CYTOGEN CORP
Form 10-Q
August 14, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2003

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 000-14879

Cytogen Corporation

(Exact Name of Registrant as Specified in Its Charter)

Delaware	22-2322400
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

650 College Road East, Suite 3100, Princeton, NJ 08540-5308

(Address of Principal Executive Offices and Zip Code)

Registrant's Telephone Number, Including Area Code: (609) 750-8200

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 .

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes X No .

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

Class	Outstanding at August 1, 2003

Common Stock, $.01 par value 11,040,846

CYTOGEN CORPORATION

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CYTOGEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)
(UNAUDITED)

	JUNE 30, 2003	DECEMB 20
ASSETS:		
Current Assets:		
Cash and cash equivalents	$ 13,529	$ 14
Accounts receivable, net	1,290	1
Inventories	2,029	1
Other current assets	632	
Total current assets	17,480	18
Property and Equipment, net	783	1
Other Assets	703	
	$ 18,966	$ 19
LIABILITIES AND STOCKHOLDERS' EQUITY:		

Current Liabilities:		
Current portion of long-term liabilities	$ 75	$
Accounts payable and accrued liabilities	3,839	4
Deferred revenue	323	
Total current liabilities	4,237	4
Long-Term Liabilities	2,535	2
Deferred Revenue	1,670	1
Stockholders' Equity:		
Preferred stock, $.01 par value, 5,400,000 shares authorized - Series C Junior Participating Preferred Stock, $.01 par value, 200,000 shares authorized, none issued and outstanding	-	
Common stock, $.01 par value, 25,000,000 shares authorized, 9,818,756 and 8,758,235 shares issued and outstanding at June 30, 2003 and December 31, 2002, respectively	99	
Additional paid-in capital	372,126	366
Deferred compensation	(2)	
Accumulated deficit	(361,699)	(356
Total stockholders' equity	10,524	10
	$ 18,966	$ 19

The accompanying notes are an integral part of these statements.

CYTOGEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(ALL AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		EN
	2003	2002	2003
REVENUES:			
Product related:			
ProstaScint	$ 1,599	$ 1,971	$ 3,21
BrachySeed	-	565	24
Others	98	56	12
Total product sales	1,697	2,592	3,58

Quadramet royalties	465	510	91
Total product related	2,162	3,102	4,49
License and contract	164	65	30
Total revenues	2,326	3,167	4,80
OPERATING EXPENSES:			
Cost of product related revenues	900	1,241	1,81
Research and development	771	1,746	1,60
Equity loss in PSMA LLC	1,086	595	1,96
Selling and marketing	1,174	1,622	2,47
General and administrative	1,740	1,200	2,81
Total operating expenses	5,671	6,404	10,67
Operating loss	(3,345)	(3,237)	(5,86
INTEREST INCOME	23	72	5
INTEREST EXPENSE	(46)	(42)	(9
Loss before income taxes	(3,368)	(3,207)	(5,90
INCOME TAX BENEFIT	-	-	(58
NET LOSS	$(3,368)	$(3,207)	$ (5,31
BASIC AND DILUTED NET LOSS PER SHARE	$ (0.37)	$ (0.39)	$ (0.6
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	9,051	8,308	8,90

The accompanying notes are an integral part of these statements.

CYTOGEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(ALL AMOUNTS IN THOUSANDS)
(UNAUDITED)

SIX MONTHS ENDED JUNE 30,

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(5,319)	$(8,205)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	306	407
Stock-based compensation expenses	502	747
Amortization of deferred revenue	(192)	(280)
Stock-based milestone payment	-	2,000
Changes in assets and liabilities:		
Receivables, net	488	872
Inventories	(767)	518
Other assets	(293)	(511)
Accounts payable and accrued liabilities	(574)	(462)
Net cash used in operating activities	(5,849)	(4,914)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of product rights	-	(500)
Net proceeds from sale of equipment	-	100
Purchases of property and equipment	(2)	(24)
Net cash used in investing activities	(2)	(424)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	4,739	12,980
Payment of long-term liabilities	(84)	(49)
Net cash provided by financing activities	4,655	12,931
Net increase (decrease) in cash and cash equivalents	(1,196)	7,593
Cash and cash equivalents, beginning of period	14,725	11,309
Cash and cash equivalents, end of period	$ 13,529	$ 18,902

The accompanying notes are an integral part of these statements.

CYTOGEN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. THE COMPANY

BACKGROUND

Cytogen Corporation ("Cytogen" or the "Company") of Princeton, New

Jersey is a product-driven, oncology-focused biopharmaceutical company. Cytogen markets proprietary and licensed oncology products through its in-house specialty sales force: Quadrdamet(R) (a skeletal targeting therapeutic radiopharmaceutical for the relief of pain due to bone metastases); ProstaScint(R) (A monoclonal antibody-based imaging agent used to image the extent and spread of prostate cancer), and NMP22 BladderChek(TM) (a point-of-care, in vitro diagnostic test for bladder cancer). The Company's pipeline is comprised of product candidates at various stages of clinical development, including fully human monoclonal antibodies and cancer vaccines based on PSMA prostate specific membrane antigen technology, or PSMA technologies, which Cytogen exclusively licensed from Memorial Sloan-Kettering Cancer Center. Cytogen also conducts research in cellular signaling through its subsidiary, AxCell Biosciences.

In addition to the products listed above, in August 2000, Cytogen expanded its product pipeline by entering into marketing, license and supply agreements with Advanced Magnetics, Inc. for Combidex(R), which is an investigational magnetic resonance imaginG (MRI) contrast agent that assists in the differentiation of metastatic from non-metastatic lymph nodes. Cytogen holds exclusive United States marketing rights to Combidex. Advanced Magnetics is continuing its discussions with the FDA relating to outstanding issues regarding an approvable letter received from the FDA in June 2000, in an effort to bring Combidex to market.

Cytogen has had a history of operating losses since its inception. Although the Company continually looks to expand its product pipeline, the Company currently relies on two products. ProstaScint and Quadramet, for substantially all of its revenues. In addition, the Company has, from time to time, ceased sales of certain products, such as BrachySeed and OncoScint CR/OV, that the Company previously believed would generate significant revenues for its business. The Company's products are subject to significant regulatory review by the FDA and other federal and state agencies, which requires significant time and expenditures in seeking product approvals. In addition, the Company relies on collaborative partners to a significant degree to manufacture its products, to secure raw materials, and to provide licensing rights to their proprietary products for the Company to sell and market to others.

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of Cytogen and its subsidiaries. Intercompany balances and transactions have been eliminated in consolidation.

BASIS OF PRESENTATION

The consolidated financial statements and notes thereto of Cytogen are unaudited and include all adjustments, which in the opinion of management, are necessary to present fairly the financial condition and results of operations as of and for the periods set forth in the Consolidated Balance Sheets, Consolidated Statements of Operations and Consolidated Statements of Cash Flows. All such accounting adjustments are of a normal, recurring nature. The consolidated financial statements do not include all of the information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K, as amended, filed with the Securities and Exchange Commission, which includes financial statements as of and for the year ended December 31, 2002. The results of the Company's operations for any interim period are not

necessarily indicative of the results of the Company's operations for any other interim period or for a full year.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, cash in banks and all highly-liquid investments with a maturity of three months or less at the time of purchase.

INVENTORIES

The Company's inventories are primarily related to ProstaScint and NMP22 BladderChek. Inventories are stated at the lower of cost or market using the first-in, first-out method and consisted of the following:

	June 30, 2003	December 31, 2002
Raw materials.....	$ 39,000	$ 506,000
Work-in process.....	1,695,000	39,000
Finished goods.....	295,000	717,000
	$ 2,029,000	$ 1,262,000

NET LOSS PER SHARE

Basic net loss per common share is based upon the weighted average common shares outstanding during each period. Diluted net loss per common share is the same as basic net loss per share, as the inclusion of common stock equivalents would be antidilutive due to the Company's losses.

OTHER COMPREHENSIVE LOSS

Other comprehensive loss consisted of an unrealized loss on a marketable security. For the three and six months ended June 30, 2002, the fair market value of that security decreased $223,000 and $539,000, respectively, and

as a result, the comprehensive loss for the three and six months ended June 30, 2002 was $3,430,000 and $8,744,000, respectively. There were no marketable securities outstanding during the first half of 2003 and therefore no other comprehensive gains or losses.

STOCK-BASED COMPENSATION

The Company follows the intrinsic value method of accounting for stock-based employee compensation in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. The Company records deferred compensation for option grants to employees for the amount, if any, by which the market price per share exceeds the exercise price per share at the measurement date, which is generally the grant date.

The Company follows the disclosure provisions of Statement of Financial Accounting Standards (SFAS) 123 "Accounting for Stock-Based Compensation", as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." Had compensation cost for options been recognized in the consolidated statements of operations using the fair value method of accounting, the Company's net loss and net loss per share would have been:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS E JUNE 30	
	2003	2002	2003	
Net loss, as reported	$ (3,368,000)	$ (3,207,000)	$ (5,319,000)	$
Add: Stock-based employee compensation expense included in reported net loss	-	203,000	1,000	
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards	(361,000)	(885,000)	(712,000)	
Pro forma net loss	$ (3,729,000)	$ (3,889,000)	$ (6,030,000)	$
Basic and diluted net loss per share, as reported	$ (0.37)	$ (0.39)	$ (0.60)	$
Pro forma basic and diluted net loss per share	$ (0.41)	(0.47)	$ (0.68)	$

2. EQUITY LOSS IN PSMA DEVELOPMENT CO. LLC

In June 1999, Cytogen entered into a joint venture with Progenics Pharmaceuticals Inc. ("Progenics", and collectively with Cytogen, the "Members"), the PSMA Development Company LLC, (the "Joint Venture"), to develop vaccine and antibody-based immunotherapeutic products utilizing Cytogen's exclusively licensed PSMA technology. The Joint Venture is owned equally by Cytogen and Progenics.

The Company accounts for the Joint Venture using the equity method of accounting. Through November 2001, Progenics was obligated to fund the initial $3.0 million of the development costs. Beginning in December 2001, Cytogen began to recognize 50% of the Joint Venture's operating results in its consolidated statements of operations. The Joint Venture is expected to continue to incur losses in future years. For the three months ended June 30, 2003 and 2002, Cytogen recognized $1,086,000 and $595,000, respectively, of such losses. For the six months ended June 30, 2003 and 2002, Cytogen recognized $1,966,000 and $1,108,000, respectively, of such losses. As of June 30, 2003 and December 31, 2002, the carrying value of the Company's investment in the Joint Venture was $286,000 and $1,000, respectively, which represents Cytogen's investment to date in the Joint Venture, less its cumulative share of losses, which net investment is recorded in other assets. Selected financial statement information of the Joint Venture is as follows:

	JUNE 30, 2003	DECEMBER 31, 2002

Balance Sheet Data:

Cash	$ 925,000	$ 290,000
Accounts payable	$ 371,000	$ 304,000
Capital contributions	15,898,000	11,399,000
Accumulated deficit	(15,344,000)	(11,413,000)
	$ 925,000	$ 290,000

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,		FOR THE PERIOD FROM JUNE 15, 1999 (INCEPTION) TO
	2003	2002	2003	2002	JUNE 30, 2003
Interest income	$ 1,000	$ 4,000	$ 1,000	$ 4,000	$ 230,000
Total expenses	2,173,000	1,193,000	3,932,000	2,220,000	15,574,000
Net loss	$(2,172,000)	$(1,189,000)	$(3,931,000)	$(2,216,000)	$(15,344,000)

In July 2003, the Members agreed to: (i) an updated work plan governing the activities of the Joint Venture for the remainder of 2003, including the execution of various third-party contracts; (ii) a budget for the Joint Venture's operations for 2003 and related capital contributions of the parties; and (iii) an amended services agreement pursuant to which the Members will provide research and development and related services for the remainder of 2003. The Company is committed to contribute an additional $1.8 million to the joint venture through the end of 2003. The Joint Venture's work plan, budget, and other operational and financial matters relating to periods after 2003 will require the further agreement of the Members.

3. LITIGATION

On March 17, 2000, Cytogen was served with a complaint filed against the Company in the U.S. District Court for the District of New Jersey by M. David Goldenberg ("Goldenberg") and Immunomedics, Inc. (collectively "Plaintiffs"). The litigation claims that ProstaScint infringes a patent purportedly owned by Goldenberg and licensed to Immunomedics. The Company believes that ProstaScint does not infringe this patent, and that the patent is invalid and unenforceable. The patent sought to be enforced in the litigation has now expired; as a result, the claim even if successful would not result in an injunction barring the continued sale of ProstaScint or affect any other of Cytogen's products or technology. In addition, the Company has certain rights to indemnification against litigation and litigation expenses from the inventor of technology used in ProstaScint, which may be offset against royalty payments on sales of ProstaScint. On December 17, 2001, Cytogen filed a motion for summary

judgment of non-infringement of the asserted claims of the patent-in-suit. The Plaintiffs opposed that motion and filed their own cross-motion for summary judgment of infringement. On July 3, 2002, the Court denied both parties' summary judgment motions, with leave to renew those motions after hearing expert testimony and legal argument based upon that testimony. On April 29, 2003, Cytogen's motion for summary judgment of non-infringement of all asserted claims was granted, plantiff's motion for summary judgment of infringement was denied and the case was ordered closed. On May 12, 2003, Plaintiffs filed a Notice of Appeal regarding this decision to the U.S. Court of Appeals for the Federal Circuit, and subsequently filed their opening brief in the Court of Appeals for the Federal Circuit on July 28, 2003.

4. INCOME TAXES

During the first quarter of 2003, the Company sold New Jersey State net operating loss and research and development credit carryforwards, which resulted in the recognition of $584,000 of income tax benefit. This benefit has been recognized, as the sale has been approved by the necessary New Jersey state authorities, and the Company has completed the sale with a qualified buyer.

5. SALES OF COMMON STOCK

In June 2003, the Company entered into a securities purchase agreement pursuant to which the Company sold 1,052,632 shares of its common stock to certain institutional investors at $4.75 per share, resulting in net proceeds of approximately $4.7 million. In connection with the sale, the Company issued to the investors warrants to purchase 315,790 shares of its common stock with an exercise price of $6.91 per share. The warrants are exercisable until June 6, 2008.

In July 2003, the Company entered into a securities purchase agreement pursuant to which the Company sold 1,172,332 shares of its common stock to certain institutional investors at $8.53 per share, resulting in net proceeds of approximately $9.4 million. In connection with the sale, the Company issued to the investors warrants to purchase 1,172,332 shares of its common stock with an exercise price of $12.80 per share. In addition, the Company also issued: (i) warrants to purchase 100,000 shares of its common stock at an exercise price of $12.80 per share to a consultant as part of its compensation for services rendered in connection with this financing; and (ii) warrants to purchase an aggregate of 250,000 shares of its common stock at an exercise price of $10.97

per share to certain of our stockholders in exchange for them waiving certain rights in connection with this financing. The warrants are exercisable until July 10, 2008 and become automatically exercised, in full, if (i) the closing price of the Company's common stock (or in case no sales are reported on any given trading day, the average of the closing bid and asked prices of the Company's common stock on the NASDAQ National Market for such trading day) is at least 130% of the exercise price then in effect for 30 consecutive trading days, and (ii) a registration statement to register such shares of common stock to be issued upon such exercise has been declared effective by the Securities and Exchange Commission. Upon receipt of written notice by the Company of such automatic exercise, the holders of the warrants must purchase all of the shares of common stock underlying their respective warrants by paying the Company the exercise price times the number of shares of common stock issuable upon exercise.

6. REACQUISITION OF QUADRAMET

In June 2003, the Company announced that it had entered into an agreement with Berlex to reacquire marketing rights to Quadramet in North

America and Latin America in exchange for an upfront payment of $8.0 million and royalties based on future sales of Quadramet, subject to Cytogen obtaining any necessary financing for the reacquisition. The agreement with Berlex became effective August 1, 2003. Accordingly, effective August 1, 2003, we began recording all revenue from the sales of Quadramet. We will no longer receive royalty revenue.

7. MANUFACTURING COMMITMENT

In August 2003, the Company completed the reacquisition of the marketing rights to Quadramet from Berlex. As a result, the Company has assumed certain additional obligations under a Manufacturing and Supply Agreement with Bristol Meyers Squibb, including an obligation to pay manufacturing costs of at least $3.7 million annually through 2005. Such obligation for the remainder of 2003 is approximately $1.5 million.

8. WARRANTS ISSUED TO CONSULTANTS

In June 2003, the Company issued to consultants warrants to purchase an aggregate of 100,000 shares of the Company's common stock at an exercise price of $5.65 per share for consulting services. The warrants are exercisable in 12 equal installments on each one-month anniversary from the date of issuance and are exercisable through June 10, 2006. The Company recorded the fair value of these warrants, in the amount of $497,000, in its statement of operations for the second quarter of 2003 using the Black-Scholes pricing model.

9. STOCK OPTION PLANS

At the Company's 2003 Annual Meeting of Stockholders held on June 10, 2003, the stockholders of the Company approved a proposal to amend the Company's 1995 Stock Option Plan (the "1995 Stock Option Plan") to increase the maximum number of shares of the Company's Common Stock available for issuance thereunder from 450,263 to 650,263 shares and to reserve an additional 200,000 shares of the Company's Common Stock for issuance in connection with such increase for awards to be granted under the 1995 Stock Option Plan.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical facts, included in this Quarterly Report on Form 10-Q regarding our strategy, future operations, financial position, future revenues, projected costs, prospects, plans and objectives of management are forward-looking statements. The words "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "will," "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Such forward-looking statements involve a number of risks and uncertainties and investors are cautioned not to put any undue reliance on any forward-looking statement. We cannot guarantee that we will actually achieve the plans, intentions or expectations disclosed in any such forward-looking statements. Risk factors that could cause actual results to differ materially include those identified in our Annual Report on Form 10-K for the year ended December 31, 2002, as amended, under the caption "Additional Factors That May Affect Future Results" and those under the caption "Risk Factors", as included in certain of

our other filings, from time to time, with the Securities and Exchange Commission. Investors are cautioned not to put undue reliance on any forward-looking statement. Any forward-looking statements made by us do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make. We do not assume, and specifically disclaim, any obligation to update any forward-looking statements, and these statements represent our current outlook only as of the date they are made.

The following discussion and analysis should be read in conjunction with the Financial Statements and related notes thereto contained elsewhere herein, as well as in our Annual Report on Form 10-K for the year ended December 31, 2002, as amended, and from time to time in our other filings with the Securities and Exchange Commission.

SIGNIFICANT EVENTS IN 2003

In January 2003, we provided Draximage Inc. with notice of termination of each of our License and Distribution Agreement and Product Manufacturing and Supply Agreement with respect to both of Draximage's BrachySeed I-125 and BrachySeed Pd-103 products. Effective January 24, 2003, we no longer accept or fill new orders for the BrachySeed products. In April 2003, we entered into an agreement with Draximage formally terminating each of these agreements.

In April 2003, NMP22 BladderChek was awarded clearance from the FDA for use in diagnosing patients for bladder cancer, in addition to approval gained previously for the indication of monitoring patients who have a prior diagnosis of bladder cancer. We are in the early-phase of launching NMP22 BladderChek and are promoting the product to urologists in the United States using our in-house sales force.

In June 2003, we entered into a securities purchase agreement with certain institutional investors pursuant to which we issued and sold 1,052,632 shares of our common stock at $4.75 per share. In connection with such

financing, we also issued warrants to such investors to purchase 315,790 shares of our common stock with an exercise price of $6.91 per share. The warrants are exercisable until June 6, 2008. The aggregate net proceeds received from this financing of approximately $4.7 million after transaction costs are expected to be used for general corporate purposes, marketing and sales initiatives for our oncology products and development of our prostate specific membrane antigen (PSMA) technology.

In June 2003, we announced that, subject to obtaining the necessary finacing, we entered into an agreement with Berlex Laboratories, a U.S. affiliate of Schering AG, Germany, referred to as Berlex Laboratories, whereby marketing rights held by Berlex Laboratories to market Quadramet (Samarium Sm 153 Lexidronam), a skeletal targeting therapeutic radiapharmaceutical for the relief pain due to bone metastases arising from prostate, breast, multiple myeloma and other types of cancer, in North America and Latin America were to be returned to us in exchange for an upfront payment of $8.0 million and royalties based on future sales. Effective August 1, 2003, we have reacquired from Berlex Laboratories the marketing rights to Quadramet and paid to Berlex Laboratories the upfront payment of $8.0 million. Accordingly, effective as of August 1, 2003, we began recording all revenue from the sales of Quadramet. We will no longer receive royalty revenue.

In June 2003, we announced that we had formed a partnership with Siemens Medical Solutions and the University Hospitals of Cleveland to promote advances in prostate cancer imaging. Through this partnership, physicians at the

University Hospitals of Cleveland will be using Siemens e.cam(TM) gamma camera with Flash 3D iterative reconstruction and CT attenuation correction technologY, in combination with our ProstaScint imaging agent. The resulting images may provide improvements for the diagnosis and staging of metastatic prostate cancer. Also in June 2003, we announced the formation of an alliance with GE Medical Systems, a unit of General Electric Company, to market a total molecular imaging system to help evaluate the extent and spread of prostate cancer by integrating GE Medical's Infinia(TM) Hawkeye(R) imaging system with our ProstaScint imaging agent. We cannot assure you that these partnerships ANd alliances will be successful in increasing ProstaScint revenue, or that such increase, if any, will be significant.

In July 2003, we entered into a securities purchase agreement pursuant to which we sold 1,172,332 shares of our common stock to certain institutional investors at $8.53 per share, resulting in net proceeds of approximately $9.4 million. In connection with the sale, we issued to such investors warrants to purchase 1,172,332 shares of our common stock with an exercise price of $12.80 per share. In addition, we also issued: (i) warrants to purchase 100,000 shares of our common stock at an exercise price of $12.80 per share to a consultant as part of its compensation for services rendered in connection with this financing; and (ii) warrants to purchase an aggregate of 250,000 shares of our common stock at an exercise price of $10.97 per share to certain of our stockholders in exchange for them waiving certain rights in connection with this financing. The warrants are exercisable until July 10, 2008 and become automatically exercised, in full, if (i) the closing price of the our common stock (or in case no sales are reported on any given trading day, the average of the closing bid and asked prices of our common stock on the NASDAQ National Market for such trading day) is at least 130% of the exercise price then in effect for 30 consecutive trading days, and (ii) a registration statement to register such shares of common stock to be issued upon such exercise has been

declared effective by the Securities and Exchange Commission. Upon receipt of written notice by us of such automatic exercise, the holders of the warrants must purchase all of the shares of common stock underlying their respective warrants by paying us the exercise price times the number of shares of common stock issuable upon exercise. The net proceeds from this financing were used in our reacquisition of certain marketing rights from Berlex and related expenses.

In July 2003, in connection with our joint venture with Progenics Pharmaceuticals, Inc., we and Progenics agreed to: (i) an updated work plan governing the activities of the joint venture for the remainder of 2003, including the execution of various third-party contracts; (ii) a budget for the joint venture's operations for 2003 and related capital contributions of the parties; and (iii) an amended services agreement pursuant to which each party to the joint venture will provide research and development and related services for the remainder of 2003. The joint venture work plan, budget, and other operational and financial matters relating to periods after 2003 will require the further agreement between us and Progenics.

In August 2003, we paid to Berlex Laboratories the upfront payment of $8.0 million and have reacquired from Berlex Laboratories the marketing rights to Quadramet. Accordingly, effective as of August 1, 2003, we began recording all revenue from the sales of Quadramet.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2003 AND 2002

REVENUES. Total revenues for the second quarter of 2003 were $2.3

million compared to $3.2 million for the same period in 2002. The decrease from the prior year period is due primarily to lower product related revenues. Product related revenues, which included product sales and royalties, accounted for 93% and 98% of total revenues for the second quarters of 2003 and 2002, respectively. License and contract revenues accounted for the remainder of revenues.

Product related revenues for the second quarter of 2003 were $2.2 million compared to $3.1 million for the same period in 2002. Sales of ProstaScint accounted for 74% and 64% of product related revenues in the second quarters of 2003 and 2002, respectively, while Quadramet royalties accounted for 22% and 16% of product related revenues for such quarters, respectively. Sales of ProstaScint were $1.6 million for the second quarter of 2003, a decrease of $372,000 from $2.0 million in the second quarter of 2002. Such decrease in sales of ProstaScint may be due, in part, to the tendency of radiopharmacy wholesalers, during times of economic downturn, to order high-priced drugs, such as ProstaScint, on an as-needed basis, and no longer store quantities for future use. Additionally, ProstaScint historically has been a challenging product for physicians and technologists to use, in part because imaging results may be difficult to interpret. While we believe that the period to period decrease in ProstaScint sales that we have experienced is due, to a large degree, to such challenge, we also believe that such decline in ProstaScint revenue may be reversed depending upon, among other things, the implementation and continued research relating to the following:

- Advances in imaging technology:
  - Fusion imaging - an image processing technique that combines functional information from a ProstaScint scan with anatomic images provided by CT (computed tomography) or MR (magnetic resonance) scans in a digital overlay to provide information that cannot be achieved with separate imaging modalities alone, which may improve diagnostic interpretation; and
  - Image enhancements - improving the quality of ProstaScint images through reconstruction and attenuation-correction methods to address inherent limitations of single photon emission computed tomography (SPECT) imaging by correcting for the effects of radiation scatter and/or inherent collimator/detector blur.
- New product applications:
  - Utilization of ProstaScint scans to guide therapy ("image-guided therapy"), to enhance therapy targeting for treatments such as brachytherapy, cryotherapy and external beam radiation, such as intensity modulated radiation therapy (IMRT); and
  - Utilization of ProstaScint scans to guide biopsy ("image-guided biopsy"), which could be facilitated by future advances in image acquisition technology.

There can be no assurance, however, that the achievement of any of the above will significantly increase our sales of ProstaScint.

Revenues from the sale of BrachySeed during the second quarter of 2002 were $565,000, which represented 18% of product related revenues in the second quarter of 2002. As described above, effective January 24, 2003, we no longer accept or fill new orders for the BrachySeed I-125 and BrachySeed Pd-103

products. In April 2003, we entered into an agreement with Draximage to formally terminate our agreements with respect to these products.

Other product sales include sales from NMP22 BladderChek, which we began promoting to urologists in the United States in November 2002 using our in-house sales force, and OncoScint CR/OV which we stopped selling in December 2002. During the second quarter 2003, sales of NMP22 BladderChek were $98,000. NMP22 BladderChek is one of only two immunoassay fluid tests approved by the FDA for diagnosing patients for cancer; the other is the prostate specific antigen (PSA) test for prostate cancer. The NMP22 BladderChek test is currently approved for use in two clinical settings:

- Monitoring - In July 2002, NMP22 BladderChek was approved by FDA for monitoring patients previously diagnosed with bladder cancer; and

- Diagnosis - In April 2003, NMP22 BladderChek was approved by FDA to aid in the diagnosis of patients with bladder cancer.

There can be no assurance however, as to the market acceptance of NMP22 BladderChek or whether sale of NMP22 BladderChek will significantly increase our revenues.

We discontinued selling OncoScint CR/OV in December 2002 in order to focus on our other oncology products, since the market for OncoScint CR/OV for colorectal cancer diagnosis has been negatively affected by positron emission tomography or "PET" scans which have shown the same or higher sensitivity than OncoScint CR/OV. Sales of OncoScint CR/OV during the second quarter of 2002 were $56,000.

Quadramet royalties for the second quarter of 2003 were $465,000, a decrease of $45,000 from $510,000 in the second quarter of 2002. Through July 31, 2003, Quadramet was marketed in the United States by our marketing partner, Berlex Laboratories. In June 2003, we entered into an agreement with Berlex Laboratories whereby marketing rights held by Berlex Laboratories to market Quadramet in North America and Latin America were to be returned to us in exchange for an upfront payment of $8.0 million and royalties based on future sales. On August 1, 2003, we reacquired such rights from Berlex Laboratories and began to market Quadramet through an in-house specialty sales force. We believe that the period to period decrease in such sales was attributable, in part, to the transition of marketing rights from Berlex to Cytogen. Currently, we market Quadramet only in the United States. Schering AG, Germany which acquired CIS Bio International in 2000 will continue to market Quadramet in Europe as a direct licensee of Dow Chemical Company. We cannot assure you that we will be able to successfully market Quadramet or that any such sales will result in further revenue for us in the future. We believe that the future growth and market penetration of Quadramet is dependent upon, among other things:

- New clinical data supporting the expanded and earlier use of Quadramet in various cancers;
- Novel research supporting combination uses with other therapies, such as chemotherapy and bisphophonates;
- Establishing the use of Quadramet at higher doses to target and treat primary bone cancers; and
- Increased marketing and sales penetration to physicians.

There can be no assurance that Quadramet will achieve greater market penetration on a timely basis or result in significant revenues for us.

License and contract revenues for the second quarter of 2003 were

$164,000 compared to $65,000 for the same period of 2002. As a result of our adoption of Securities and Exchange Commission's Staff Accounting Bulletin No.101 (referred to as SAB 101) in 2000, license revenues from certain up-front, non-refundable license fees previously recognized in prior years were deferred and are being amortized over the estimated performance period. In the second quarter of 2003, we recognized $96,000 of deferred license revenue compared to $65,000 for the same period in 2002. In the second quarter of 2003, we recorded $53,000 of contract revenues for research and development services provided by us to the PSMA Development Company LLC, our joint venture with Progenics Pharmaceuticals Inc. The level of future revenues for the remainder of 2003, if any, for contract services provided to the joint venture will be dependent upon the extent of the research and development services required by the joint venture.

OPERATING EXPENSES. Total operating expenses for the second quarter of 2003 were $5.7 million compared to $6.4 million in the same quarter of 2002. The decrease from the prior year period is attributable primarily to lower costs of

product sales and lower selling and marketing expenses due to our discontinuation of selling and marketing BrachySeed products in January 2003 and cost-saving measures implemented in September 2002 as a result of a restructuring at our subsidiary AxCell Biosciences. The decrease is partially offset by increased funding for our joint venture and increased general and administrative expenses primarily from a non-cash charge related to warrants granted to certain consultants in 2003.

Cost of product related revenues for the second quarter of 2003 were $900,000 compared to $1.2 million in the same period of 2002. The decrease from the prior year period is substantially due to lower product sales, primarily, the discontinuation of selling and marketing of BrachySeed products in January 2003.

Research and development expenses for the second quarter of 2003 were $771,000 compared to $1.7 million in the same period of 2002. The decrease from the prior year period is attributable primarily to cost-saving measures implemented in September 2002 as a result of a restructuring at our subsidiary AxCell Biosciences and development efforts in the amount of $352,000 in 2002, which did not recur in 2003, related to the new manufacturing and purification process for ProstaScint. During the second quarters of 2003 and 2002, we invested $357,000 and $1.0 million, respectively, in AxCell's signal transduction research activities.

Our share in the equity loss in the PSMA Development Company LLC, our joint venture with Progenics Pharmaceuticals, Inc. was $1.1 million during the second quarter of 2003 compared to $595,000 in the same quarter of 2002 and represented 50% of the joint venture's operating results. The joint venture is equally owned by us and Progenics. We account for the joint venture using the equity method of accounting. We share equally with Progenics the costs of the joint venture. We expect to incur significant and increasing costs in the future to fund our share of the development costs from the joint venture. On July 14, 2003, we agreed with Progenics, in connection with the joint venture: (i) to an updated work plan governing the activities of the joint venture for the remainder of 2003, including the execution of various third-party contracts; (ii) to a budget for the joint venture's operations for 2003 and related capital contributions of the parties; and (iii) to an amended services agreement pursuant to which each party to the joint venture will provide research and development and related services for the remainder of 2003. The joint venture's work plan, budget, and other operational and financial matters relating to periods after 2003 will require the further agreement between us and Progenics.

There can be no assurances made that such further agreements will be reached.

Selling and marketing expenses for the second quarter of 2003 were $1.2 million compared to $1.6 million in the same period of 2002. The decrease from the prior year is primarily due to the discontinuation of the selling and marketing activities related to the BrachySeed products effective January 2003.

General and administrative expenses for the second quarter of 2003 were $1.7 million compared to $1.2 million in the same period of 2002. The increase from the prior year period is primarily due to stock based compensation expenses related to warrants granted to certain consultants, partially offset by lower compensation expenses due to reduced staffing.

INTEREST INCOME/EXPENSE. Interest income for the second quarter of 2003 was $23,000 compared to $72,000 in the same period of 2002. The decrease from the prior year period is due to a lower average yield on investments and lower average cash balances in 2003. Interest expense for the second quarter of 2003 was $46,000 compared to $42,000 in the same period of 2002. Interest expense includes interest on outstanding debt and finance charges related to various equipment leases.

NET LOSS. Net loss for the second quarter of 2003 was $3.4 million compared to $3.2 million reported in the second quarter of 2002. The net loss per share for the second quarter of 2003 was $0.37 based on weighted average common shares outstanding of 9.1 million, compared to a net loss per share of $0.39 based on weighted average common shares outstanding of 8.3 million for the same period in 2002.

SIX MONTHS ENDED JUNE 30, 2003 AND 2002

REVENUES. Total revenues for the first half of 2003 and 2002 were $4.8 million and $6.5 million, respectively. The decrease from the prior year period is due primarily to lower product related revenues and royalties. Product related revenues, which included product sales and royalties, accounted for 94% of total revenues in the first half of 2003 compared to 96% from the comparable period of 2002. License and contract revenues accounted for the remainder of revenues.

Product related revenues for the first half of 2003 and 2002 were $4.5 million and $6.2 million, respectively. Sales of ProstaScint accounted for 72% and 65% of product related revenues in the first half of 2003 and 2002, respectively, while Quadramet royalties accounted for 20% and 16% of product related revenues for such periods, respectively. Sales of ProstaScint were $3.2 million for the first half of 2003 compared to $4.0 million for the first half of 2002. Such decrease in sales of ProstaScint may be due, in part, to the tendency of radiopharmacy wholesalers, during times of economic downturn, to order high-priced drugs, such as ProstaScint, on an as-needed basis, and no longer store quantities for future use. Additionally, ProstaScint historically has been a challenging product for physicians and technologists to use, in part because imaging results may be difficult to interpret. While we believe that the period to period decrease in ProstaScint sales that we have experienced is due, to a large degree, to such challenge, we also believe that such decline in ProstaScint revenue may be reversed, depending upon, among other things, the implementation and continued research in advances in imaging technology such as fusion imaging and image enhancements, and new product applications, such as using ProstaScint scans to guide the placement of brachytherapy seeds and/or external beam radiation. There can be no assurance, however, that such initiatives will significantly increase our sales of ProstaScint.

Royalties from Quadramet were $914,000 and $1.0 million for each of the first half of 2003 and 2002, respectively. We completed the reacquisition of marketing rights to Quadramet from Berlex Laboratories, Inc. on August 1, 2003 for an upfront payment of $8.0 million and royalties on future sales. We believe that the decrease in such sales was attributable in part to the transition of marketing rights from Berlex to Cytogen. Currently, we market Quadramet only in the United States. We cannot assure you that that we will be able to successfully market Quadramet or that our marketing efforts will result in further revenue for us in the future.

Revenues from the sale of BrachySeed for the first half of 2003 were $240,000, or 5% of product related revenue, compared to $1.0 million in BrachySeed sales which represented 16% of product related revenues recorded in the same period of 2002. As described above, effective January 24, 2003, we no longer accept or fill new orders for the BrachSeed I-125 and BrachySeed Pd-103 products. In April 2003, we entered into an arrangement with Draximage to formally terminate our agreements with respect to these products.

Other product sales include sales from NMP22 BladderChek, which we began promoting to urologists in the United States in November 2002 using our in-house sales force, and OncoScint CR/OV, which we stopped selling in December 2002. For the first half of 2003, sales of NMP22 BladderChek were $123,000. There can be no assurance however, as to the market acceptance of NMP22 BladderChek or whether sales of NMP22 BladderChek will significantly increase our revenues.

We discontinued selling OncoScint CR/OV in December 2002 in order to focus on our other oncology products, since the market for OncoScint CR/OV for colorectal cancer diagnosis has been negatively affected by positron emission tomography or "PET" scans which have shown the same or higher sensitivity than OncoScint CR/OV. Sales of OncoScint CR/OV in the first half of 2002 were $110,000.

License and contract revenues for the first half of 2003 and 2002 were $307,000 and $280,000, respectively. In the first half of 2003, we performed limited research and development services for the joint venture, resulting in $100,000 of contract revenue. The level of future revenue for the remainder of 2003, if any, for services provided by us to the joint venture will be dependent upon the extent of the research and development services required by the joint venture. License revenues for both 2003 and 2002 also include the recognition of deferred revenues from certain up-front non-refundable license fees which were $193,000 and $280,000, respectively.

OPERATING EXPENSES. Total operating expenses for the first half of 2003 were $10.7 million compared to $14.7 million recorded in 2002. The decrease from the prior year period is attributable primarily to a non-cash milestone expense of $2.0 million in 2002 related to the progress of the dendritic cell prostate cancer clinical trials at Northwest Biotherapeutics, decreases in research and development expenditures relating to AxCell Biosciences, the development cost of $583,000 incurred in 2002 relating to a new manufacturing and purification process for ProstaScint, and lower cost of product sales and selling and marketing expenses primarily from the discontinuation of selling and marketing BrachySeed products in January 2003. The decrease is partially offset by increased development costs associated with our joint venture.

Cost of product related revenues for the first half of 2003 were $1.8 million compared to $2.3 million in the same period of 2002. The decrease from the prior year period is primarily due to the lower product sales and to a reversal of $133,000 related to lower royalty expenses on the 2002 BrachySeed

sales as a result of a termination agreement entered into with Draximage with respect to the BrachySeed products.

Research and development expenses for the first half of 2003 were $1.6 million compared to $5.5 million recorded in the same period of 2002. The decrease from the prior year period is attributable primarily to a non-cash milestone expense of $2.0 million in 2002 related to the progress of dendritic cell prostate cancer clinical trials at Northwest Biotherapeutics, decreased costs associated with the AxCell's research programs and the development cost of $583,000 in 2002, which did not recur in 2003, relating to a new manufacturing and purification process for ProstaScint. During the first six months of 2003 and 2002, we invested $807,000 and $2.3 million, respectively, in AxCell's subsidiary. In September 2002, we significantly reduced AxCell's workforce to reduce the cash expenditures relating to AxCell in order to leverage our oncology franchise. We still conduct research and development efforts through AxCell, however, such efforts have been scaled back as a result of the workforce reduction.

Our share in the equity loss in the PSMA Development Company LLC, our joint venture with Progenics Pharmaceuticals, Inc., was $2.0 million and $1.1 million during the first half of 2003 and 2002, respectively, and represented 50% of the joint venture's operating results. The joint venture is equally owned by us and Progenics and we account for this joint venture using the equity method of accounting. We share equally with Progenics the costs associated with the joint venture. We expect to incur significant and increasing costs in the future to fund our share of the development costs from the joint venture.

Selling and marketing expenses were $2.5 million for the first half of 2003 compared to $3.1 million in the same period of 2002. The decrease from the prior year period is due to the discontinuation of selling and marketing activities relating to BrachySeed products in January 2003.

General and administrative expenses for the first half of 2003 were $2.8 million compared to $2.7 million for the comparable period in 2002. Such increase was due primarily to increased legal fees and stock based compensation expenses related to warrants granted to certain consultants in 2003, partially offset by stock-based compensation charges in 2002 relating to options granted to a key employee, and reduced staffing in 2003.

INTEREST INCOME/EXPENSE. Interest income for the first half of 2003 was $59,000 compared to $149,000 recorded in the same period of 2002. The decrease from the prior year period is due a lower average yield on investments and a lower average cash balance in 2003. Interest expense for the first half of 2003 was $93,000 compared to $84,000 recorded in the same period of 2002. Interest expense included interest on outstanding debt and finance charges related with various equipment leases.

INCOME TAX BENEFIT. During the first quarter of 2003, we sold New Jersey State net operating loss and research and development credit carryforwards, which resulted in the recognition of a $584,000 income tax benefit. Assuming the State of New Jersey continues to fund this program, which is uncertain, the future amount of net operating losses and tax credits which we may sell will also depend upon the allocation among qualifying companies of an annual pool established by the State of New Jersey. We did not recognize any such benefits during the first half of 2002.

NET LOSS. Net loss for the first half of 2003 was $5.3 million compared to $8.2 million recorded in the same period of 2002. The net loss per share for the first half of 2003 was $0.60 based on weighted average common shares outstanding of 8.9 million compared to a net loss per share of $1.00 based on the weighted average common shares outstanding of 8.2 million for the same period in 2002.

LIQUIDITY AND CAPITAL RESOURCES

Our cash and cash equivalents were $13.5 million as of June 30, 2003, compared to $14.7 million as of December 31, 2002. Cash used for operating activities for the six months ended June 30, 2003 was $5.8 million compared to $4.9 million in the same period of 2002. The increase from the prior year period is due primarily to our build-up of ProstaScint inventories in the first half of 2003 and to our increased capital contributions to the PSMA Development Company, LLC, our joint venture with Progenics Pharmaceuticals, Inc.

Historically, our primary sources of cash have been proceeds from the issuance and sale of our stock through public offerings and private placements, product related revenues, revenues from contract research services, fees paid under license agreements and interest earned on cash and short-term investments.

In January 2003, we received $584,000 relating to a sale of New Jersey State net operating losses and research and development credits. Assuming the State of New Jersey continues to fund this program, which is uncertain, the future amount of net operating losses and tax credits which we may sell will also depend upon the allocation among qualifying companies of an annual pool established by the State of New Jersey.

In June 2003, we entered into a securities purchase agreement with certain institutional investors pursuant to which we issued and sold 1,052,632 shares of our common stock at $4.75 per share. In connection with such financing, we also issued warrants to such investors to purchase 315,790 shares of the our common stock with an exercise price of $6.91 per share. The warrants are exercisable until June 6, 2008. The aggregate net proceeds received by us after transaction costs was approximately $4.7 million.

In July 2003, we sold to the certain institutional investors 1,172,332 shares of our common stock and warrants to purchase an additional 1,172,332 shares of our common stock for aggregate net proceeds received by us of approximately $9.4 million after transaction costs. The warrants to purchase the shares of our common stock have an exercise price of $12.80 per share. The warrants are exercisable until July 10, 2008 and become automatically exercised, in full, if (i) the closing price of the our common stock (or in case no sales are reported on any given trading day, the average of the closing bid and asked prices of our common stock on the NASDAQ National Market for such trading day) is at least 130% of the exercise price then in effect for 30 consecutive trading days, and (ii) a registration statement to register such shares of common stock to be issued upon such exercise has been declared effective by the Securities and Exchange Commission. In addition, we also issued: (i) warrants to purchase 100,000 shares of our common stock at an exercise price of $12.80 per share to a consultant as part of its compensation for services rendered in connection with this financing; and (ii) warrants to purchase an aggregate of 250,000 shares of

our common stock at an exercise price of $10.97 per share to certain of our stockholders in exchange for them waving certain rights in connection with this financing. On August 1, 2003, $8.0 million of the proceeds from this financing were used to pay for the reacquisition of marketing rights to Quadramet in North

and Latin America from Berlex Laboratories, Inc.

In August 2003, we completed the reacquisition of the marketing rights to Quadramet from Berlex. As a result, we have assumed certain additional obligations under our Manufacturing and Supply Agreement with Bristol Meyers Squibb, including an obligation to pay manufacturing costs of at least $3.7 million annually through 2005. Such obligation for the remainder of 2003 is approximately $1.5 million.

We have historically relied upon revenues from sales of the BrachySeed products to partially fund ongoing operations. For the six months ended June 30, 2003 and 2002, revenue from the sale of BrachySeed products was $240,000 and $1.0 million, respectively. In December 2002, we served notice of termination of our agreements with Draximage, and in April 2003, entered into an agreement with Draximage to formally terminate each of our License and Distribution Agreement and Product Manufacturing and Supply Agreement with respect to both the BrachySeed I-125 and BrachySeed Pd-103 products. As of January 24, 2003, we no longer accept or fill new orders for the BrachySeed products.

Beginning in December 2001, we began to equally share the costs of the joint venture with Progenics. We expect our share of losses and funding in the joint venture to continue at an even higher level in the subsequent periods. We are committed to contribute an additional $1.8 million to the joint venture by the end of 2003. The joint venture is funded by equal capital contributions from each of Progenics and Cytogen in accordance with an annual budget approved by the joint venture's management committee. On July 14, 2003, we agreed with Progenics, in connection with this joint venture: (i) to an updated work plan governing the activities of the joint venture for the remainder of 2003, including the execution of various third-party contracts; (ii) to a budget for the joint venture's operations for 2003 and related capital contributions of the parties; and (iii) to an amended services agreement pursuant to which each party to the joint venture will provide research, development and related services for the remainder of 2003. The joint venture work plan, budget, and other operational and financial matters relating to periods after 2003 will require the further agreement between us and Progenics.

Our capital and operating requirements may change depending upon various factors, including: (i) whether we and our strategic partners achieve success in manufacturing, marketing and commercialization of our products; (ii) the amount of resources which we devote to clinical evaluations and the expansion of marketing and sales capabilities; (iii) results of clinical trials and research and development activities; and (iv) competitive and technological developments, in particular, we expect to incur significant costs for the development of our PSMA technologies.

Our financial objectives are to meet our capital and operating requirements through revenues from existing products and licensing arrangements. To achieve our strategic objectives, we may enter into research and development partnerships and acquire, in-license and develop other technologies, products or

services. Certain of these strategies may require payments by us in either cash or stock in addition to the costs associated with developing and marketing a product or technology. However, we believe that, if successful, such strategies may increase long-term revenues. There can be no assurance as to the success of such strategies or that resulting funds will be sufficient to meet cash requirements until product revenues are sufficient to cover operating expenses, if ever. To fund these strategic and operating activities, we may sell equity or debt securities as market conditions permit or enter into credit facilities.

We have incurred negative cash flows from operations since our inception, and have expended, and expect to continue to expend in the future, substantial funds to implement our planned product development efforts, including acquisition of products and complementary technologies, research and development, clinical studies and regulatory activities, and to further our marketing and sales programs. We expect that our existing capital resources should be adequate to fund our operations and commitments into the second half of 2004. We cannot assure you that our business or operations will not change in a manner that would consume available resources more rapidly than anticipated. We expect that we will have additional requirements for debt or equity capital, irrespective of whether and when we reach profitability, for further product development costs, product and technology acquisition costs, and working capital.

Our future capital requirements and the adequacy of available funds will depend on numerous factors, including: (i) the successful commercialization of our products; (ii) the costs associated with the acquisition of complementary products and technologies; (iii) progress in our product development efforts and the magnitude and scope of such efforts; (iv) progress with clinical trials; (v) progress with regulatory affairs activities; (vi) the cost of filing, prosecuting, defending and enforcing patent claims and other intellectual property rights; (vii) competing technological and market developments; and (viii) the expansion of strategic alliances for the sales, marketing, manufacturing and distribution of our products. To the extent that the currently available funds and revenues are insufficient to meet current or planned operating requirements, we will be required to obtain additional funds through equity or debt financing, strategic alliances with corporate partners and others, or through other sources. There can be no assurance that the financial sources described above will be available when needed or at terms commercially acceptable to us. If adequate funds are not available, we may be required to delay, further scale back or eliminate certain aspects of our operations or attempt to obtain funds through arrangements with collaborative partners or others that may require us to relinquish rights to certain of our technologies, product candidates, products or potential markets. If adequate funds are not available, our business, financial condition and results of operations will be materially and adversely affected.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Financial Reporting Release No. 60 requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Note 1 to our Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2002, as amended, includes a summary of our significant accounting policies and methods used in the preparation of our Consolidated Financial Statements. The following is a brief discussion of the more significant accounting policies and methods used by

us. The preparation of our Consolidated Financial Statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Our actual results could differ materially from those estimates.

REVENUE RECOGNITION

We recognize revenue from the sale of our products upon shipment, which is when title and risk of loss passes to our customers. We do not grant price protection to customers. We recognize Quadramet royalty revenue on Quadramet

sales made by our marketing partner, Berlex, during each period as Berlex sells the product. The Securities and Exchange Commission has issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition", which provides guidance on the recognition of up-front, non-refundable license fees. Accordingly, we defer up-front license fees and recognize them over the estimated performance period of the related agreement, when we have continuing involvement. Since the term of the performance periods is subject to management's estimates, future revenues to be recognized could be affected by changes in such estimates.

ACCOUNTS RECEIVABLE

Our accounts receivable balances are net of an estimated allowance for uncollectible accounts. We continuously monitor collections and payments from our customers and maintain an allowance for uncollectible accounts based upon our historical experience and any specific customer collection issues that we have identified. While we believe our reserve estimate to be appropriate, we may find it necessary to adjust our allowance for uncollectible accounts if the future bad debt expense exceeds our estimated reserve. We are subject to concentration risks as a limited number of our customers provide a high percent of total revenues, and corresponding receivables.

INVENTORIES

Inventories are stated at the lower of cost or market, as determined using the first-in, first-out method, which most closely reflects the physical flow of our inventories. Our products and raw materials are subject to expiration dating. We regularly review quantities on hand to determine the need for reserves for excess and obsolete inventories based primarily on our estimated forecast of product sales. Our estimate of future product demand may prove to be inaccurate, in which case we may have understated or overstated our reserve for excess and obsolete inventories.

CARRYING VALUE OF FIXED AND INTANGIBLE ASSETS

Our fixed assets and certain of our acquired rights to market our products have been recorded at cost and are being amortized on a straight-line basis over the estimated useful life of those assets. If indicators of impairment exist, we assess the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through undiscounted future operating cash flows. If impairment is indicated, we measure the amount of such impairment by comparing the carrying value of the

assets to the present value of the expected future cash flows associated with the use of the asset. Adverse changes regarding future cash flows to be received from long-lived assets could indicate that an impairment exists, and would require the write down of the carrying value of the impaired asset at that time.

In October 2002, we entered into a five-year agreement with Matritech Inc. to be the sole distributor for Matritech's NMP22 BladderChek point-of-care test to urologists and oncologists in the United States. Retention of exclusivity rights depends upon meeting certain minimum annual purchases. We paid Matritech $150,000 upon the execution of the agreement, which was recorded as other assets in the accompanying consolidated balance sheet for the respective period and is being amortized over the five year estimated performance period of the agreement.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not have operations subject to risks of foreign currency

fluctuations, nor do we use derivative financial instruments in our operations or investment portfolio. As of June 30, 2003, we had $2.3 million of debt outstanding with a fixed interest rate of 7%. We do not have exposure to market risks associated with changes in interest rates, as we have no variable interest rate debt outstanding. Changes in interest rates could expose us to market risk associated with a fixed interest rate debt. We do not believe that this debt will have material exposure to market risks associated with interest rates.

ITEM 4 - CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures. Our management, with the participation of our chief executive officer and principal accounting officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2003. In designing and evaluating our disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applied its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, our chief executive officer and principal accounting officer concluded that as of June 30, 2003, our disclosure controls and procedures were (1) designed to ensure that material information relating to us, including our consolidated subsidiaries, is made known to our chief executive officer and principal accounting officer by others within those entities, particularly during the period in which this report was being prepared and (2) effective, in that they provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

(b) Changes in internal controls. No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended June 30, 2003 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Financings

JUNE 6, 2003 FINANCING

On June 6, 2003, we entered into a securities purchase agreement with certain institutional investors pursuant to which we issued and sold 1,052,632 shares of our common stock at $4.75 per share and issued warrants to purchase 315,790 shares of the our common stock with an exercise price of $6.91 per share. The warrants are exercisable until June 6, 2008. The aggregate net proceeds received by us was approximately $4.7 million after transaction costs. We paid a $200,000 finder's fee in connection with this financing. The aggregate net proceeds received from this financing are expected to be used for general corporate purposes, marketing and sales initiatives for our oncology products and development of our prostate specific membrane antigen (PSMA) technology.

In addition, we entered into registration rights agreements with the investors in this financing. Pursuant to the registration rights agreement, we filed a registration statement on Form S-3 with the Securities and Exchange Commission on July 3, 2003 to register all of the shares of our common stock

issued to the investors and all of the shares to be issued to the investors upon exercise of such warrants. The registration statement has not yet been declared effective by the Securities and Exchange Commission.

No underwriter was employed by us in connection with the issuance of the securities described above. We believe that the issuance of the foregoing securities was exempt from registration under Section 4(2) of the Securities Act of 1933, as amended, as transactions not involving a public offering. Each of the recipients acquired the securities for investment purposes only and not with a view to distribution and had adequate information about us.

JULY 10, 2003 FINANCING

In July 2003, we entered into a securities purchase agreement pursuant to which we sold 1,172,332 shares of our common stock to certain institutional investors at $8.53 per share, resulting in net proceeds of approximately $9.4 million. In connection with the sale, we issued to the investors warrants to purchase 1,172,332 shares of our common stock with an exercise price of $12.80 per share. In addition, we also issued: (i) warrants to purchase 100,000 shares of our common stock at an exercise price of $12.80 per share to a consultant as part of its compensation for services rendered in connection with this financing; and (ii) warrants to purchase an aggregate of 250,000 shares of our common stock at an exercise price of $10.97 per share to certain of our stockholders in exchange for them waiving certain rights in connection with this financing. The warrants are exercisable until July 10, 2008 and become automatically exercised, in full, if (i) the closing price of the our common stock (or in case no sales are reported on any given trading day, the average of the closing bid and asked prices of our common stock on the NASDAQ National Market for such trading day) is at least 130% of the exercise price then in effect for 30 consecutive trading days, and (ii) a registration statement to

register such shares of common stock to be issued upon such exercise has been declared effective by the Securities and Exchange Commission. Upon receipt of written notice by us of such automatic exercise, the holders of the warrants must purchase all of the shares of common stock underlying their respective warrants by paying us the exercise price times the number of shares of common stock issuable upon exercise. Furthermore, we paid a consultant $500,000 as part of its compensation for consulting services that it rendered in this financing. On August 1, 2003, $8.0 million of such proceeds received by us from this financing was used to make an upfront payment to reacquire the marketing rights to Quadramet from Berlex Laboratories, Inc.

In addition, we entered into registration rights agreements with the investors in this financing. Pursuant to the registration rights agreement, we are required to register all of such shares of our common stock issued to the investors and all of the shares to be issued to the investors upon exercise of such warrants. We have not yet filed this registration statement with the Securities and Exchange Commission.

No underwriter was employed by us in connection with the issuance of the securities described above. We believe that the issuance of the foregoing securities was exempt from registration under Section 4(2) of the Securities Act of 1933, as amended, as transactions not involving a public offering. Each of the recipients acquired the securities for investment purposes only and not with a view to distribution and had adequate information about us.

WARRANTS ISSUED TO CONSULTANTS

On June 10, 2003, we issued to a consultant a warrant to purchase

50,000 shares of our common stock at an exercise price of $5.65 per share for financial and strategic consulting services. The warrants are exercisable in 12 equal installments on each one-month anniversary from the date of issuance and are exercisable through June 10, 2006.

On June 10, 2003, we issued to another consultant a warrant to purchase 50,000 shares of our common stock at an exercise price of $5.65 per share for scientific consulting services. The warrants are exercisable in 12 equal installments on each one-month anniversary from the date of issuance and are exercisable through June 10, 2006.

No underwriter was employed by us in connection with the issuance of the warrants described above. We believe that the issuance of the foregoing warrants was exempt from registration under Section 4(2) of the Securities Act of 1933, as amended, as transactions not involving a public offering. Each of the recipients acquired the securities for investment purposes only and not with a view to distribution and had adequate information about us.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On June 10, 2003, we held our annual meeting of stockholders to: (i) elect eight directors; (ii) consider and vote upon a proposal to amend, as required, our 1995 Stock Option Plan to increase the maximum aggregate number of shares of common stock available for issuance thereunder from 450,263 to 650,263, and to reserve an additional 200,000 shares of our common stock for issuance in connection with such increase; and (iii) transact such other business as may come before the meeting.

There were represented at the our annual meeting, either in person or by proxy 8,082,162 shares of our common stock out of a total number of 8,813,832 shares of common stock issued and outstanding and entitled to vote at the meeting.

The following tables set forth information regarding the number of votes cast for, withheld, abstentions and broker non-votes, with respect to each matter presented at the meeting. Under the rules of the Nasdaq Stock Market, brokers who hold shares in street name for customers who are beneficial owners of those shares may be prohibited from giving a proxy to vote shares held for such customers on certain matters without specific instructions from such customers (broker non-votes). Under Delaware law, abstentions and broker non-votes are counted as shares represented at the meeting for purposes of determining the presence or absence of a quorum at a stockholders meeting. The election of directors is decided by a plurality of the votes cast, and therefore, votes that are withheld have no effect on the outcome of the vote. Adoption of the proposal relating to our 1995 Stock Option Plan required the affirmative vote of a majority of shares cast at the meeting. Therefore, abstentions and broker non-votes have no effect on the vote.

(i) Election of Directors:

NOMINEES	FOR	WITHHELD	ABSTENTIONS	BROKER NON-VOTES

James A. Grigsby	7,892,250	189,912	N/A	N/A
Michael D. Becker	6,452,622	1,629,540	N/A	N/A
John E. Bagalay, Jr.	6,393,758	1,688,404	N/A	N/A
Allen Bloom	7,946,916	135,246	N/A	N/A
Stephen K. Carter	7,947,411	134,751	N/A	N/A
Robert F. Hendrickson	7,946,973	135,189	N/A	N/A
Kevin G. Lokay	6,454,962	1,627,200	N/A	N/A
H. Joseph Reiser	7,860,936	201,226	N/A	N/A

(ii) Proposal to amend our 1995 Stock Option Plan to increase the maximum number of shares of common stock available for issuance thereunder from 450,263 to 650,263 shares and to reserve an additional 200,000 shares of common stock for issuance in connection with such increase for awards to be granted under the 1995 Stock Option Plan:

FOR	WITHHELD	ABSTENTIONS	BROKER NON-VOTES
7,699,815	347,187	35,160	N/A

ITEM 5. OTHER INFORMATION

One June 10, 2003, we entered into Change of Control Severance Agreements, in the form we utilize with our executive officers, with each of Ms. Thu A. Dang, our Vice President, Finance and Ms. Rita Auld, our Vice President, Human Resources and Administration.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits:

Exhibit No.	Description
3.1	Bylaws of Cytogen Corporation, as amended. Filed as an exhibit to our Quarterly Report on Form 10-Q for the three-months ended March 31, 2003, as filed with the Securities and Exchange Commission on May 14, 2003, and incorporated herein by reference.
10.1	Securities Purchase Agreement by and among Cytogen Corporation and the Purchasers (as defined therein) dated June 6, 2003. Filed as an exhibit to our Current Report on Form 8-K, dated June 6,

Exhibit No.	Description
	2003, filed with the Securities and Exchange Commission on June 9, 2003, and incorporated herein by reference.
10.2	Form of Common Stock Purchase Warrant issued by Cytogen Corporation in favor of each Purchaser (as defined therein) dated June 6, 2003. Filed as an exhibit to our Current Report on Form

8-K, dated June 6, 2003, filed with the Securities and Exchange Commission on June 9, 2003, and incorporated herein by reference.

10.3 Registration Rights Agreement by and among Cytogen Corporation and the Purchasers dated June 6, 2003. Filed as an exhibit to our Current Report on Form 8-K, dated June 6, 2003, filed with the Securities and Exchange Commission on June 9, 2003, and incorporated herein by reference.

10.4 Securities Purchase Agreement by and among Cytogen Corporation and the Purchasers (as defined therein) dated July 10, 2003. Filed as an exhibit to our Current Report Form 8-K, dated July 10, 2003, filed with the Securities and Exchange Commission on July 11, 2003, and incorporated herein by reference.

10.5 Form of Common Stock Purchase Warrant issued by Cytogen Corporation in favor of each Purchaser (as defined therein) dated July 10, 2003. Filed as an exhibit to our Current Report Form 8-K, dated July 10, 2003, filed with the Securities and Exchange Commission on July 11, 2003, and incorporated herein by reference.

10.6 Registration Rights Agreement by and among Cytogen Corporation and the Purchasers dated July 10, 2003. Filed as an exhibit to our Current Report Form 8-K, dated July 10, 2003, filed with the Securities and Exchange Commission on July 11, 2003, and incorporated herein by reference.

31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.

31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.

32 Certification pursuant to 18 U.S.C. Section 1350. Filed herewith.

(b) Reports on Form 8-K

On April 9, 2003, we filed a Current Report on Form 8-K, dated April 8, 2003, under Item 5, with respect to the termination of our License and Distribution Agreement and Product Manufacturing and Supply Agreement with Draximage Inc., with respect to both of DRAXIS' BrachySeed(TM) I-125 and BrachySeed(TM) Pd-103 products.

On May 14, 2003, we furnished a Current Report on Form 8-K, dated May 14, 2003, under Item 9, containing a copy of our earnings release for the period ended March 31, 2003 (including financial statements) pursuant to Item 12 (Results of Operations and Financial Condition).

On June 9, 2003, we filed a Current Report on Form 8-K, dated June 6, 2003, under Item 5, announcing that we entered into a securities purchase agreement with certain institutional investors pursuant to which we issued and sold 1,052,632 shares of our common stock at $4.75 per share and issued warrants to such investors to purchase 315,790 shares of our common stock with an exercise price of $6.91 per share.

On July 3, 2003, we filed a Current Report on Form 8-K, dated

June 18, 2003, under Item 5, announcing that we issued a joint press release with Advanced Magnetics, Inc. regarding the publication of clinical data in the New England Journal of Medicine.

On July 11, 2003, we filed a Current Report on Form 8-K, dated July 10, 2003, under Item 5, announcing that we entered into a securities purchase agreement with certain institutional investors pursuant to which we issued and sold an aggregate of 1,172,332 shares of our common stock at $8.53 per share and also issued warrants to such investors to purchase an aggregate of 1,172,332 shares of our common stock with an exercise price of $12.80 per share.

On July 14, 2003, we filed a Current Report on Form 8-K, dated July 14, 2003, under Item 5, announcing that we reached certain agreements with Progenics Pharmaceuticals, Inc. regarding our joint venture with Progenics.

On July 15, 2003, we filed a Current Report on Form 8-K, dated July 15, 2003, under Item 5, announcing that we issued a joint press release regarding presentations made at the International Society for Magnetic Resonance in Medicine's 11th Scientific Meeting, of data showing that magnetic resonance with Combidex aids in the non-invasive diagnosis of metastatic lymph nodes.

On August 1, 2003, we filed a Current Report on Form 8-K, dated August 1, 2003, under Item 5, announcing that we reacquired the marketing rights held by Berlex Laboratories to Quadramet in North and Latin America, in exchange for an upfront payment of $8.0 million and royalties based on future sales.

SIGNATURES

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

CYTOGEN CORPORATION

Date: August 14, 2003 By: /s/ Michael D. Becker

Michael D. Becker
President and Chief Executive Officer

Date: August 14 2003 By /s/ Thu A. Dang

Thu A. Dang

Vice President, Finance
(Principal Financial and Accounting Officer)