UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2002

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
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

(617) 995-2500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes **[X]** No **[ ]**

At May 6, 2002 there were 40,152,889 shares of common stock, par value $.01 per share, of the registrant outstanding.

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IMMUNOGEN, INC.
CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2002 AND JUNE 30, 2001

	March 31, 2002 (Unaudited)	June 30, 2001
ASSETS		
Cash and cash equivalents	$ 20,082,436	$ 14,822,519
Marketable securities	123,919,558	79,673,934
Accounts receivable	697,237	—
Unbilled revenue	715,504	693,835
Inventory	3,237,276	2,160,996
Prepaid and other current assets	2,075,666	2,224,387
Total current assets	150,727,677	99,575,671
Long term marketable securities	—	56,303,267
Property and equipment, net	5,882,507	3,238,082
Other assets	43,700	43,700
Total assets	$ 156,653,884	$ 159,160,720
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 2,183,612	$ 842,927
Accrued compensation	1,686,335	703,036
Other current accrued liabilities	1,127,897	2,245,874
Current portion of capital lease obligations	—	8,137
Current portion of deferred revenue	2,000,481	1,560,865
Total current liabilities	6,998,325	5,360,839
Deferred revenue, net of current portion	11,817,739	11,353,115
Other long term liabilities	10,006	—
Total liabilities	18,826,070	16,713,954
Stockholders' equity:		
Common stock, $.01 par value; authorized 75,000,000 shares; issued and outstanding 40,020,132 shares and 38,535,402 shares as of March 31, 2002 and June 30, 2001, respectively	400,201	385,354
Additional paid-in capital	316,672,814	310,971,161
Accumulated deficit	(179,444,250)	(169,246,607)
Accumulated other comprehensive income	199,049	336,858
Total stockholders' equity	137,827,814	142,446,766
Total liabilities and stockholders' equity	$ 156,653,884	$ 159,160,720

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

IMMUNOGEN, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2002 AND 2001
(UNAUDITED)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2002	2001 (Restated, See Note A)	2002	2001 (Restated, See Note A)
Revenues:				

Revenue earned under collaboration agreements	$ 459,941	$ 429,870	$ 1,245,374	$ 3,257,782
Clinical materials reimbursement	601,777	561,615	2,377,193	561,615
Development fees	148,616	35,164	558,081	135,233
Total revenues	1,210,334	1,026,649	4,180,648	3,954,630
Expenses:				
Cost of clinical materials reimbursed	556,677	561,615	2,332,093	561,615
Research and development	7,173,051	3,739,396	12,691,819	10,927,500
General and administrative	1,576,469	1,179,697	4,017,306	3,080,871
Total expenses	9,306,197	5,480,708	19,041,218	14,569,986
Loss from operations	(8,095,863)	(4,454,059)	(14,860,570)	(10,615,356)
Gain/(loss) on sale of assets	—	—	200	(1,900)
Interest income, net	1,084,386	2,583,606	4,025,191	4,040,130
Realized gains on investments	170,277	92,582	734,039	92,582
Other income	1,332	20,226	31,309	288,281
Loss before income tax expense and cumulative effect of change in accounting principle	(6,839,868)	(1,757,645)	(10,069,831)	(6,196,263)
Income tax expense	33,000	27,600	127,812	82,600
Loss before cumulative effect of change in accounting principle	(6,872,868)	(1,785,245)	(10,197,643)	(6,278,863)
Cumulative effect of change in accounting principle	—	—	—	(5,734,478)
Net loss	$ (6,872,868)	$ (1,785,245)	$ (10,197,643)	$ (12,013,341)
Basic and diluted net loss per common share:				
Loss before cumulative effect of change in accounting principle	$ (0.17)	$ (0.05)	$ (0.26)	$ (0.17)
Cumulative effect of change in accounting principle	—	—	—	$ (0.16)
Net loss	$ (0.17)	$ (0.05)	$ (0.26)	$ (0.33)
Basic and diluted average common shares outstanding	39,829,837	38,518,911	39,454,031	36,058,066

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

IMMUNOGEN, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED MARCH 31, 2002 AND 2001
(UNAUDITED)

	Nine Months Ended March 31,	
	2002	2001
Cash flows from operating activities:		
Net loss	$ (10,197,643)	$ (12,013,341)
Adjustments to reconcile net loss to net cash used for operating activities:		
Cumulative effect of change in accounting principle	–	5,734,478
Depreciation and amortization	722,484	389,206
Realized gain on sale of marketable securities	(734,039)	(92,582)
(Gain)/loss on sale of property and equipment	(200)	1,900
Compensation for stock and stock units	23,968	–
Changes in operating assets and liabilities:		
Due from related parties	–	47,352
Accounts receivable	(697,237)	–
Unbilled revenue	(21,669)	–
Inventory	(1,076,280)	(1,574,767)
Prepaid and other current assets	148,721	(890,076)
Accounts payable	751,466	39,523
Accrued compensation	983,299	320,875
Deferred revenue	904,240	5,742,217
Other current accrued liabilities	(1,117,977)	611,322
Net cash used for operating activities	(10,310,867)	(1,683,893)

Cash flows from investing activities:		
Sales and maturities (purchases) of marketable securities, net	12,653,873	(123,013,386)
Capital expenditures	(2,777,690)	(2,028,729)
Proceeds from sale of property and equipment	200	7,500
Net cash (used for) provided by investing activities	9,876,383	(125,034,615)
Cash flows from financing activities:		
Proceeds from warrants exercised, net	5,136,236	1,710,548
Proceeds from stock options exercised, net	566,302	758,760
Principal payments on capital lease obligations	(8,137)	(47,911)
Proceeds from common stock issuance, net	–	139,721,202
Net cash provided by financing activities	5,694,401	142,142,599
Net change in cash and cash equivalents	5,259,917	15,424,091
Cash and cash equivalents, beginning balance	14,822,519	1,408,908
Cash and cash equivalents, ending balance	$ 20,082,436	$ 16,832,999
Supplemental disclosures:		
Cash paid for taxes	$ 67,229	$ 55,000
Non cash activities:		
Capital expenditures included in accounts payable	$ 589,219	$ –

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

IMMUNOGEN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements at March 31, 2002 and June 30, 2001 and for the three-month and nine-month periods ended March 31, 2002 and 2001 include the accounts of the Company and its subsidiaries, ImmunoGen Securities Corp. and Apoptosis Technology, Inc. (ATI). Although the consolidated financial statements are unaudited, they include all of the adjustments, consisting only of normal recurring adjustments, except as discussed in *Prepaid and Other Current Assets* and *Inventory*, which management considers necessary for a fair presentation of the Company's financial position in accordance with accounting principles generally accepted in the United States for interim financial information. Certain information and footnote disclosures normally included in the Company's annual financial statements have been condensed or omitted. The preparation of interim financial statements requires the use of management's estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim financial statements and the reported amounts of revenues and expenditures during the reported period. The results of the interim periods are not necessarily indicative of the results for the entire year. Accordingly, the interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2001.

Revenue Recognition

The Company enters into outlicensing and development agreements with collaborative partners for the development of monoclonal antibody-based cancer therapeutics. The terms of the agreements typically include non-refundable license fees, payments based upon the achievement of certain milestones and royalties on product sales.

The Company currently has the following four types of outlicense and development contracts. Set forth under each contract description are the identities of the counterparties to each type of contract.

- Shared product license: the Company retains commercial rights worldwide excluding the European Union and Japan (shared product license):

  British Biotech plc

- Full product license (product license):

  GlaxoSmithKline plc

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

  Genentech, Inc.

Boehringer Ingelheim International GmbH

Millennium Pharmaceuticals, Inc.

- Broad option agreements to acquire a specific number of licenses over a specified time period (broad license):

  Genentech, Inc.

  Abgenix, Inc.

  Millennium Pharmaceuticals, Inc.

The Company's collaborations consist of one shared product license, one full product license, three single target licenses and three broad licenses. Excluding the shared product license agreement, all of these collaboration agreements provide that the Company will (i) manufacture preclinical and clinical materials for its collaborators, at the collaborators' request and cost, (ii) receive payments upon its collaborators' achievements of certain milestones and (iii) receive royalty payments, generally until the later of the last applicable patent expiration or 12 years after product launch. The Company is required to provide technical training and any process improvements and know-how to its collaborators during the term of the collaboration agreements. Practically, once a collaborator receives Food and Drug Administration (FDA) approval for any drug and the manufacturing process used to produce the drug, the collaborator will not be able to incorporate any process improvements or know-how into its manufacturing process without additional testing and review by the FDA. Accordingly, the Company believes that it is very unlikely that its collaborators will require the Company's services subsequent to FDA approval.

Generally, upfront payments on product and single target licenses are deferred over the period of the Company's substantial involvement during development. ImmunoGen employees are available to assist the Company's collaborators during the development of their products. The Company estimates this development phase to begin at the inception of the contract and conclude when the product receives FDA approval. The Company believes this period of involvement is, on average, six years. At each reporting period, the Company looks at individual product facts and circumstances and reviews the estimated period of its substantial involvement.

The Company defers upfront payments received from its broad option agreements over the period during which the collaborator may elect to receive a license. These periods are specific to each collaboration agreement, but are between seven and 12 years. If a collaborator selects an option to acquire a license under these agreements, any option fee is deferred and recorded over the life of the option, generally 12 to 18 months. If a collaborator exercises an option and the Company grants a single target license to the collaborator, the Company defers the license fee and accounts for the fee as it would an upfront payment on a single target collaboration agreement, as discussed above.

The Company's shared product license collaboration with British Biotech provides for an upfront payment from British Biotech to ImmunoGen that was paid upon signing of the agreement. The agreement also stipulates that upon FDA approval, ImmunoGen will pay British Biotech a milestone payment, which ImmunoGen expects will exceed the upfront payment the Company received. The Company has deferred the upfront payment and anticipates recognizing such revenue concurrent with the milestone payment that the Company is required to pay to British Biotech if and when the product receives FDA approval.

The Company produces preclinical and clinical materials for its collaborators and, at the collaborators' request, may perform process development work. The Company also produces preclinical material for potential collaborators under material transfer agreements. Generally, the Company is reimbursed for its fully burdened cost of producing these materials or providing these services. The Company recognizes revenue on preclinical and clinical materials when it has shipped the materials, the materials have passed all quality testing required for collaborator acceptance and title has transferred to the collaborator. The Company recognizes revenue on process development services as those services are performed.

Prior to June 30, 2000, the Company recognized collaboration revenue on upfront, non-refundable license payments upon receipt, and milestone payments upon achievement of the milestone and when collection of that milestone was probable. Revenues recognized were based on the collaboration agreement milestone value and the relationship of costs incurred by the Company to the Company's estimates of total cost it expected to incur to complete that milestone.

Effective July 1, 2000, the Company changed its method of accounting for revenue recognition in accordance with Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101). Under the new accounting method, adopted retroactively to July 1, 2000, the Company recognizes revenue from non-refundable, upfront license payments not specifically tied to a separate earnings process ratably over the term of the Company's involvement during development. The cumulative effect of the change in accounting principle on prior years resulted in a non-cash charge to income of $5.7 million, which is included in the net loss for the nine months ended March 31, 2001. Results for the three and nine months ended March 31, 2001 have been restated for the retroactive adoption of SAB 101. Included in revenue for the three-month and nine-month periods ended March 31, 2002 are $219,000 and $656,000, respectively, of revenue that was recognized in prior years, before the Company's adoption of SAB 101, and included in the cumulative effect of change in accounting principle. Included in revenue for the three-month and nine-month periods ended March 31, 2001 are $219,000 and $656,000, respectively, of revenue that was recognized in prior years, before the Company's adoption of SAB 101, and included in the cumulative effect of change in accounting principle.

Marketable Securities

In accordance with the Company's investment policy, surplus cash is invested in investment-grade corporate and U.S. Government debt securities typically with maturity dates of less than one year. The Company designates its marketable securities as available-for-sale securities. Effective September 30, 2001, the Company classified all such securities as current assets since the Company has the ability to use such securities to satisfy current liabilities. Marketable Securities continue to be carried at their fair value with unrealized gains and losses included in Accumulated Other Comprehensive Income in the accompanying balance sheet. Realized gains and losses and declines in value judged to be other than temporary, if any, on available-for-sale securities are reported as realized gains or losses on investments.

Unbilled Revenue

The majority of the Company's Unbilled Revenue at March 31, 2002 and June 30, 2001 represents clinical materials that have passed quality testing, that the Company has shipped and title has transferred to the collaborator, but the Company has not yet invoiced. Also included in Unbilled Revenue are costs the Company has incurred in completing process development work on behalf of its collaborators, but has not invoiced.

Prepaid and Other Current Assets

Included in Prepaid and Other Current Assets at March 31, 2002 is $1.4 million related to prepayments made to an antibody manufacturer to reserve manufacturing space and partial payment for antibody that had not been delivered to the Company at March 31, 2002. Under the terms of the Company's shared product license collaboration with British Biotech, the Company is responsible for certain manufacturing and process development costs. To date, the actual cost to manufacture the antibody has exceeded the Company's original estimates. The Company and British Biotech are currently negotiating the amount that British Biotech will reimburse the Company for the portion of the cost of this antibody that exceeds the original estimates. The Company does not believe that it will be reimbursed for the full cost of the antibody, and, based upon preliminary discussions with British Biotech, has established a reserve of $561,000, to reduce the value of the prepaid material to $884,000, which is the Company's estimate of the net realizable value at March 31, 2002. The actual realized value of the prepaid asset may differ from this estimate based upon actual manufacturing yields and the result of the Company's negotiations with British Biotech. The valuation allowance was charged to research and development expense in the three-month period ended March 31, 2002.

Inventory

Inventory costs primarily relate to clinical trial materials being manufactured for the Company's collaborators. Inventory is stated at the lower of cost or market.

Inventory, net of valuation allowances, at March 31, 2002 is summarized below:

Raw materials	$ 873,441
Work in process	1,852,019
Finished goods	511,816
Total	$ 3,237,276

Valuation allowances of $1.7 million represent the cost of on-hand conjugate produced for GlaxoSmithKline that the Company may not realize. GlaxoSmithKline currently has two phase I clinical trials of huC242-DM1 in process. In one trial GlaxoSmithKline reimburses the Company for the cost of clinical material. This trial has reached its primary endpoints and the Company believes that the trial will achieve its additional objectives earlier than anticipated. The trial, therefore, will use less clinical material than originally projected. As a result of the expected early conclusion of the one trial, the Company believes that it has more huC242-DM1 inventory on-hand than GlaxoSmithKline will reimburse. As a result, the Company has written down the value of the inventory to its estimated realizable value. The actual value of the inventory that the Company realizes may differ from this estimate based upon the final results of the clinical trials. The inventory valuation allowances were charged to research and development expense in the three-month period ended March 31, 2002. In the other on-going phase I trial, the Company does not receive reimbursement for the cost of clinical material. The Company believes that all of the remaining material can be used in the other on-going phase I clinical trial of huC242-DM1.

Included in finished goods is a valuation allowance of $157,000 at March 31, 2002. This valuation allowance represents the cost of on-hand conjugate produced for British Biotech that the Company may not realize. As discussed in *Prepaid and Other Current Assets*, the Company's actual cost to manufacture huN901 antibody has exceeded original estimates. The Company and British Biotech are currently negotiating the amount that British Biotech will reimburse the Company for the portion of the cost of this antibody and conjugate that exceeds the original estimates. The Company does not believe that it will be reimbursed for the full amount of the cost of the conjugate, and, based upon preliminary discussions with British Biotech, has established a reserve of $157,000, to reduce the value of huN901-DM1 finished goods inventory to $272,000, the Company's estimate of the net realizable value at March 31, 2002. The actual realized value of the finished goods may differ from this estimate based upon the result of the Company's negotiations with British Biotech. The valuation allowance was charged to research and development expense for the three-month period ended March 31, 2002.

Computation of Net Loss Per Common Share

Basic and diluted net loss per common share is calculated based upon the weighted average number of common shares outstanding during the period. Diluted net loss per common share incorporates the dilutive effect of stock options, warrants and other convertible securities. Common stock equivalents, as calculated in accordance with the treasury-stock accounting method, equaled 3,970,629 and 4,125,542 for the three and nine month periods ended March 31, 2002, respectively, and 5,110,175 and 5,344,791 for the three and nine months ended March 31, 2001, respectively. Common stock equivalents have not been included in the net loss per common share calculations for the three- and nine-month periods ended March 31, 2002 and 2001 because their effect is anti-dilutive.

Comprehensive Loss

The Company presents comprehensive loss in accordance with Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income." For the three-month and nine-month periods ended March 31, 2002, total comprehensive loss equaled $7,381,843 and $10,335,452, respectively. For the three-and nine-month periods ended March 31, 2001, total comprehensive loss equaled $2,146,258 and $12,042,309, respectively. Comprehensive loss was comprised entirely of net loss and the change in net unrealized gains recognized on available-for-sale securities.

Recent Accounting Pronouncements

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," (SFAS No.144). SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" and provides a single accounting model for long-lived assets to be disposed of. The provisions of SFAS No. 144 are effective for fiscal years beginning after December 15, 2001. Management does not believe the adoption of SFAS No. 144 will have a material effect on the Company's financial position or results of operations.

Reclassifications

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

B. Agreements

In November 2001, the Company and Boehringer Ingelheim International GmbH, of Ingelheim, Germany, entered into a single target license collaboration to develop a new product combining the Company's maytansinoid-based Tumor Activated Prodrug (TAP) technology with a Boehringer Ingelheim antibody. Under the terms of the agreement, the Company received an upfront payment and is entitled to potential future payments upon Boehringer Ingelheim's achievement of certain milestones and royalty payments on future product sales, if and when they commence. The upfront fee was received in December 2001 and will be recognized ratably over the Company's period of involvement during development. As discussed in *Revenue Recognition* in Note A, the Company estimates that

its period of involvement during development will occur between the inception of the agreement and potential FDA approval, or over a time period that lasts six years from inception. The contract term extends from inception to the later of the last patent expiration or 12 years after product launch. Boehringer Ingelheim is responsible for the manufacturing, product development and marketing of any products resulting from the collaboration.

In March 2001, the Company and Millennium Pharmaceuticals, Inc., of Cambridge, Massachusetts, formed a broad collaboration that provides Millennium with access to the Company's TAP technology and enables Millennium to obtain a restricted number of product licenses. In February 2002, Millennium signed the first exclusive single target license under the March 2001 collaboration agreement. Under the terms of the agreement, the Company received an upfront payment and is entitled to potential future payments upon Millennium's achievement of certain milestones and royalty payments on future product sales, if and when they commence. The upfront fee was received in March 2002 and will be recognized ratably over the Company's period of involvement during development. As discussed in *Revenue Recognition* in Note A, the Company estimates that its period of involvement during development will occur between the inception of the agreement and potential FDA approval, or over a time period that lasts six years from inception. The contract term extends from inception to the later of the last patent expiration or 12 years after product launch. Millennium is responsible for the manufacturing, product development and marketing of any products resulting from the collaboration.

The Company will be reimbursed for any preclinical materials and materials for non-pivotal clinical trials that it manufactures under its agreements with Boehringer Ingelheim and Millennium. The Company is entitled to reimbursement for its fully burdened cost to produce preclinical and clinical material, plus a profit margin, except that the Company has agreed to a maximum amount of overhead to be recovered per batch produced. The agreed-upon maximum amount of recoverable overhead per batch exceeds the Company's current allocated overhead per batch.

C. Capital Stock

At March 31, 2002, excluding the warrants issued to BioChem Pharma, Inc. discussed below, warrants to acquire 1,817,997 shares of common stock remained outstanding at exercise prices ranging from $2.31 to $38.00. These warrants were originally issued in connection with private placements of the Company's Series A and Series C preferred stock and a warrant issued in connection with the Company's November 2000 public offering in satisfaction of anti-dilution provisions of certain warrants then outstanding.

As part of the Company's collaboration agreement with BioChem Pharma, the Company granted to BioChem Pharma warrants to purchase shares of ImmunoGen common stock equal to the amount invested in ATI during the three-year research term. Beginning July 31, 2000, these warrants became exercisable for a number of shares of ImmunoGen common stock determined by dividing $11.1 million, the amount of BioChem Pharma's investment in ATI, by the market price of ImmunoGen common stock on the exercise date, subject to certain limitations imposed by the Nasdaq Stock Market rules, which limit the sale or issuance by an issuer of securities at a price less than the greater of book or market value of such securities. Consequently, BioChem Pharma's ability to convert all of its ImmunoGen warrants into ImmunoGen common stock is limited to a total of 20% of the number of shares of ImmunoGen's common stock outstanding on the date of the initial transaction if the conversion price is less than the market price of ImmunoGen common stock on that date, unless stockholder approval for such conversion is obtained, if required, or unless the Company has obtained a waiver of that requirement. The exercise price is payable in cash or shares of ATI's preferred stock, at BioChem Pharma's option. The warrants are expected to be exercised only in the event that the shares of ATI common stock do not become publicly traded. ImmunoGen expects that BioChem Pharma will use its shares of ATI preferred stock, in lieu of cash, to exercise the warrants.

As discussed further in Note D, in March 2002, the Company issued 189,498 shares of restricted common stock in settlement of a claim.

In September 2001, a holder of warrants originally issued in connection with the March 1996 private placement of the Company's convertible debentures and subsequently adjusted, pursuant to the anti-dilution provisions of the warrants, in connection with the Company's November 2000 public offering of common stock, exercised its right to acquire 1,127,374 shares of common stock at prices ranging between $3.58 and $5.37 per share.

In October 2001, a holder of warrants originally issued in connection with a private placement of the Company's Series B convertible preferred stock exercised its right to acquire 10,931 shares of common stock at $5.49 per share.

In January 2002, a holder of warrants originally issued in connection with a private placement of the Company's Series B convertible preferred stock exercised its right to acquire 10,931 shares of common stock at $3.68 per share.

Proceeds from these warrant exercises will be used to fund current operations.

In November 2001, the Company's shareholders approved an increase in the amount of the authorized common stock from 50,000,000 to 75,000,000 shares and an amendment to the Company's Restated Stock Option Plan to increase the total number of shares reserved for the grant of options by 2,500,000 to 7,350,000 shares of common stock.

In November 2001, the Company's shareholders approved the establishment of the 2001 Non-Employee Director Stock Plan (the Director Plan) and 50,000 shares of common stock to be reserved for grant thereunder. The Director Plan provides for the granting of awards to Non-Employee Directors and the election of Non-Employee Directors to have all or a portion of their awards in the form of cash, stock or stock units. All stock or stock units issued pursuant to the Director Plan are immediately vested. The Director Plan is administered by the Board of Directors who is authorized to interpret the provisions of the Director Plan, determine which Non-Employee Directors will be granted awards, and determine the number of shares of stock for which a stock right will be granted.

During the nine-month period ended March 31, 2002, holders of options issued under the Company's Restated Stock Option Plan exercised their rights to acquire an aggregate of 145,636 shares of common stock at prices ranging from $0.84 per share to $15.88 per share. The total proceeds from these option exercises was $566,302 and will be used to fund current operations.

D. Commitments and Contingencies

In December 1995, the Company entered into an agreement with a third party whereby the third party agreed to identify and introduce potential financing sources to the Company in exchange for cash and warrants upon the successful completion of a financing. During the fiscal years ended June 30, 1996 and 1998, the Company issued stock, warrants and cash to the third party relating to certain financings. On November 13, 2001, the Company received a claim asserting that, as a result of certain warrant exercises, the Company owed additional compensation to the third party. The Company settled the claim in March 2002 and issued 189,498 restricted shares of the Company's common stock in satisfaction of any and all current and future claims against the Company. The value of the settlement, $2.1 million, was based upon the closing stock price, as reported on the Nasdaq at the date of issuance. The settlement is considered an equity financing fee and was accounted for as a reduction of the gross proceeds of the financing. Accordingly, the settlement is reflected as a reduction in Additional Paid-in Capital in the accompanying balance sheet and did not result in a charge to the Company's statement of operations.

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

OVERVIEW

Since the Company's inception, we have been principally engaged in the development of antibody-based cancer therapeutics. Our Tumor Activated Prodrug (TAP) product candidates consist of an antibody chemically linked, or conjugated, to a highly potent cell-killing, or cytotoxic, agent. A TAP product is designed to bind to and be internalized by a target cancer cell, where the cytotoxic agent is released and kills the cancer cell. The cytotoxic agent we currently use in all of our TAPs is the maytansinoid DM1, a chemical derivative of a naturally occurring substance called maytansine.

We have entered into collaborative agreements that allow companies to use our TAP technology to develop commercial products containing their antibodies. We also have licensed certain rights to our first two internally developed TAP product candidates to companies that have product development and commercialization capabilities we wish to access in exchange for our receipt of fees, milestone payments and royalties on product sales. Our collaborative partners include GlaxoSmithKline plc, Genentech, Inc., Abgenix, Inc., British Biotech plc, Millennium Pharmaceuticals, Inc. and Boehringer Ingelheim International GmbH. We expect that substantially all of our revenue for the foreseeable future will result from payments under our collaborative arrangements. The terms of the collaborative agreements vary, reflecting the value we add to the development of any particular product candidate.

To date, we have not generated revenues from commercial product sales and we expect to incur significant operating losses over the foreseeable future. As of March 31, 2002, we had approximately $144.0 million in cash and marketable securities. We do not anticipate having a commercially-approved product within the foreseeable future. Research and development expenses are expected to increase significantly in the near term as we continue our development efforts. Moreover, in the next nine to 12 months we expect to pay out approximately $2.4 million to further expand our development and pilot manufacturing facility in Norwood, Massachusetts. We anticipate that the increase in total cash expenditures will be partially offset by collaboration-derived proceeds. Accordingly, period-to-period operational results may fluctuate dramatically. 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 allowing for the aggressive development of internal product candidates and technologies. However, we can give no assurances that such collaborative agreement funding will, in fact, be realized. Should we or our partners not meet some or all of the terms and conditions of our various collaboration agreements, we may be required to pursue additional strategic partners, secure alternative financing arrangements, and/or defer or limit some or all of our research, development and/or clinical projects.

Critical Accounting Policies

In December 2001, the U.S. Securities and Exchange Commission (the SEC) requested that all registrants discuss their most "critical accounting policies" in management's discussion and analysis of financial condition and results of operations. The SEC indicated that a "critical accounting policy" is one that is both important to the portrayal of the company's financial condition and results and that requires management's most difficult, subjective or complex judgments. Such judgments are often the result of a need to make estimates about the effect of matters that are inherently uncertain. While our significant accounting policies are more fully described in Note A to our consolidated financial statements included in this report, we believe the following accounting policies to be critical:

Revenue Recognition

We currently have four types of outlicense and development contracts:

- Shared product license: the Company retains commercial rights worldwide excluding the European Union and Japan (shared product license):

  British Biotech plc

- Full product license (product license):

  GlaxoSmithKline plc

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

  Genentech, Inc.

  Boehringer Ingelheim International GmbH

  Millennium Pharmaceuticals, Inc.

- Broad option agreements to acquire a specific number of licenses over a specified time period (broad license):

  Genentech, Inc.

  Abgenix, Inc.

  Millennium Pharmaceuticals, Inc.

Our outlicense collaborations consist of one shared product license, one full product license, three single target licenses and three broad licenses. Excluding the shared product license agreement, all of these collaboration agreements provide that we will (i) manufacture preclinical and clinical materials for our collaborators, at their request and cost, (ii) receive payments upon our collaborators' achievements of certain milestones and (iii) receive royalty payments, generally until the later of the last applicable patent expiration or 12 years after product launch. We are required to provide technical training and any process improvements and know-how to our collaborators during the term of the collaboration agreements. Practically, once a collaborator receives Food and Drug Administration (FDA) approval for any drug and the manufacturing process used to produce the drug, our collaborator will not be able to incorporate any process improvements or know-how into their manufacturing process without additional testing and review by the FDA. Accordingly, we believe that it is very unlikely that our collaborators will require our services subsequent to FDA approval.

Generally, upfront payments on product and single target licenses are deferred over the period of our substantial involvement. We are available to assist our collaborators during the development of their products. We estimate this development phase to begin at the inception of the contract and conclude when the

product receives FDA approval. We believe this time period is, on average, six years. At each reporting period we look at individual product facts and circumstances and review the estimated period of our substantial involvement. Significant changes in our estimates could result in changes to the deferral period.

We defer upfront payments we receive from our broad option agreements over the period during which the collaborator may elect to receive a license. These periods are specific to each collaboration agreement, but are between seven and 12 years. If a collaborator selects an option to acquire a license under these agreements, any option fee is deferred and recorded over the life of the option, generally 12 to 18 months. If our collaborator exercises an option and we grant a single target license to the collaborator, we defer the license fee and account for it as we would an upfront payment on a single target collaboration agreement, as discussed above.

Our shared product license collaboration provides for an upfront payment from our collaborator to us paid at the start of the agreement and, upon FDA approval, we will pay the collaborator a milestone payment, which we expect will exceed the upfront payment we have received. We have deferred the upfront payment and anticipate recognizing such revenue concurrent with the milestone payment that is required from us when and if the product receives FDA approval.

Effective July 1, 2000, we changed our method of accounting for revenue recognition in accordance with Staff Accounting Bulletin No. 101, “Revenue Recognition in Financial Statements” (SAB 101). Under the new accounting method, adopted retroactively to July 1, 2000, we recognize revenue from non-refundable, upfront license payments, not specifically tied to a separate earnings process, ratably over the term of our period of involvement during development. The cumulative effect of the change in accounting principle on prior years resulted in a non-cash charge to income of $5.7 million, which is included in our net loss for the nine months ended March 31, 2001. Results for the three months ended March 31, 2001 have been restated for the retroactive adoption of SAB 101.

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

Inventory

Inventory costs primarily relate to clinical trial materials being manufactured for our collaborators. Inventory is stated at the lower of cost or market. We evaluate the estimated net realizable value of inventory at each reporting period. If necessary, we establish a valuation allowance to record inventory at its estimated net realizable value.

At March 31, 2002, inventory valuation allowances of $1.9 million represent the cost of on-hand conjugate produced for GlaxoSmithKline and British Biotech that we may not realize. GlaxoSmithKline currently has two phase I clinical trials of huC242-DM1 in process. In one of the trials GlaxoSmithKline reimburses our cost of clinical material. This trial has reached its primary endpoints. We believe this trial will achieve its additional objectives earlier than anticipated. The trial, therefore, will use less clinical material than originally projected. GlaxoSmithKline reimburses our cost of clinical material used in this trial. As a result of the expected early conclusion of the one trial, we believe that we have more huC242-DM1 inventory on-hand than GlaxoSmithKline will reimburse. As a result, we have written down the value of the inventory to its estimated net realizable value. In the other on-going phase I trial, we do not receive reimbursement for clinical material. We believe that all of the remaining clinical material can be used in the other on-going phase I clinical trial of huC242-DM1.

Our actual cost to manufacture huN901 antibody has exceeded our original estimates. We are in negotiations with British Biotech to determine the portion of the antibody cost that exceeds the original estimates for which we will be reimbursed by British Biotech. We do not believe that we will be reimbursed for the full amount of the cost of the conjugate, and, based upon preliminary discussions with British Biotech, have established a reserve of $157,000, to reduce the value of work in process inventory to the Company’s estimate of the net realizable value at March 31, 2002.

The actual value of the huC242-DM1 and huN901-DM1 inventory that we realize may differ from our estimates based upon the final results of the huC242-DM1 clinical trials and our negotiations with British Biotech. Significant changes in our estimates could result in changes to the valuation allowance.

RESULTS OF OPERATIONS

Comparison of Three Months ended March 31, 2002 and 2001

Revenues

Our total revenues for the three months ended March 31, 2002 were $1.2 million compared with $1.0 million for the three months ended March 31, 2001. The 18% increase in revenues in the quarter ended March 31, 2002 compared to the same period in the prior year is primarily attributable to pre-clinical and clinical materials we manufactured and delivered to our collaborative partners.

During the three months ended March 31, 2002 we recognized collaboration revenue of $42,000 from GlaxoSmithKline, $177,000 from Genentech, $117,000 from Abgenix, $83,000 from Millennium and $42,000 from Boehringer Ingelheim. During the same period in 2001, we recognized collaboration revenue of $153,000 from GlaxoSmithKline, $177,000 from Genentech and $100,000 from Abgenix. Deferred revenue of $13.8 million as of March 31, 2002 represents accumulated progress payments received from collaborators pursuant to contract revenues not yet earned.

Clinical materials reimbursement of $602,000 in the three months ended March 31, 2002, represents reimbursement for our manufacture of preclinical and clinical materials for our collaborators. In the same period in 2001, clinical materials reimbursement was $562,000. The cost of clinical materials reimbursed for the quarters ending March 31, 2002 and 2001 were $557,000 and 562,000, respectively. Under certain collaboration agreements, we are reimbursed our fully burdened cost to produce clinical materials plus a profit margin. During the quarter ended March 31, 2002, we first earned clinical materials reimbursement on which we were entitled to a profit margin of $45,000, resulting in an increase in clinical materials reimbursement compared to the same period a year earlier. The amount of clinical materials reimbursement we earn, and the related cost of clinical materials reimbursed, is directly related to (i) the number of on-going clinical trials for which we are producing clinical material for our collaborators, the speed of enrollment in those trials and the dosage schedule of each clinical trial, and (ii) our production of clinical grade material on behalf of our collaborators, either in anticipation of clinical trials, or for process development and analysis purposes. As such, the amount of clinical materials reimbursement and the related cost of clinical materials reimbursed may vary widely from quarter to quarter and annually.

Development fees increased 323% in the three months ended March 31, 2002 to $149,000 compared to $35,000 for the same period in 2001. Development fees represent the fully burdened reimbursement of costs incurred in producing research-grade materials and developing antibody-specific conjugation processes on behalf of our collaborators and potential collaborators during the early evaluation and preclinical testing stages of drug development. During the quarter ended

March 31, 2002, we provided development services to more collaborators and potential collaborators than we had during the same quarter of 2001. The amount of development fees we earn is directly related to the number of our collaborators or potential collaborators, the stage of development of our collaborators' products 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 annually.

Research and Development

We report research and development expense net of reimbursements we receive from our collaborators. Our net research and development expenses consist of (i) research to identify and evaluate new targets, antibodies and cytotoxic drugs, (ii) preclinical testing and clinical trials of our own, and in certain instances, our collaborators' product candidates, and (iii) development related to improving clinical and commercial manufacturing processes. Our research efforts are primarily focused in the following areas:

- Our contributions to the clinical development of huC242-DM1 and huN901-DM1
- Process improvements related to clinical and commercial production of the huN901 antibody
- Preclinical development of our own potential products
- Process improvement related to the production of DM1 and strain development of its precursor, ansamitocin P-3
- Process development related to the commercial manufacture of huN901-DM1
- Operation, maintenance and expansion of our pilot manufacturing plant
- Identification and evaluation of potential antigen targets
- Evaluation of internally developed and inlicensed antibodies
- Development and evaluation of additional cytotoxic agents

GlaxoSmithKline is currently conducting phase I clinical trials of huC242-DM1. The length of these trials is dependent upon the preliminary results of the trials, maximum tolerated dosage, and the number of patients dosed. The actual length of these trials may vary from our estimates. Additionally, GlaxoSmithKline is the sponsor of these trials, and as such, has control over the clinical trial schedule and progress. We are funding a portion of the cost of one of the on-going phase I clinical trials. GlaxoSmithKline is responsible for supporting the other on-going phase I clinical trial and all future clinical trials under the collaboration agreement.

British Biotech is currently conducting a phase I/II clinical trial of huN901-DM1 in the United States. We anticipate that this phase I/II trial of huN901-DM1 will be completed in calendar year 2003. The actual length of this trial may vary from our estimates. Additionally, British Biotech is the sponsor of this trial, and as such, has control over the clinical trial schedule and progress. In addition to retaining commercial rights to huN901-DM1 worldwide excluding the European Union and Japan, we retain worldwide manufacturing rights. Under the terms of the contract, we are responsible for all clinical and commercial manufacturing process development. We continue process development efforts to improve clinical huN901 antibody production. Under an arrangement with Genzyme Transgenics Corporation, we are investigating the viability of commercial production of huN901 using transgenic goats. We also continue to develop various other processes related to the commercial manufacture of the huN901-DM1 conjugate. We anticipate that we will continue to devote significant financial and human resources to these efforts over the next five years.

Our three internally developed product candidates that are most advanced at March 31, 2002 are huMy9-6-DM1, an anti-IGF1-R antibody and a third product. huMy9-6-DM1 is a humanized monoclonal antibody conjugated to DM1 and is directed against acute myeloid leukemia. huMy9-6-DM1 is in early preclinical development. We intend to continue to conduct preclinical safety and efficacy studies on huMy9-6-DM1. Pending the successful preclinical development of huMy9-6-DM1 and favorable outcome of preclinical safety and efficacy studies, and any other studies, we expect to be prepared to file an Investigational New Drug Application (IND) for huMy9-6-DM1 in the next 18 to 24 months. The actual filing of this IND is dependent upon the development of huMy9-6-DM1 and the results of any and all preclinical studies and the financial and human resources that we are able to direct to the development of the product and completion of the IND application. As a result, the timing of the filing of this IND, if it occurs at all, may vary from our estimates.

Anti-IGF1-R antibody is a naked antibody directed against breast, lung and prostate cancers. We are performing preclinical experiments to evaluate candidate antibodies and, pending the results of these studies, expect to move one antibody into preclinical development in calendar year 2003. Our third, undisclosed, potential product is directed at a specific cancer and is in the early stages of preclinical development.

The cost to develop new products and advance those products to the IND stage can be significant. Worldwide antibody manufacturing capacity is currently constrained, and generally, manufacturing capacity must be reserved months in advance of production. We anticipate that we will incur substantial costs to reserve and manufacture humanized antibody. We expect to devote substantial financial and human resources to the development of our three most advanced products for the foreseeable future. We review the results of all preclinical studies and tests to evaluate the viability of products under development. We evaluate the value of each potential product at each stage of development to determine when, if ever, we should consider out-licensing the product.

DM1 is the cytotoxic agent that we currently use in the manufacture of all of our collaborators' and our own conjugates. In order to make commercial manufacture of the conjugates viable, we have devoted substantial resources to improve the strain of the microorganism that produces ansamitocin P-3, the precursor to DM1, to enhance manufacturing yields. We also continue to devote considerable resources to improve other DM1 manufacturing processes. In connection with these efforts, we anticipate that we will continue to incur significant expense over the next twelve months.

Expenses

Research and Development Expenses

We generally do not track our historical research and development costs by project, rather, we track such costs by department and expense category. For this reason, we cannot accurately estimate with any degree of certainty what our historical costs have been for any particular research and development project.

Research and development expenses for the three months ended March 31, 2002 increased 92% to $7.2 million from $3.7 million for the three months ended March 31, 2001. Included in research and development expense for the three months ended March 31, 2002 is a charge of $1.5 million to record huC242-DM1 inventory at its estimated realizable value. GlaxoSmithKline currently has two clinical trials of huC242-DM1 in process. In one of the trials GlaxoSmithKline reimburses our cost of clinical material. This trial has reached its primary endpoints. We expect the trial will achieve its additional objectives earlier than anticipated. The trial, therefore, will use less clinical material than originally projected. As a result of the expected early conclusion of one trial, we believe that we have more huC242-DM1 inventory on-hand than GlaxoSmithKline will reimburse. As a result, we have written down the value of the inventory to its estimated net realizable value. The actual value of the inventory that we realize may differ from this estimate based upon the final results of the clinical trials. The

inventory valuation allowance was charged to research and development expense in the three-month period ended March 31, 2002. In the other on-going trial, we provide clinical material at our cost. We believe that all of the remaining clinical material can be used in the other on-going phase I clinical trial of huC242-DM1.

Under the terms of our shared product license collaboration with British Biotech, we are responsible for certain manufacturing and process development costs. To date, the actual cost to manufacture antibody has exceeded our original estimates. We are currently negotiating with British Biotech to determine the portion of antibody cost that exceeds the original estimates and that British Biotech will reimburse. We do not believe that we will be reimbursed for the full cost of the antibody, and, based upon preliminary discussions with British Biotech, we have established a reserve of $561,000, to reduce the value of the prepaid material to our estimate of the realizable value at March 31, 2002. This reserve was recorded as a charge to research and development expense for the three months ended March 31, 2002. The actual realized value of the prepaid asset may differ from our estimate based upon actual manufacturing yields and the result of our negotiations with British Biotech.

In September 2000, November 2000, February 2001, and March 2001, we entered into process development collaborations with MorphoSys AG, Genzyme Transgenics Corporation, Raven Biotechnologies, Inc. and Avalon, Inc. respectively, related to three of our internal research and development efforts and our collaboration with British Biotech. In September 2001, we entered into an agreement with another party related to DM1 process development. During the three months ended March 31, 2002, we entered into several other agreements with other parties related to DM1 process development and production of antibody and DM1. Included in the three-month periods ended March 31, 2002 and 2001 were $2.2 million and $1.1 million, respectively, of expenses related to these agreements.

The number of research and development personnel increased to 71 at March 31, 2002 compared to 49 at March 31, 2001. Research and development salaries and wages, including estimated fiscal 2002 bonuses that have been accrued, have decreased $158,000 in the three months ended March 31, 2002 compared to the three months ended March 31, 2001. Included in research and development salaries and wages in the three-month period ended March 31, 2001 is $608,000 related to bonuses awarded and expensed during the quarter. We expect future research and development expenses to increase as we continue development of our product candidates and technologies.

General and Administrative Expenses

General and administrative expenses for the three months ended March 31, 2002 increased 34% to $1.6 million from $1.2 million for the three months ended March 31, 2001. As discussed above, we have established a valuation allowance to record the huC242-DM1 inventory at its estimated realizable value. Approximately $209,000 of the valuation allowance was recorded as a charge to general and administrative expenses for the three months ended March 31, 2002. Investor relations expenditures, including the printing of the annual report and proxy and insurance and travel expenses increased $153,000 in the current quarter compared to the quarter ended March 31, 2001. General and administrative expenses for the three months ended March 31, 2002 and 2001 are reported net of $73,000 and $94,000, respectively, of expenses for which we are entitled to reimbursement from our collaborators.

Interest Income

Interest income for the three months ended March 31, 2002 decreased 58% to $1.1 million from $2.6 million for the three months ended March 31, 2001. The decrease is primarily due to lower rates of return on investments and lower average cash and investment balances.

Realized Gains on Investments

Realized gains on investments were $170,000 and $93,000 for the three months ended March 31, 2002 and 2001, respectively. The increase is attributable to the timing of investment sales.

Comparison of the Nine Months ended March 31, 2002 and 2001

Revenues

Our total revenues for the nine-month period ended March 31, 2002 were $4.2 million compared with $4.0 million for the nine-month period ended March 31, 2001. The 6% increase in revenues from 2001 to 2002 is primarily attributable to increased revenues associated with preclinical and clinical materials we manufacture and deliver to our collaborative partners offset by lower collaboration revenue.

Collaboration revenue for the nine-month period ended March 31, 2002 decreased 62% to $1.2 million compared to $3.3 million in the same period in 2001. Included in revenue in the nine months ended March 31, 2001 is a $2.5 million milestone payment we received from GlaxoSmithKline upon the commencement of the phase I multidose clinical trial. The revenue associated with this milestone was recognized on a percentage of completion basis over the period of our performance. We substantially completed all of our performance during the nine months ended March 31, 2001. We did not earn any similar milestone payment during the nine months ended March 31, 2002. During the nine months ended March 31, 2002 we recognized collaboration revenue of $135,000 from GlaxoSmithKline, $531,000 from Genentech, $317,000 from Abgenix, $221,000 from Millennium, and $42,000 from Boehringer Ingelheim. During the nine months ended March 31, 2001, we recognized collaboration revenue of $2.5 million from GlaxoSmithKline, $531,000 from Genentech, and $200,000 from Abgenix. Deferred revenue of $13.8 million at March 31, 2002 represents progress payments received from our collaborators pursuant to contract revenues not yet earned.

Clinical materials reimbursement increased 323% to $2.4 million in the nine months ended March 31, 2002 compared to $562,000 in the nine months ended March 31, 2001. We first shipped clinical materials, for which we were entitled to reimbursement, in the quarter ended March 31, 2001. Clinical materials reimbursement for the nine-month period ended March 31, 2002 reflects nine months of shipments compared to only two months of shipments in the nine-month period ended March 31, 2001. During the nine-month period ended March 31, 2002, we shipped clinical materials in support of the huC242-DM1 and huN901-DM1 clinical trials, as well as preclinical materials, manufactured in accordance with current Good Manufacturing Practices (cGMP) at our pilot plant, in support of certain other collaborators' development efforts. The amount of clinical materials reimbursement we earn, and the related cost of clinical materials reimbursed, is directly related to (i) the number of on-going clinical trials for which we are producing clinical material for our collaborators, the speed of enrollment in those trials and the dosage schedule of each clinical trial, and (ii) our production of clinical grade material on behalf of our collaborators, either in anticipation of clinical trials, or for process development and analysis purposes. As such, the amount of clinical materials reimbursement and the related cost of clinical materials reimbursed may vary widely from quarter to quarter and annually.

Development fees increased 313% in the nine months ended March 31, 2002 to $558,000 compared to $135,000 for the same period in 2001. Development fees represent the fully burdened reimbursement of costs incurred in producing research-grade materials in accordance with Good Laboratory Practices (GLP) and developing antibody-specific conjugation processes on behalf of our collaborators and potential collaborators during the early evaluation and preclinical testing stages of drug development. During the nine months ended March 31, 2002, we provided development services to more collaborators and potential collaborators

than we had during the same period of 2001. The amount of development fees we earn is directly related to the number of our collaborators and potential collaborators, the stage of development of our collaborators' products 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 annually.

Expenses

Cost of Clinical Materials Reimbursed

Cost of clinical materials reimbursed of $2.3 million in the nine-month period ending March 31, 2002 and $562,000 in the nine-month period ended March 31, 2001 represents the fully burdened cost of clinical materials that we produce for our collaborators, and for which we are reimbursed. We first shipped material for which we were entitled to reimbursement in February 2001. The increase in cost of clinical materials reimbursement reflects nine months of clinical material shipments in the nine months ended March 31, 2002, compared to only two months of shipments in the same period in the prior year.

Research and Development Expenses

Research and development expenses for the nine months ended March 31, 2002 increased 16% to $12.7 million from $10.9 million for the nine months ended March 31, 2001. As discussed above, we recorded charges of $1.5 million and $561,000 against huC242 inventory and huN901 prepaid assets, respectively, during the nine–month period ended March 31, 2002.

Additionally, we entered into process development agreements in September 2001, February 2002, and March 2002. Under the September 2001 process development agreement, we will share equally with a third party in certain future development costs. This agreement required the third party to reimburse us for a portion of certain development costs, which we expensed in prior periods, and which, due to the nature of the agreement, must be accounted for as a reduction of research and development expenses totaling $414,000. Our collaborators reimburse us certain costs to manufacture clinical and preclinical materials. These costs include manufacturing overhead and a general and administrative allocation. During the nine months ended March 31, 2002 and 2001, we capitalized in inventory $4.4 million and $1.5 million of manufacturing overhead, respectively. In September 2000, November 2000, February 2001 and March 2001, we entered into process development collaborations with MorphoSys, Genzyme Transgenics, Raven and Avalon, respectively, related to three of our internal research and development efforts and our collaboration with British Biotech. During the nine months ended March 31, 2002, we entered into several agreements related to DM1 process development and production of antibody and DM1. Included in the nine months ended March 31, 2002 and 2001 are $4.3 million and $2.8 million, respectively, of expenses related to these agreements. Personnel costs, including estimated fiscal 2002 bonuses that have been accrued, have increased $1.0 million in the nine months ended March 31, 2002 compared to the same period in the prior year.

General and Administrative Expense

General and administrative expenses for the nine months ended March 31, 2002 increased 30% to $4.0 million from $3.1 million for the nine months ended March 31, 2001. Administrative and business development compensation and benefits increased $484,000 in the nine months ended March 31, 2002, compared to the same period in the prior year. Year-to-date investor relations expenditures, including the printing of the annual report and proxy, increased $235,000 compared to the nine months ended March 31, 2001. As discussed above, we have established a valuation allowance to record the huC242-DM1 inventory to its estimated realizable value. Approximately $209,000 of the valuation allowance was recorded as a charge to general and administrative expenses during the nine months ended March 31, 2002. General and administrative expenses for the nine months ended March 31, 2002 and 2001 are reported net of $517,000 and $94,000, respectively, of expenses for which we are entitled to reimbursement from our collaborators.

Interest Income

Interest income was $4.0 million for the nine months ended March 31, 2002 and 2001. For the nine months ended March 31, 2002, our average cash and investment balances were higher than during the same period in the prior year, resulting from our November 2000 public stock offering, a collaborator investment of $15.0 million in September 2000, receipt of $5.0 million in warrant exercise proceeds in September 2001, and receipt of $9.0 million and $2.1 million in collaborator payments during the year ended June 30, 2001 and the nine months ended March 31, 2002, respectively. Rates of return during the nine months ended March 31, 2002 were lower than during the comparable period in the prior year. The impact of higher average cash and investment balances was offset by lower rates of return, so that our interest income during the nine months ended March 31, 2002 was consistent with that of the same period in the prior year.

Realized Gains on Investments

Realized gains on investments were $734,000 and $93,000 for the nine months ended March 31, 2002 and 2001, respectively. The increase is attributable to the timing of investment sales.

Other Income

Other income for the nine months ended March 31, 2002 decreased to $31,000 from $288,000 for the same period in the prior year. Other income for the nine months ended March 31, 2001 included our receipt of a cash payment in settlement of a securities litigation case filed on our behalf.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2002, we had approximately $20.1 million in cash and cash equivalents and $123.9 million of marketable securities. In November 2000, we completed a public offering of 4.0 million shares of our common stock. Net proceeds of the offering were $124.8 million. We intend to use the net proceeds from the offering for working capital and general corporate purposes, including research and development. Since July 1, 2000, we have financed the net cash used to support operating activities primarily from various collaborative and financing sources. These sources include upfront and milestone payments received under our collaboration agreements with GlaxoSmithKline, Abgenix, Millennium, and Boehringer Ingelheim, the sale of equity securities to Abgenix, the exercise of stock options and warrants to purchase common stock and income earned on invested assets.

Net cash used in operations during the nine-month period ended March 31, 2002 was $10.3 million compared to $1.7 million during the nine-month period ended March 31, 2001. This increase in operational cash use is largely due to the increase in operating expenses discussed previously, as well as the increase in accounts receivable and clinical materials inventory produced on behalf of our collaborators during the nine months ended March 31, 2002.

Net cash provided by investing activities was $9.9 million for the nine months ended March 31, 2002 compared to cash used in investment activities of $125.0 million for the nine months ended March 31, 2001. Cash provided by investing activities in the nine months ended March 31, 2002 reflects the net proceeds of sales and maturities of marketable securities. Cash used in investment activities in the nine months ended March 31, 2001 reflects the net investment of $123.0

million of the proceeds of the November 2000 public offering, net of $2.0 million of capital expenditures. Capital purchases were $2.8 million for the nine months ended March 31, 2002 and consisted primarily of costs associated with the purchase of new equipment and the build-out of our existing Norwood, Massachusetts development and pilot manufacturing facility.

Net cash provided by financing activities was $5.7 million for the nine months ended March 31, 2002 compared to $142.1 million for the nine months ended March 31, 2001. For the nine months ended March 31, 2001, net cash provided by financing activities is largely due to the September 7, 2000 issuance of 789,473 shares of our common stock to Abgenix for $15.0 million and the November 2000 public offering of 4.0 million shares of our common stock for net proceeds of $124.8 million. Our total proceeds from exercises of warrants and stock options during the nine months ended March 31, 2002 were $5.7 million.

We anticipate that our capital resources will enable us to meet our operational expenses and capital expenditures for the foreseeable future. We believe that the proceeds from our November 2000 public stock offering in addition to our established collaborative agreements will provide funding sufficient to allow us to meet our obligations under all collaborative agreements while also allowing us to develop product candidates and technologies not covered by collaborative agreements. However, we cannot assure you that such collaborative agreement funding will, in fact, be realized. Should we not meet some or all of the terms and conditions of our various collaboration agreements, we may be required to pursue additional strategic partners, secure alternative financing arrangements, and/or defer or limit some or all of our research, development and/or clinical projects.

Risk Factors

THE RISKS AND UNCERTAINTIES DESCRIBED BELOW ARE THOSE THAT WE CURRENTLY BELIEVE MAY MATERIALLY AFFECT OUR COMPANY. ADDITIONAL RISKS AND UNCERTAINTIES THAT WE ARE UNAWARE OF OR THAT WE CURRENTLY DEEM IMMATERIAL ALSO MAY BECOME IMPORTANT FACTORS THAT AFFECT OUR COMPANY.

If our TAP technology does not produce safe, effective and commercially viable products, our business will be severely harmed.

Our TAP technology is a novel approach to the treatment of cancer. None of our TAP product candidates has obtained regulatory approval and all of them are in early stages of development. Our TAP product candidates may not prove to be safe, effective or commercially viable treatments for cancer and our TAP technology may not result in any meaningful benefits to our current or potential collaborative partners. Furthermore, we are aware of only one chemotherapeutic product based on technology similar to our TAP technology that has obtained FDA approval. If our TAP technology fails to generate product candidates that are safe, effective and commercially viable treatments for cancer, and fails to obtain FDA approval, our business will be severely harmed.

Clinical trials for our product candidates will be lengthy and expensive and their outcome is uncertain.

Before obtaining regulatory approval for the commercial sale of any product candidates, we and our collaborative partners must demonstrate through preclinical testing and clinical trials that our product candidates are safe and effective for use in humans. Conducting clinical trials is a time consuming and expensive process and may take years to complete. Our most advanced product candidates, huC242-DM1/SB-408075 and huN901-DM1/BB-10901, are only in the Phase I and Phase I/II stages of clinical trials, respectively. Historically, the results from preclinical testing and early clinical trials have often not been predictive of results obtained in later clinical trials. Frequently, drugs that have shown promising results in preclinical or early clinical trials subsequently fail to establish sufficient safety and effectiveness data necessary to obtain regulatory approval. At any time during the clinical trials, we, our collaborative partners or the FDA might delay or halt any clinical trials for our product candidates for various reasons, including:

- ineffectiveness of the product candidate;
- discovery of unacceptable toxicities or side effects;
- development of disease resistance or other physiological factors; or
- delays in patient enrollment.

The results of the clinical trials may fail to demonstrate that our product candidates are safe and effective to the extent necessary to obtain regulatory approval or that commercialization of our product candidates is worthwhile. Any failure or substantial delay in successfully completing clinical trials and obtaining regulatory approval for our product candidates could severely harm our business.

If our collaborative partners fail to perform their obligations under our agreements, our ability to develop and market potential products could be severely limited.

Our strategy for the development and commercialization of our product candidates depends, in large part, upon the formation of collaborative arrangements. Collaborations allow us to:

- fund our internal research and development, preclinical testing, clinical trials and manufacturing;
- seek and obtain regulatory approvals;
- successfully commercialize existing and future product candidates; and
- develop antibodies for additional product candidates, and discover additional cell surface markers for antibody development.

If we fail to secure or maintain successful collaborative arrangements, our development and marketing activities may be delayed or scaled back. We may also be unable to negotiate additional collaborative arrangements or, if necessary, modify our existing arrangements on acceptable terms. We have entered into collaboration agreements with GlaxoSmithKline and British Biotech with respect to our two most advanced product candidates, huC242-DM1/SB-408075 and huN901-DM1/BB-10901, respectively. The development, regulatory approval and commercialization of these two product candidates depend primarily on the efforts of these collaborative partners. We have also entered into collaborations with Genentech, Abgenix, Millennium, MorphoSys, Genzyme Transgenics, Raven, Avalon and Boehringer Ingelheim. We cannot control the amount and timing of resources our partners may devote to our products. Our partners may separately pursue competing products, therapeutic approaches or technologies to develop treatments for the diseases targeted by us or our collaborative efforts. Even if our partners continue their contributions to the collaborative arrangements, they may nevertheless determine not to actively pursue the development or commercialization of any resulting products. Also, our partners may fail to perform their obligations under the collaboration agreements or may be slow in performing their obligations. Our partners can terminate our collaborative agreements under certain conditions. If any collaborative partner were to terminate or breach our agreement, or otherwise fail to complete its obligations in a timely manner, our anticipated revenue from the agreement and development and commercialization of our products could be severely limited. If we are not able to establish additional collaborations or any or all of our existing collaborations are terminated and we are not able to enter into alternative collaborations on acceptable terms, we may be required to undertake product development, manufacture and commercialization and we may not have the funds or capability to do this.

We depend on a small number of collaborators for a substantial portion of our revenue. The loss of any one of these collaborators could result in a substantial decline in revenue.

We have and will continue to have collaborations with a limited number of companies. As a result, our financial performance depends on the efforts and overall success of these companies. The failure of any one of our collaboration partners to perform its obligations under its agreement with us, including making any royalty, milestone or other payments to us, could have a material adverse effect on our financial condition. Also, if consolidation trends in the healthcare industry continue, the number of our potential collaborators could decrease, which could have an adverse impact on our development efforts.

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

We have generated operating losses since our inception. As of March 31, 2002, we had an accumulated deficit of $179.4 million. We may never be profitable. We expect to incur substantial additional operating expenses over the next several years as our research, development, preclinical testing and clinical trial activities increase.

We intend to invest significantly in our products and bring more of the product development process in-house prior to entering into collaborative arrangements. We may also incur substantial marketing and other costs in the future if we decide to establish marketing and sales capabilities to commercialize certain of our products. None of our product candidates has generated any commercial revenue and our only revenues to date have been primarily from upfront and milestone payments from our collaboration partners. We do not expect to generate revenues from the commercial sale of our products in the foreseeable future, and we may never generate revenues from the commercial sale of products. Even if we do successfully develop products that can be marketed and sold commercially, we will need to generate significant revenues from those products to achieve and maintain profitability. Even if we do become profitable, we may not be able to sustain or increase profitability on a quarterly or annual basis.

We are subject to extensive government regulations and we may not be able to obtain necessary regulatory approvals.

We or our collaborative partners may not receive the regulatory approvals necessary to commercialize our product candidates, which could cause our business to fail. Our product candidates are subject to extensive and rigorous government regulation. The FDA regulates, among other things, the development, testing, manufacture, safety, record-keeping, labeling, storage, approval, advertising, promotion, sale and distribution of pharmaceutical products. If our potential products are marketed abroad, they will also be subject to extensive regulation by foreign governments. None of our product candidates has been approved for sale in the United States or any foreign market. The regulatory review and approval process, which includes preclinical studies and clinical trials of each product candidate, is lengthy, expensive and uncertain. Securing FDA approval requires the submission of extensive preclinical and clinical data and supporting information to the FDA for each indication to establish the product candidates' safety and efficacy. Data obtained from preclinical and clinical trials are susceptible to varying interpretation, which may delay, limit or prevent regulatory approval. The approval process may take many years to complete and may involve ongoing requirements for post-marketing studies. In light of the limited regulatory history of monoclonal antibody-based therapeutics, we cannot assure you that regulatory approvals for our products will be obtained without lengthy delays, if at all. Any FDA or other regulatory approvals of our product candidates, once obtained, may be withdrawn. The effect of government regulation may be to:

- delay marketing of potential products for a considerable period of time;
- limit the indicated uses for which potential products may be marketed;
- impose costly requirements on our activities; and
- provide a competitive advantage to other pharmaceutical and biotechnology companies.

We may encounter delays or rejections in the regulatory approval process because of additional government regulation from future legislation or administrative action or changes in FDA policy during the period of product development, clinical trials and FDA regulatory review. Failure to comply with applicable FDA or other applicable regulatory requirements may result in criminal prosecution, civil penalties, recall or seizure of products, total or partial suspension of production or injunction, as well as other regulatory action against our product candidates or us. Outside the United States, our ability to market a product is contingent upon receiving clearances from the appropriate regulatory authorities. This foreign regulatory approval process includes all of the risks associated with the FDA approval process. In addition, we are, or may become, subject to various federal, state and local laws, regulations and recommendations relating to safe working conditions, laboratory and manufacturing practices, the experimental use of animals and the use and disposal of hazardous substances, including radioactive compounds and infectious disease agents, used in connection with our research work. If we fail to comply with the laws and regulations pertaining to our business, we may be subject to sanctions, including the temporary or permanent suspension of operations, product recalls, marketing restrictions and civil and criminal penalties.

We may be unable to establish the manufacturing capabilities necessary to develop and commercialize our potential products.

Currently, we only have one pilot manufacturing facility for the manufacture of products necessary for clinical testing. We do not have sufficient manufacturing capacity to manufacture our product candidates in quantities necessary for commercial sale. In addition, our manufacturing capacity may be inadequate to complete all clinical trials contemplated by us over time. We intend to rely in part on third-party contract manufacturers to produce large quantities of drug materials needed for clinical trials and commercialization of our potential products. Third-party manufacturers may not be able to meet our needs with respect to timing, quantity or quality of materials. If we are unable to contract for a sufficient supply of needed materials on acceptable terms, or if we should encounter delays or difficulties in our relationships with manufacturers, our clinical trials may be delayed, thereby delaying the submission of product candidates for regulatory approval and the market introduction and subsequent commercialization of our potential products. Any such delays may lower our revenues and potential profitability.

We may develop our manufacturing capacity in part by expanding our current facilities or building new facilities. Either of these activities would require substantial additional funds and we would need to hire and train significant numbers of employees to staff these facilities. We may not be able to develop manufacturing facilities that are sufficient to produce drug materials for clinical trials or commercial use. We and any third-party manufacturers that we may use must continually adhere to Current Good Manufacturing Practices regulations enforced by the FDA through its facilities inspection program. If our facilities or the facilities of third-party manufacturers cannot pass a pre-approval plant inspection, the FDA approval of our product candidates will not be granted. In complying with these regulations and foreign regulatory requirements, we and any of our third-party manufacturers will be obligated to expend time, money and effort on production, record-keeping and quality control to assure that our potential products meet applicable specifications and other requirements. If we or any third-party manufacturer with whom we may contract fail to maintain regulatory compliance, we or the third party may be subject to fines and manufacturing operations may be suspended, which could negatively affect our business.

Our inability to license from third parties their proprietary technologies or processes which we use in connection with the development and manufacture of our TAP product candidates may impair our business.

Other companies, universities and research institutions have or may obtain patents that could limit our ability to use, manufacture, market or sell our product candidates or impair our competitive position. As a result, we may have to obtain licenses from other parties before we could continue using, manufacturing, marketing or selling our potential products. Any such licenses may not be available on commercially acceptable terms, if at all. If we do not obtain required licenses, we may not be able to market our potential products at all or we may encounter significant delays in product development while we redesign potentially infringing products or methods.

We rely on one supplier for the primary component to manufacture our small molecule effector drug, DM1. Any problems experienced by this supplier could negatively affect our operations.

We rely on third–party suppliers for some of the materials used in the manufacturing of our TAP product candidates and small molecule effector drugs. Our most advanced small molecule effector drug is DM1. DM1 is the cytotoxic agent used in all of our current TAP product candidates and the subject of most of our collaborations. One of the primary components required to manufacture DM1 is its precursor, ansamitocin P-3. Currently, only one vendor manufactures and is able to supply us with this material. Any problems experienced by this vendor could result in a delay or interruption in the supply of ansamitocin P-3 to us until this vendor cures the problem or until we locate an alternative source of supply. Any delay or interruption in our supply of ansamitocin P-3 would likely lead to a delay or interruption in our manufacturing operations and preclinical and clinical trials of our product candidates, which could negatively affect our business.

We may be unable to establish sales and marketing capabilities necessary to successfully commercialize our potential products.

We currently have no direct sales or marketing capabilities. We anticipate relying on third parties to market and sell most of our primary product candidates. If we decide to market our potential products through a direct sales force, we would need to either hire a sales force with expertise in pharmaceutical sales or contract with a third party to provide a sales force to meet our needs.

We may be unable to establish marketing, sales and distribution capabilities necessary to commercialize and gain market acceptance for our potential products and be competitive. In addition, co-promotion or other marketing arrangements with third parties to commercialize potential products could significantly limit the revenues we derive from these potential products, and these third parties may fail to commercialize our potential products successfully.

If our product candidates do not gain market acceptance, our business will suffer.

Even if clinical trials demonstrate safety and efficacy of our product candidates and the necessary regulatory approvals are obtained, our product candidates may not gain market acceptance among physicians, patients, healthcare payors and the medical community. The degree of market acceptance of any product candidates that we develop will depend on a number of factors, including:

- the degree of clinical efficacy and safety;
- cost-effectiveness of our product candidates;
- their advantage over alternative treatment methods;
- reimbursement policies of government and third-party payors;
- and the quality of our or our collaborative partners' marketing and distribution capabilities for our product candidates.

Physicians will not recommend therapies using any of our future products until such time as clinical data or other factors demonstrate the safety and efficacy of such products as compared to conventional drug and other treatments. Even if the clinical safety and efficacy of therapies using our products is established, physicians may elect not to recommend the therapies for any number of other reasons, including whether the mode of administration of our products is effective for certain indications. Our product candidates, if successfully developed, will compete with a number of drugs and therapies manufactured and marketed by major pharmaceutical and other biotechnology companies. Our products may also compete with new products currently under development by others. Physicians, patients, third-party payors and the medical community may not accept and utilize any product candidates that we, or our collaborative partners, develop. If our products do not achieve significant market acceptance, we will not be able to recover the significant investment we have made in developing such products and our business would be severely harmed.

We may be unable to compete successfully.

The markets in which we compete are well-established and intensely competitive. We may be unable to compete successfully against our current and future competitors. Our failure to compete successfully may result in pricing reductions, reduced gross margins and failure to achieve market acceptance for our potential products. Our competitors include pharmaceutical companies, biotechnology companies, chemical companies, academic and research institutions and government agencies. Many of these organizations have substantially more experience and more capital, research and development, regulatory, manufacturing, sales, marketing, human and other resources than we do. As a result, they may:

- develop products that are safer or more effective than our product candidates;
- obtain FDA and other regulatory approvals or reach the market with their products more rapidly than we can, reducing the potential sales of our product candidates;
- devote greater resources to market or sell their products;
- adapt more quickly to new technologies and scientific advances;
- initiate or withstand substantial price competition more successfully than we can;
- have greater success in recruiting skilled scientific workers from the limited pool of available talent
- more effectively negotiate third-party licensing and collaboration arrangements; and
- take advantage of acquisition or other opportunities more readily than we can.

A number of pharmaceutical and biotechnology companies are currently developing products targeting the same types of cancer that we target, and some of our competitors' products have entered clinical trials or already are commercially available. In addition, our product candidates, if approved and commercialized, will compete against well-established, existing, therapeutic products that are currently reimbursed by government health administration authorities, private health insurers and health maintenance organizations. We face and will continue to face intense competition from other companies for collaborative arrangements with pharmaceutical and biotechnology companies, for relationships with academic and research institutions, and for licenses to proprietary technology. In addition, we anticipate that we will face increased competition in the future as new companies enter our markets and as scientific developments surrounding prodrug and antibody-based therapeutics for cancer continue to accelerate. While we will seek to expand our technological capabilities to remain competitive, research and development by others may render our technology or product candidates obsolete or noncompetitive or result in treatments or cures superior to any therapy developed by us.

If we are unable to protect our intellectual property rights adequately, the value of our TAP technology and our product candidates could be diminished.

Our success depends in part on obtaining, maintaining and enforcing our patents and other proprietary rights and our ability to avoid infringing the proprietary rights of others. Patent law relating to the scope of claims in the biotechnology field in which we operate is still evolving and surrounded by a great deal of uncertainty and involves complex legal, scientific and factual questions. To date, no consistent policy has emerged regarding the breadth of claims allowed in biotechnology patents. Accordingly, our pending patent applications may not result in issued patents. Although we own several patents, the issuance of a patent is not conclusive as to its validity or enforceability. Through litigation, a third party may challenge the validity or enforceability of a patent after its issuance. Also, patents and applications owned or licensed by us may become the subject of interference proceedings in the United States Patent and Trademark Office to determine priority of invention which could result in substantial cost to us. An adverse decision in an interference proceeding may result in our loss of rights under a patent or patent application subject to such a proceeding.

We cannot assure you how much protection, if any, will be given to our patents if we attempt to enforce them and they are challenged in court or in other proceedings. It is possible that a competitor may successfully challenge our patents or that a challenge will result in limitations of their coverage. In addition, the cost of litigation or interference proceedings to uphold the validity of patents can be substantial. If we are unsuccessful in such proceedings, third parties may be able to use our patented technology without paying us licensing fees or royalties. Moreover, competitors may infringe our patents or successfully avoid them through design innovation. To prevent infringement or unauthorized use, we may need to file infringement claims, which are expensive and time-consuming. In an infringement proceeding a court may decide that a patent of ours is not valid. Even if the validity of our patents were upheld, a court may refuse to stop the other party from using the technology at issue on the ground that its activities are not covered by our patents. Policing unauthorized use of our intellectual property is difficult, and we may not be able to prevent misappropriation of our proprietary rights, particularly in countries where the laws may not protect such rights as fully as in the United States.

In addition to our patent rights, we also rely on unpatented technology, trade secrets and confidential information. Others may independently develop substantially equivalent information and techniques or otherwise gain access to or disclose our technology. We may not be able to effectively protect our rights in unpatented technology, trade secrets and confidential information. We require each of our employees, consultants and corporate partners to execute a confidentiality agreement at the commencement of an employment, consulting or collaborative relationship with us. However, these agreements may not provide effective protection of our information or, in the event of unauthorized use or disclosure, they may not provide adequate remedies.

We may be subject to substantial costs and liability or be prohibited from commercializing our potential products as a result of litigation and other proceedings relating to patent rights.

Patent litigation is very common in the biotechnology and pharmaceutical industries. Third parties may assert patent or other intellectual property infringement claims against us with respect to our technologies, products or other matters. Any claims that might be brought against us relating to infringement of patents may cause us to incur significant expenses and, if successfully asserted against us, may cause us to pay substantial damages and limit our ability to use the intellectual property subject to these claims. Even if we were to prevail, any litigation could be costly and time-consuming and could divert the attention of our management and key personnel from our business operations. Furthermore, as a result of any patent infringement suit, we could be forced to stop or delay developing, manufacturing or selling potential products that incorporate the challenged intellectual property unless we enter into royalty or license agreements. Furthermore, because patent applications in the United States are maintained in secrecy until a patent issues, others may have filed patent applications for technology covered by our pending applications. There may be third-party patents, patent applications and other intellectual property relevant to our potential products that may block or compete with our products or processes.

In addition, we sometimes undertake research and development with respect to potential products even when we are aware of third-party patents that may be relevant to our potential products, on the basis that such patents may be challenged or licensed by us. If our subsequent challenge to such patents were not to prevail, we may not be able to commercialize our potential products after having already incurred significant expenditures unless we are able to license the intellectual property on commercially reasonable terms. We may not be able to obtain royalty or license agreements on terms acceptable to us, if at all. Even if we were able to obtain licenses to such technology, some licenses may be non-exclusive, thereby giving our competitors access to the same technologies licensed to us. Ultimately, we may be unable to commercialize some of our potential products or may have to cease some of our business operations, which could severely harm our business.

We face uncertainties over reimbursement and healthcare reform.

In both domestic and foreign markets, future sales of our potential products, if any, will depend in part on the availability of reimbursement from third-party payors such as government health administration authorities, private health insurers and other organizations. Third-party payors are increasingly challenging the price and cost-effectiveness of medical products and services. Significant uncertainty exists as to the reimbursement status of newly-approved health care products. Even if they were to obtain regulatory approval, our product candidates may not be considered cost-effective and adequate third-party reimbursement may not be available to enable us to maintain price levels sufficient to realize an appropriate return on our investments in product development. Legislation and regulations affecting the pricing of pharmaceuticals may change before any of our product candidates is approved for marketing. Adoption of such legislation and regulations could further limit reimbursement for medical products and services. If the government and third-party payors fail to provide adequate coverage and reimbursement rates for our potential products, the market acceptance of our products may be adversely affected.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

In the normal course of business, the financial position of the Company is subject to certain risks, including market risk associated with interest rate movements. The Company regularly assesses these risks and has established policies and business practices designed to mitigate such exposures. The Company invests surplus cash in low-risk debt securities, typically maturing in one year or less, pending use in operations. The Company manages these funds by seeking principal preservation while concurrently enhancing rates of return. The Company’s interest income is therefore sensitive to changes in the general level of domestic interest rates. Based on the Company’s overall interest rate exposure at March 31, 2002, a near-term change in interest rates would not materially affect the fair value of interest rate sensitive instruments.

PART II. OTHER INFORMATION

ITEM 2. Changes in Securities and Use of Proceeds.

In September 2001, a holder of warrants originally issued in connection with a March 1996 private placement of the Company's convertible debentures, and adjusted, pursuant to the anti-dilution provisions of the warrants, in connection with the Company's November 2000 public offering of common stock, exercised its right to acquire 1,127,374 shares of common stock at prices ranging between $3.58 and $5.37 per share. These shares of common stock were issued pursuant to the exemption from registration set forth in Section 3(a)(9) of the Securities Act of 1933, as amended. Proceeds from these warrant exercises will be used to fund current operations.

In October 2001, a holder of warrants originally issued in connection with a private placement of the Company's Series B Convertible Preferred Stock exercised its right to acquire 10,931 shares of Common Stock at $5.49 per share. These shares of common stock were issued pursuant to the exemption from registration set forth in Section 3(a)(9) of the Securities Act of 1933, as amended. Proceeds from these warrant exercises will be used to fund current operations.

In January 2002, a holder of warrants originally issued in connection with private placement of the Company's Series B Convertible Preferred Stock exercised its right to acquire 10,931 shares of Common Stock at $3.68 per share.These shares of common stock were issued pursuant to the exemption from registration set forth in Section 3(a)(9) of the Securities Act of 1933, as amended. Proceeds from these warrant exercises will be used to fund current operations.

In March 2002, the Company issued 189,498 shares of restricted common stock, pursuant to the exemption from registration set forth in Section 4(2) of the Securities Act of 1933, as amended, in settlement of a claim.

During the nine-month period ended March 31, 2002, holders of options issued under the Company's Restated Stock Option Plan, as amended, exercised their rights to acquire an aggregate of 145,636 shares of common stock at prices ranging from $0.84 per share to $15.88 per share. The total proceeds from these option exercises, $566,302, will be used to fund current operations.

ITEM 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

None.

(b) Reports on Form 8-K

None.

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: May 13, 2002

By: /s/ Mitchel Sayare
Mitchel Sayare
President and Chief Executive Officer
(principal executive officer)

Date: May 13, 2002

By: /s/ Gregg D. Beloff
Gregg D. Beloff
Chief Financial Officer and Vice President, Finance
(principal financial and accounting officer)