, 2016. This decrease is principally due to a decrease in salaries and related expenses driven primarily by a decrease in personnel and lower stock compensation expense, as well as marginal decreases in contract services and lab supplies.

Preclinical and Clinical Testing

Preclinical and clinical testing includes expenses related to preclinical testing of our own and, in certain instances, our collaborators' product candidates, regulatory activities, and the cost of our own clinical trials. Such expenses include personnel, patient enrollment at our clinical testing sites, consultant fees, contract services, and facility expenses. Preclinical and clinical testing expenses for the three months ended June 30, 2017 decreased $4.6 million to $14.3 million compared to $18.9 million for the three months ended June 30, 2016. This decrease is primarily the result of: (i) a decrease in salaries and related expenses driven substantially by a decrease in personnel and lower stock compensation expense; (ii) a decrease in clinical trial costs driven by the Phase 1 mirvetuximab and IMGN529 studies winding down, partially offset by increased costs related to the Phase 3 mirvetuximab soravtansine study; and (iii) a decrease in contract services and consulting fees due to timing of certain activities.

Process and Product Development

Process and product development expenses include costs for development of clinical and commercial manufacturing processes for our own and collaborator compounds. Such expenses include the costs of personnel, contract services and facility expenses. For the three months ended June 30, 2017, total development expenses decreased $881,000 compared to the three months ended June 30, 2016. This decrease is principally due to a decrease in salaries

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and related expenses driven primarily by a decrease in personnel and lower stock compensation expense, as well as marginal decreases in contract services and lab supplies.

Manufacturing Operations

Manufacturing operations expense includes costs to manufacture preclinical and clinical materials for our own and our collaborator's product candidates, and quality control and quality assurance activities and costs to support the operation and maintenance of our conjugate manufacturing facility. Such expenses include personnel, raw materials for our and our collaborators' preclinical studies and clinical trials, development costs with contract manufacturing organizations, manufacturing supplies, and facilities expense. For the three months ended June 30, 2017, manufacturing operations expense increased $3.1 million to $12.7 million compared to $9.6 million in the same period last year. This increase is principally the result of: (i) an increase in antibody costs driven primarily by commercial-readiness activities for mirvetuximab soravtansine; (ii) an increase in cost of clinical materials revenue charged to research and development expense due to timing of orders of such clinical materials from our partners; (iii) an increase in cytotoxic costs to supply Phase 1 testing of IMGN632; (iv) an increase in fill/finish costs driven by IMGN779 and IMGN632 activities in the current period; and, (v) an increase in mirvetuximab soravtansine third-party conjugation costs driven by timing. Partially offsetting these increases, salaries and related expenses decreased due primarily to a decrease in personnel and lower stock compensation expense and an increase in costs capitalized into inventory due to a greater number of manufactured batches of conjugated materials on behalf of our collaborators in the period.

General and Administrative Expenses

General and administrative expenses for the three months ended June 30, 2017 decreased $462,000 compared to the same period last year. This decrease is primarily due to a decrease in salaries and related expenses driven primarily by a decrease in personnel and lower stock compensation expense.

Investment Income, net

Investment income for the three months ended June 30, 2017 and 2016 was $143,000 and $106,000, respectively.

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

In April 2015, Immunity Royalty Holdings, L.P. (IRH) purchased our right to receive 100% of the royalty payments on commercial sales of Kadcyla subsequent to March 31, 2014, arising under our development and commercialization license with Genentech, until IRH has received aggregate royalties equal to $235 million or $260 million, depending on when the aggregate royalties received by IRH reach a specified milestone. As described in Note E to our Consolidated Financial Statements, this royalty sale transaction has been recorded as a liability that amortizes over the estimated royalty payment period as Kadcyla royalties are remitted directly to the purchaser. During the three months ended June 30, 2017, we recorded $3.3 million of non-cash interest expense which includes amortization of deferred financing costs. We impute interest on the transaction and record interest expense at the effective interest rate, which we currently estimate to be 6.8%. There are a number of factors that could materially affect the estimated interest rate, in particular, the amount and timing of royalty payments from future net sales of Kadcyla, and we will assess this estimate on a periodic basis. As a result, future interest rates could differ significantly and any such change in interest rate will be adjusted prospectively.

Interest Expense on Convertible Senior Notes

In June 2016, the Company issued Convertible 4.5% Senior Notes with an aggregate principal amount of $100 million. The Convertible Notes are senior unsecured obligations and bear interest at a rate of 4.5% per year, payable semi-annually in arrears on January 1 and July 1 of each year, commencing on January 1, 2017. The Company recorded approximately $1.1 million and $138,000 of interest expense in the three months ended June 30, 2017 and 2016, respectively.

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Other Income (Expense), net

Other income (expense), net for the three months ended June 30, 2017 and 2016 was $751,000 and $(392,000), respectively. We incurred $751,000 and $(384,000) in foreign currency exchange gains (losses) related to obligations with non-U.S. dollar-based suppliers and Euro cash balances maintained to fulfill them during the three months ended June 30, 2017 and 2016, respectively.

Comparison of Six Months ended June 30, 2017 and 2016

Revenues

Our total revenues for the six months ended June 30, 2017 and 2016 were $67.5 million and $27.1 million, respectively. The $40.4 million increase in revenues in the six months ended June 30, 2017 from the same period in the prior year is attributable to increases in license and milestone fees, non-cash royalty revenue and clinical materials revenue, partially offset by a decrease in research and development support revenue, all of which are discussed below.

License and milestone fees

The amount of license and milestone fees we earn is directly related to the number of our collaborators, the collaborators' advancement of the product candidates, and the overall success in the clinical trials of the product candidates. As such, the amount of license and milestone fees may vary significantly from quarter to quarter and year to year. Total revenue from license and milestone fees recognized from each of our collaborative partners in the six-month periods ended June 30, 2017 and 2016 is included in the following table (in thousands):

	Six Months Ended June 30,	
License and Milestone Fees	2017	2016
Collaborative Partner:		
Amgen	$ 9	$ 8
Bayer	—	10,000
CytomX	13,658	—
Lilly	11	12
Novartis	90	90
Sanofi	36,000	1

Takeda	42	42
Total	$ 49,810	$ 10,153

Revenues from license and milestone fees for the six months ended June 30, 2017 increased $39.6 million to $49.8 million from $10.2 million in the same period ended June 30, 2016. Included in license and milestone fees for the six months ended June 30, 2017 is a $30 million paid-up license fee related to an amendment to our collaboration and license agreement with Sanofi, $6 million of development milestones achieved under the collaboration and license agreement with Sanofi prior to amendment, $12.7 million of non-cash license revenue earned upon the expiration of the right to replace the target specified under the development and commercialization license with CytomX and a $1 million development milestone achieved under said license agreement with CytomX. Included in license and milestone fees for the six months ended June 30, 2016 is a $10 million development milestone achieved under a license agreement with Bayer.

Royalty revenue

Kadcyla is an ADC marketed product resulting from one of our development and commercialization licenses with Roche, through its Genentech unit. We receive royalty reports and payments related to sales of Kadcyla from Roche one quarter in arrears. In accordance with our revenue recognition policy, $14.1 million of non-cash royalties on net sales of Kadcyla for the six-month period ended March 31, 2017 were recorded and included in revenue for the six months ended June 30, 2017 and $13.3 million of royalties on net sales of Kadcyla for the six-month period ended March 31, 2016 is included in revenue for the six months ended June 30, 2016. In April 2015, we consummated a

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royalty purchase transaction relating to the royalty payments on commercial sales of Kadcyla — see Liquidity and Capital Resources below for further details.

Research and development support revenue

The amount of research and development support revenue we earn is directly related to the number of our collaborators and potential collaborators, the stage of development of our collaborators' product candidates and the resources our collaborators allocate to the development effort. As such, the amount of development fees may vary widely from quarter to quarter and year to year. Research and development support revenue was $2.4 million in each of the six months ended June 30, 2017 and 2016.

Clinical materials revenue

The amount of clinical materials revenue we earn, and the related cost of clinical materials charged to research and development expense, is directly related to the number of clinical trials our collaborators who use us to manufacture clinical materials are preparing or have underway, the speed of enrollment in those trials, the dosage schedule of each clinical trial and the time period, if any, during which patients in the trial receive clinical benefit from the clinical materials, and the demand our collaborators have for clinical grade material for process development and analytical purposes. As such, the amount of clinical materials revenue and the related cost of clinical materials charged to research and development expense may vary significantly from quarter to quarter and year to year. Clinical materials revenue was $1.3 million in each of the six months ended June 30, 2017 and 2016. During the periods presented, we shipped clinical materials in support of certain collaborators' clinical trials. We are compensated at negotiated prices which are generally consistent with what other third parties would charge.

Research and Development Expenses

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

Research and development expense for the six months ended June 30, 2017 decreased $6.5 million to $68.2 million from $74.7 million for the six months ended June 30, 2016. 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):

	Six Months Ended June 30,	
Research and Development Expense	2017	2016
Research	$ 11,302	$ 12,851
Preclinical and Clinical Testing	31,171	35,324
Process and Product Development	5,578	6,953
Manufacturing Operations	20,156	19,618
Total Research and Development Expense	$ 68,207	$ 74,746

Research

Research includes expenses primarily associated with activities to identify and evaluate new targets and to develop and evaluate new antibodies, linkers and cytotoxic agents for our products and in support of our collaborators. Such expenses primarily include personnel, contract services, research licensing fees, facilities and lab supplies. Research expenses for the six months ended June 30, 2017 decreased $1.5 million compared to the six months ended June 30, 2016. This decrease is principally due to a decrease in salaries and related expenses driven primarily by a decrease in personnel and lower stock compensation expense, as well as a decrease in lab supplies.

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Preclinical and Clinical Testing

Preclinical and clinical testing includes expenses related to preclinical testing of our own and, in certain instances, our collaborators' product candidates, regulatory activities, and the cost of our own clinical trials. Such expenses include personnel, patient enrollment at our clinical testing sites, consultant fees, contract services, and facility expenses. Preclinical and clinical testing expenses for the six months ended June 30, 2017 decreased $4.1 million to $31.2 million compared to $35.3 million for the six months ended June 30, 2016. This decrease is primarily the result of a decrease in salaries and related expenses driven substantially by a decrease in personnel and lower stock compensation expense, as well as a decrease in contract services and consulting fees due to timing of certain activities.

Process and Product Development

Process and product development expenses include costs for development of clinical and commercial manufacturing processes for our own and collaborator compounds. Such expenses include the costs of personnel, contract services and facility expenses. For the six months ended June 30, 2017, total development expenses decreased $1.4 million compared to the six months ended June 30, 2016. This decrease is principally due to a decrease in salaries and related expenses driven substantially by a decrease in personnel and lower stock compensation expense, a decrease in contract services driven by decreased development activities related to our IGN cytotoxic agents in the current period, and to a lesser extent, a decrease in lab supplies.

Manufacturing Operations

Manufacturing operations expense includes costs to manufacture preclinical and clinical materials for our own and our collaborator's product candidates, and quality control and quality assurance activities and costs to support the operation and maintenance of our conjugate manufacturing facility. Such expenses include personnel, raw materials for our and our collaborators' preclinical studies and clinical trials, development costs with contract manufacturing organizations, manufacturing supplies, and facilities expense. For the six months ended June 30, 2017, manufacturing operations expense increased $538,000 to $20.2 million compared to $19.6 million in the same period last year. This increase is principally the result of: (i) an increase in antibody costs driven primarily by commercial-readiness activities for mirvetuximab soravtansine; (ii) an increase in cytotoxic costs to supply Phase 1 testing of IMGN632; and, (iii) an increase in fill/finish costs driven by IMGN779 and IMGN632 activities in the current period. Partially offsetting these increases: (i) salaries and related expenses decreased due primarily to a decrease in personnel, lower stock compensation expense and lower sign-on bonuses; (ii) an increase in costs capitalized into inventory due to a greater number of manufactured batches of conjugated materials on behalf of our collaborators in the period; (iii) a decrease in mirvetuximab soravtansine third-party conjugation costs driven by timing; and (iv) a decrease in contract services due primarily to DMx development activities conducted in the prior year period.

General and Administrative Expenses

General and administrative expenses for the six months ended June 30, 2017 decreased $3.6 million compared to the same period last year. This decrease is primarily due to a $3.1 million non-cash stock compensation charge in the prior period resulting from the CEO transition, as well as decreased recruiting and patent fees in the current period. Partially offsetting these decreases, legal fees increased related to new partner agreements executed during the current period.

Restructuring Charge

At the end of the first quarter of 2017, based on further evaluation of the prospects for sub-leasing our unoccupied office space in Waltham due to the restructuring activities highlighted in Note G, “Restructuring Charge” of the consolidated financial statements, we determined that additional time would be required to find a tenant. Accordingly, the calculation for the potential sub-lease loss was updated and it was determined that the remaining balance of the leasehold improvements was impaired. Also, due to the additional time expected to take to secure a tenant, a lease loss was recorded in the first quarter based on the change in estimate of the sub-lease assumption. The total of these charges was $386,000. There has been no change to this estimate at June 30, 2017.

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In September 2016, the Compensation Committee of the Board of Directors approved cash and stock option retention incentive awards for certain remaining eligible employees who continue employment with the Company in order to execute the Company's strategic priorities. The cash awards will be payable to these employees in either October 2017 or March 2018 based on continued employment and services performed during these periods. Stock option awards covering 750,000 shares granted, that remain outstanding, will vest annually in equal installments over three years from the date of grant and the related compensation expense for the six months ended June 30, 2017 is included in the amounts discussed in Note B, "Stock-Based Compensation" of the consolidated financial statements.

Investment Income, net

Investment income for the six months ended June 30, 2017 and 2016 was $258,000 and $214,000, respectively.

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

In April 2015, Immunity Royalty Holdings, L.P. (IRH) purchased our right to receive 100% of the royalty payments on commercial sales of Kadcyla subsequent to March 31, 2014, arising under our development and commercialization license with Genentech, until IRH has received aggregate royalties equal to $235 million or $260 million, depending on when the aggregate royalties received by IRH reach a specified milestone. As described in Note E to our Consolidated Financial Statements, this royalty sale transaction has been recorded as a liability that amortizes over the estimated royalty payment period as Kadcyla royalties are remitted directly to the purchaser. During the six months ended June 30, 2017, we recorded $6.7 million of non-cash interest expense which includes amortization of deferred financing costs. We impute interest on the transaction and record interest expense at the effective interest rate, which we currently estimate to be 6.8%. There are a number of factors that could materially affect the estimated interest rate, in particular, the amount and timing of royalty payments from future net sales of Kadcyla, and we will assess this estimate on a periodic basis. As a result, future interest rates could differ significantly and any such change in interest rate will be adjusted prospectively.

Interest Expense on Convertible Senior Notes

In June 2016, the Company issued Convertible 4.5% Senior Notes with an aggregate principal amount of $100 million. The Convertible Notes are senior unsecured obligations and bear interest at a rate of 4.5% per year, payable semi-annually in arrears on January 1 and July 1 of each year, commencing on January 1, 2017. The Company recorded approximately $2.3 million and $138,000 of interest expense in the six months ended June 30, 2017 and June 30, 2016.

Other Income (Expense), net

Other income (expense), net for the six months ended June 30, 2017 and 2016 was $885,000 and $159,000, respectively. We incurred $887,000 and $164,000 in foreign currency exchange gains related to obligations with non-U.S. dollar-based suppliers and Euro cash balances maintained to fulfill them during the six months ended June 30, 2017 and 2016, respectively.

LIQUIDITY AND CAPITAL RESOURCES

	As of June 30, 2017	December 31, 2016
Cash and cash equivalents	$ 150,337	$ 159,964
Working capital	94,058	120,570
Shareholders' deficit	(173,229)	(152,850)

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	Six Months Ended June 30,	
	2017	2016
	(In thousands)	
Cash used for operating activities	$ (8,880)	$ (58,986)
Cash used for investing activities	(779)	(5,249)
Cash provided by financing activities	32	96,978

Cash Flows

We require cash to fund our operating expenses, including the advancement of our own clinical programs, and to make capital expenditures. Historically, we have funded our cash requirements primarily through equity financings in public markets, payments from our collaborators, including license fees, milestones, research funding, and royalties, and more recently, convertible debt. We have also sold our rights to receive royalties on Kadcyla for up-front consideration. As of June 30, 2017, we had approximately $150.3 million in cash and cash equivalents. Net cash used for operations was $8.9 million and $59.0 million for the six months ended June 30, 2017 and 2016, respectively. The principal use of cash for operating activities for both periods presented was to fund our net loss, with the current period benefiting from a $30 million paid-up license fee received from Sanofi pursuant to amending its collaboration and license agreements with us, as well as a $25 million upfront payment received from Debiopharm pursuant to an exclusive license and asset purchase agreement executed during the current period.

Net cash used for investing activities was $779,000 and $5.2 million for the six months ended June 30, 2017 and 2016, respectively, and represents cash outflows for capital expenditures, primarily for the purchase of new equipment and leasehold improvements.

Net cash provided by financing activities was $32,000 and $97.0 million for the six months ended June 30, 2017 and 2016, respectively, which represents proceeds from the exercise of approximately 10,000 and 94,000 stock options, respectively. Additionally, in June 2016, we issued Convertible 4.5% Senior Notes with an aggregate principal amount of $100 million. We received net proceeds of approximately $96.6 million from the sale of the Convertible Notes after deducting fees and expenses of approximately $3.4 million. See Note E to our Consolidated Financial Statements for further details regarding the terms of the transaction.

We anticipate that our current capital resources and expected future collaborator payments will enable us to meet our operational expenses and capital expenditures into the third quarter of 2018. However, we cannot provide assurance that such collaborative agreement funding will, in fact, be received. Should we or our partners not meet some or all of the terms and conditions of our various collaboration agreements or if we are not successful in securing future collaboration agreements, we may be required to secure alternative financing arrangements, and/or defer or limit some

or all of our research, development and/or clinical projects. See Note A of the financial statements for further discussion.

Contractual Obligations

There have been no material changes to our contractual obligations during the current period from those disclosed in our Transition Report on Form 10-K for the six months ended December 31, 2016.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014 9, Revenue from Contracts with Customers (Topic 606), to clarify the principles for recognizing revenue. This update provides a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which delayed the effective date of the new standard from January 1, 2017 to January 1, 2018. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations, which clarifies the

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implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which clarifies certain aspects of identifying performance obligations and licensing implementation guidance. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients related to disclosures of remaining performance obligations, as well as other amendments to guidance on collectability, non-cash consideration and the presentation of sales and other similar taxes collected from customers. These standards have the same effective date and transition date of January 1, 2018. The new revenue standard allows for either full retrospective or modified retrospective application. We anticipate using the modified retrospective approach to implement this standard. We are in the process of analyzing our existing revenue agreements to evaluate the impact of adoption. We have less than twenty contracts that have remaining performance obligations that will need to be evaluated under the provisions of the new standard as of January 1, 2018. In performing this assessment, we noted that we will be required to recognize royalty income in the same period as the related sales occur on Kadcyla rather than one quarter in arrears, which is the point in which the amount is fixed and determinable. This will require us to make an estimate of the royalties as the information is not provided to us until 90 days after the end of the quarter. Additionally, some partner milestones, depending on the probability of occurring, may be recognized sooner and at different values than they currently would be under the current accounting standards. We are in the process of estimating the impact of adopting the new standard on our consolidated financial statements, however, we expect to record a material adjustment upon adoption, which will be recorded as a cumulative effect of initially applying the standard to opening accumulated deficit as of January 1, 2018. We will continue to provide disclosures under the legacy accounting for the year ended December 31, 2018.

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

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

In February 2016, the FASB issued ASU 2016-2, Leases (Topic 842) that primarily requires lessees to recognize most leases on their balance sheets but record expenses on their income statements in a manner similar to current

accounting. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and calls for retrospective application, with early adoption permitted. Accordingly, the standard is effective for us on January 1, 2019. We are currently evaluating the impact of this guidance on our financial statements and the timing of adoption.

In March 2016, the FASB issued ASU 2016-9, Improvements to Employee Share-Based Payment Accounting (Topic 718) that changes the accounting for certain aspects of share-based payments to employees. The guidance requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled,

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thus eliminating additional paid in capital pools. The guidance also allows for the employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. The guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods with early adoption permitted. Accordingly, we adopted the standard on January 1, 2017. As a result of the adoption of this guidance, the net operating loss deferred tax assets for federal and state purposes increased by $9.2 million and $1.2 million, respectively, and will be offset by corresponding increases in the valuation allowance. The adoption of the guidance has no impact on our consolidated financial statements. We elected not to adopt the provision that would allow actual forfeitures to be recognized in lieu of maintaining a forfeitures reserve. As such, we will continue to estimate forfeitures.

Forward-Looking Statements

This quarterly report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to analyses and other information which are based on forecasts of future results and estimates of amounts that are not yet determinable. These statements also relate to our future prospects, developments and business strategies.

These forward-looking statements can be identified by their use of terms and phrases, such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "will" and other similar terms and phrases, includi references to assumptions. They may also use words such as "will," "would," "should," "could" or "may". These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from those contemplated by our forward-looking statements. These known and unknown risks, uncertainties and other factors are described in detail in the "Risk Factors" section and in other sections of our Transition Report on Form 10-K for the six months ended December 31, 2016. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

Probody™ is a trademark of CytomX Therapeutics, Inc.

OFF-BALANCE SHEET ARRANGEMENTS

None.

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ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

Our market risks, and the ways we manage them, are summarized in Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” of our Transition Report on Form 10-K for the six months ended December 31, 2016. Since then there have been no material changes to our market risks or to our management of such risks.

ITEM 4. Controls and Procedures

(a)Disclosure Controls and Procedures

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

(b)Changes in Internal Controls

There have not been any changes in the Company’s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1A. Risk Factors

You should carefully review and consider the information regarding certain factors that could materially affect our business, financial condition or future results set forth under Item 1A. (Risk Factors) in our Transition Report on Form 10-K for the six months ended December 31, 2016. There have been no material changes from the factors disclosed in our 2016 Transition Report on Form 10-K, although we may disclose changes to such factors or disclose additional factors from time to time in our future filings with the Securities and Exchange Commission (the "Commission").

ITEM 6. Exhibits

Exhibit No.	Description
3.1	Articles of Amendment
10.1*	Exclusive License and Asset Purchase Agreement dated as of May 23, 2017 by and between the Registrant and Debiopharm International, S.A.
10.2*	Amendment No. 4, dated as of May 26, 2017, t the Collaboration and License Agreement between the Registrant and sanofi-aventis U.S. LLC
10.3	Form of Restricted Stock Agreement for employees under the 2016 Employee, Director and Consultant Equity Incentive Plan
10.4	Form of Performance-Based Restricted Stock Agreement dated February 21, 2017 and June 14, 2017 under the 2016 Employee, Director and Consultant Equity Incentive Plan
31.1	Certification of Principal Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002
32†	Certifications of Principal Executive Officer and Principal Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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

†Furnished, not filed.

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SIGNATURES

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

ImmunoGen, Inc.

Date: August 4, 2017 By: /s/Mark J. Enyedy
Mark J. Enyedy
President, Chief Executive Officer (Principal Executive Officer)

Date: August 4, 2017 By: /s/ David B. Johnston
David B. Johnston
Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)