CYTOGEN CORP
Form 10-Q
November 09, 2006

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

|X| QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006

|_| 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 of Incorporation) | (I.R.S. Employer Identification No.) |

650 College Road East, Suite 3100, Princeton, New Jersey 08540-5308

(Address of principal executive offices)(Zip Code)

(609) 750-8200

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 the filing requirements for at least the past 90 days. Yes |X| No |_|

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large Accelerated Filer |_| Accelerated Filer |X| Non- Accelerated Filer |_|

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d)of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan

confirmed by a court. |_| Yes |_| No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class: Common Stock, $.01 par value Outstanding at November 6, 2006: 22,502,407

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CYTOGEN CORPORATION
QUARTERLY REPORT ON FORM 10-Q
SEPTEMBER 30, 2006

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PROSTASCINT(R), QUADRAMET(R), ONCOSCINT(R) and CAPHOSOL(R) are registered United States trademarks of Cytogen Corporation. All other trade names, trademarks or servicemarks appearing in this Quarterly Report on Form 10-Q are the property of their respective owners, and not the property of Cytogen Corporation or any of its subsidiaries.

PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)



CYTOGEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(All amounts in thousands, except share and per share data)
(Unaudited)

| | SEPTEMBER 30, 2006 |
|---|---|
| ASSETS: | |
| Current assets: | |
| Cash and cash equivalents | $ 26,972 |
| Accounts receivable, net | 1,802 |
| Inventories | 1,774 |
| Prepaid expenses | 1,562 |
| Other current assets | 66 |
| Total current assets | 32,176 |
| Property and equipment, less accumulated depreciation and amortization of $1,290 and $981 at September 30, 2006 and December 31, 2005, respectively | 742 |
| QUADRAMET license fee, less accumulated amortization of | |

| | |
|---|---|
| $2,195 and $1,673 at September 30, 2006 and December 31, 2005, respectively | 5,805 |
| SOLTAMOX license fee, less accumulated amortization of $68 at September 30, 2006 | 1,932 |
| Other assets | 468 |
| | $ 41,123 |
| LIABILITIES AND STOCKHOLDERS' EQUITY: | |
| Current liabilities: | |
| Current portion of long-term liabilities | 62 |
| Accounts payable and accrued liabilities | 6,588 |
| Total current liabilities | 6,650 |
| Warrant liability | 1,565 |
| Other long-term liabilities | 76 |
| Total liabilities | 8,291 |
| Commitments and contingencies | |
| 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, 50,000,000 shares authorized, 22,502,407 and 22,473,762 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively | 225 |
| Additional paid-in capital | 451,303 |
| Unearned compensation | -- |
| Accumulated other comprehensive income | 69 |
| Accumulated deficit | (418,765) |
| Total stockholders' equity | 32,832 |
| | $ 41,123 |

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 SEPTEMBER 30, | |
|---|---|---|
| | 2006 | 2005 |
| Revenues: | | |
| Product revenue: | | |
| QUADRAMET | $ 1,998 | $ 1,991 |
| PROSTASCINT | 2,171 | 1,525 |
| Total product revenue | 4,169 | 3,516 |
| License and contract revenue | 3 | 35 |
| Total revenues | 4,172 | 3,551 |
| Operating expenses: | | |
| Cost of product revenue | 2,681 | 2,386 |
| Selling, general and administrative | 6,737 | 6,740 |
| Research and development | 990 | 1,746 |
| Equity in loss of joint venture | -- | 677 |
| Total operating expenses | 10,408 | 11,549 |
| Operating loss | (6,236) | (7,998) |
| Interest income | 384 | 195 |
| Interest expense | (8) | (21) |
| Gain on sale of equity interest in joint venture | -- | -- |
| Decrease in value of warrant liability | 122 | 703 |
| Net loss | $ (5,738) | $ (7,121) |
| Basic and diluted net loss per share | $ (0.26) | $ (0.40) |
| Basic and diluted weighted average common shares outstanding | 22,494 | 17,857 |

The accompanying notes are an integral part of these statements.



CYTOGEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(All amounts in thousands)
(Unaudited)

| | NINE MONTHS ENDED SE | |
|---|---|---|
| | 2006 | -- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | $ (6,198) | $ |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 933 | |
| Decrease in value of warrant liability | (304) | |
| Share-based compensation expense | 1,359 | |
| Share-based milestone obligation | -- | |
| Decrease in provision for doubtful accounts | (4) | |
| Amortization of premiums on investments | -- | |
| Gain on sale of equity interest in joint venture | (12,873) | |
| Deferred rent | (14) | |
| Changes in assets and liabilities: | | |
| Accounts receivable | (55) | |
| Inventories | 1,808 | |
| Other assets | (399) | |
| Liability related to joint venture | -- | |
| Accounts payable and accrued liabilities | 1,331 | |
| Net cash used in operating activities | (14,416) | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of SOLTAMOX license | (2,000) | |
| Purchases of property and equipment | (103) | |
| Proceeds from sale of equity interest in joint venture | 13,132 | |
| Maturities of short-term investments | -- | |
| Net cash provided by investing activities | 11,029 | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from issuance of common stock | 52 | |
| Proceeds from issuance of warrants | -- | |
| Payment of long-term liabilities | (30) | |
| Net cash provided by financing activities | 22 | |
| Net increase (decrease) in cash and cash equivalents | (3,365) | |
| Cash and cash equivalents, beginning of period | 30,337 | |
| Cash and cash equivalents, end of period | $ 26,972 | $ |
| Supplemental disclosure of non-cash information: | | |
| Capital lease of equipment | $ 96 | $ |
| Unrealized holding gain on marketable securities | $ 41 | $ |

| | | |
|---|---|---|
| Supplemental disclosure of cash information: | | |
| Cash paid for interest..... | $ 20 | $ |

The accompanying notes are an integral part of these statements.



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

1. THE COMPANY

BACKGROUND

Founded in 1980, Cytogen Corporation (the "Company" or "Cytogen") is a biopharmaceutical company dedicated to advancing the care of cancer patients by building, developing, and commercializing a portfolio of specialty pharmaceutical products. The Company's specialized sales force currently markets QUADRAMET(R) (samarium Sm-153 lexidronam injection), PROSTASCINT(R) (capromab pendetide) kit, and SOLTAMOX(TM) (tamoxifen citrate, oral solution 10mg/5mL) to the U.S. oncology market. QUADRAMET is approved for the treatment of pain in patients whose cancer has spread to the bone, PROSTASCINT is a PSMA-targeting monoclonal antibody-based agent to image the extent and spread of prostate cancer, and SOLTAMOX is the first liquid hormonal therapy approved in the U.S. for the treatment of breast cancer in adjuvant and metastatic settings. The Company introduced SOLTAMOX to the U.S. oncology market in August 2006. In early 2007, Cytogen plans to introduce its fourth approved product to the U.S. market, CAPHOSOL(R). Approved as a prescription medical device, CAPHOSOL(R) is a topical oral ajent for the treatment of oral mucositis and dry mouth. The Company is also developing CYT-500, a third-generation radiolabeled antibody to treat prostate cancer. In addition, the Company has exclusive United States marketing rights to COMBIDEX(R) (ferumoxtran-10) for all applications, and the exclusive right to market and sell ferumoxytol (previously Code 7228) for oncology applications in the United States.

On April 21, 2006, the Company and Savient Pharmaceuticals, Inc. ("Savient") entered into a distribution agreement granting the Company exclusive marketing rights for SOLTAMOX in the United States. SOLTAMOX, a cytostatic estrogen receptor antagonist, is indicated for the treatment of breast cancer in adjuvant and metastatic settings and to reduce the risk of breast cancer in women with ductal carcinoma in situ (DCIS) or with high risk of breast cancer. In addition, the Company entered into a supply agreement with Rosemont Pharmaceuticals Limited, previously a wholly-owned subsidiary of Savient ("Rosemont"), for the manufacture and supply of SOLTAMOX.

On October 11, 2006, the Company and InPharma AS ("InPharma") entered into a license agreement granting the Company exclusive rights for CAPHOSOL in North America. Approved as a prescription medical device, CAPHOSOL is a topical oral agent indicated in the United States as an adjunct to standard oral care in treating oral mucositis caused by radiation or high dose chemotherapy. CAPHOSOL is also indicated for dryness of the mouth (hyposalivation) or dryness of the throat (xerostomia) regardless of the cause or whether the conditions are temporary or permanent.

Cytogen has a history of operating losses since its inception. 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, stopped selling certain products, such as NMP22 BLADDERCHEK, BRACHYSEED and ONCOSCINT, that the Company previously



believed would generate significant revenues. 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, maintaining and expanding product approvals. In addition, the Company relies on collaborative partners to a significant degree, among other things, to manufacture its products, to secure raw materials, and to provide licensing rights to their proprietary technologies for the Company to sell and market to others. The Company is also subject to revenue and credit concentration risks as a small number of its customers account for a high percentage of total revenues and corresponding receivables. The loss of one of these customers or changes in their buying patterns could result in reduced sales, thereby adversely affecting the Company's operating results.

The Company has incurred negative cash flows from operations since its inception, and has expended, and expects to continue to expend, substantial funds to implement its planned product development efforts, including acquisition of products, research and development, clinical studies and regulatory activities, and to further the Company's marketing and sales programs, including new product launches. The Company expects its existing capital resources at September 30, 2006, along with proceeds expected to be received from the November 2006 sale of equity, should be adequate to fund operations and commitments at least into the second half of 2007. The Company cannot assure you that its business or operations will not change in a manner that would consume available resources more rapidly than anticipated. The Company expects that it will have additional requirements for debt or equity capital, irrespectively of whether and when profitability is reached, for further product development, product and technology acquisition costs, and working capital.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of Cytogen and its subsidiaries. All 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 U.S. generally accepted accounting principles 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, filed with the Securities and Exchange Commission, which includes financial statements as of and for the year ended December 31, 2005. 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management 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. Actual results could differ from those estimates.

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 include PROSTASCINT and SOLTAMOX with the majority of the inventories related to PROSTASCINT. Inventories are stated at the lower of cost or market using the first-in, first-out method and consisted of the following (all amounts in thousands):

| | SEPTEMBER 30, 2006 | DECEMBER 31, 2005 |
|---|---|---|
| Raw materials..... | $ 287 | $ 291 |
| Work-in-process..... | 469 | 2,625 |
| Finished goods..... | 1,018 | 666 |
| | $ 1,774 | $ 3,582 |

Net Loss Per Share

Basic net loss per common share is calculated by dividing the Company's net loss by the weighted-average common shares outstanding during each period. Diluted net loss per common share is the same as basic net loss per share for each of the three and nine month periods ended September 30, 2006 and 2005 because the inclusion of common stock equivalents, which consist of nonvested shares, warrants and options to purchase shares of the Company's common stock, would be antidilutive due to the Company's losses.

OTHER COMPREHENSIVE INCOME OR LOSS

Other comprehensive income consisted of net unrealized holding gain on marketable securities. For the three months ended September 30, 2006, there was no unrealized holding gain or loss for these securities and, as a result, the comprehensive loss for the three months ended September 30, 2006 was $5,738,000, the same as net loss. For the nine months ended September 30, 2006, the unrealized holding gain of the securities was $41,000 and as a result, the comprehensive loss for the nine months ended September 30, 2006 was $6,157,000. For the three months ended September 30, 2005, the unrealized holding loss of those securities was $3,000, and as a result, the comprehensive loss for the three months ended September 30, 2005 was

$7,124,000. For the nine months ended September 30, 2005, the unrealized holding gain of the securities was $47,000 and as a result the comprehensive loss for the nine months ended September 30, 2005 was $21,408,000.

RECENT ACCOUNTING PRONOUNCEMENTS

Evaluation of Misstatements

On September 13, 2006, the staff of the SEC issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"), which provides interpretive guidance on how the effects of prior year misstatements should be considered in evaluating a current year misstatement. The cumulative effect from the initial adoption of SAB 108 may be reported as a cumulative effect adjustment to the beginning of year retained earnings with disclosure of the nature and amount of each individual error. The Company will begin to apply the provisions of SAB 108 in the fourth quarter of 2006. Management is currently evaluating the requirements of SAB 108 and has not yet determined the impact it will have on its consolidated financial statements.

Fair Value Measurements

On September 15, 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective as of the beginning of the first fiscal year beginning after November 15, 2007. The Company will be required to adopt this statement in the first quarter of 2008. Management is currently evaluating the requirements of SFAS 157 and has not yet determined the impact this standard will have on its consolidated financial statements.

Income Taxes

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 is applicable for fiscal years beginning after December 15, 2006. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company is currently evaluating the impact of the adoption of FIN 48 upon its financial statements and related disclosures. The Company does not expect that the adoption will have a material effect on its results of operations or financial condition.

Sales Tax

In March 2006, the FASB's Emerging Issues Task Force released Issue 06-3, "How Sales Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement" ("EITF 06-3"). A consensus was reached that entities may adopt a policy of presenting sales taxes in the income statement on either a gross or net basis. If

taxes are significant, an entity should disclose its policy of presenting taxes and the amount of taxes if reflected on a gross basis in the income statement. The guidance is effective for periods beginning after December 15, 2006. The Company presents sales net of sales taxes in its consolidated statements of operations and does not anticipate changing its policy as a result of EITF 06-3.

Share-Based Payment

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment," which revised SFAS No. 123 ("SFAS 123") and superseded Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). SFAS 123(R) requires that companies recognize compensation expense associated with share-based compensation arrangements, including employee stock options, in the financial statements effective as of the first interim or annual reporting period that begins after June 15, 2005. SFAS 123(R) eliminates the Company's ability to account for such transactions using the intrinsic method of accounting under APB 25. SFAS 123(R) also requires that companies recognize compensation expense associated with purchases of shares of common stock by employees at a discount to market value under employee stock purchase plans that do not meet certain criteria.

In April 2005, the Securities and Exchange Commission announced the adoption of a new rule allowing companies to implement SFAS 123(R) at the beginning of their next fiscal year that begins after June 15, 2005. Accordingly, the Company adopted SFAS 123(R) in its fiscal year beginning January 1, 2006 using the modified prospective transition method. Under this method, compensation expense is reflected in the financial statements beginning January 1, 2006 with no restatement to the prior periods. As such, compensation expense, which is measured based on the fair value of the instrument on the grant date, is recognized for awards that are granted, modified, repurchased or cancelled on or after January 1, 2006 as well as for the portion of awards previously granted that have not vested as of January 1, 2006. The Company has implemented the straight-line expense attribution method for all options granted after January 1, 2006. Prior to adopting SFAS 123(R), the Company used the accelerated attribution method in accordance with FASB Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans" ("FIN 28"). The adoption of SFAS 123(R) had a material impact on the Company's results of operations (see Note 2).

Abnormal Inventory Costs

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4" ("SFAS No. 151"), to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) should be recognized as current period charges, and that fixed production overheads should be allocated to inventory based on the normal capacity of production facilities. This statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Accordingly, the Company adopted SFAS No. 151 in its fiscal year beginning January 1, 2006. The adoption of this standard did not have any impact on the Company in the nine months ended September 30, 2006.

2. SHARE-BASED COMPENSATION

The Company has various share-based compensation plans that provide for the issuance of common stock and incentive and non-qualified stock options to purchase the Company's

common stock to employees, non-employee directors and outside consultants. These plans are administered by the Compensation Committee of the Board of Directors (the "Compensation Committee"). The Company may issue new common shares or reacquire them on the open market to satisfy option exercises or upon satisfaction of service requirement for nonvested shares.

Cytogen Stock Options

Currently, the Company has three plans which allow for the issuance of stock options and other awards: the 2006 Equity Compensation Plan (the "2006 Plan"); the 2004 Stock Incentive Plan (the "2004 Plan"); and the 2004 Non-Employee Director Stock Incentive Plan (the "2004 Director Plan"). An aggregate of 1,500,000, 1,200,000 and 375,000 shares of Cytogen common stock have been reserved for issuance upon the exercise of options or stock awards (as applicable) under the 2006 Plan, 2004 Plan and 2004 Director Plan, respectively. The Company also has certain other option plans, for which there are options outstanding but no new options can be granted under those plans.

On June 13, 2006, the Company's stockholders approved the 2006 Plan at the 2006 Annual Meeting of Stockholders. The 2006 Plan provides for the grant of incentive stock options, nonqualified stock options, stock units, stock awards, stock appreciation rights and other stock-based awards to the Company's employees and non-employee directors. Performance-based awards, which will vest upon the achievement of objective performance goals, may also be granted under the 2006 Plan. Options shall become exercisable in accordance with such terms and conditions as may be determined by the Compensation Committee. As long as Cytogen common stock is traded on the Nasdaq National Market, the exercise price of Cytogen stock options under the 2006 Plan will be equal to the last reported sales price for Cytogen common stock on the date of grant, unless a higher exercise price is specified by the Compensation Committee. Except for certain circumstances, the options will generally expire upon the earlier of ten years after the date of grant or within a certain period of time after termination of services as determined by the Compensation Committee. As of September 30, 2006, no options or awards have been granted under the 2006 Plan.

The 2004 Plan provides for the grant of incentive stock options, non-qualified stock options or nonvested shares (see below) to the Company's employees, officers, consultants and advisors. Generally, options granted to employees will vest 40%, 30% and 30% one year, two years and three years after the date of grant, respectively. Options granted to officers will generally vest annually one third each year over a three-year period from the date of grant. Performance options, which will vest upon the achievement of certain milestones, may also be granted under the 2004 Plan. The exercise price of Cytogen stock options is equal to the average of high and low trading prices for Cytogen common stock on the date of grant, unless a higher exercise price is specified by the Compensation Committee. Except for certain circumstances, the options will generally expire upon the earlier of ten years after the date of grant or 90 days after termination of employment.

The 2004 Director Plan provides for the grant of non-qualified stock options and shares of Cytogen common stock, in certain circumstances, to members of the Company's Board of Directors who are not employees of the Company. According to the 2004 Director Plan, each re-elected Director shall automatically receive options to purchase shares of Cytogen common stock on the day following each Annual Meeting of Stockholders. Each new Director who is

appointed after the date of the most recent Annual Meeting of Stockholders will receive a certain number of options, pro-rated for the number of months remaining until the next Annual Meeting. All options will become exercisable on the first anniversary of the date of grant, unless options are granted to a Director who has served on the Company's Board of Directors for at least three years and retires or resigns after reaching 55 years of age. In such case, the options may be exercised in full regardless of the time lapse since the date of grant. The exercise price of Cytogen stock options is equal to the average of high and low trading prices for Cytogen common stock on the date of grant. Except for certain circumstances, the options will generally expire upon the earlier of ten years after the date of grant or 90 days after termination date.

A summary of option activities related to Cytogen stock options other than performance options, for the nine months ended September 30, 2006 is as follows:

| CYTOGEN OPTIONS OTHER THAN PERFORMANCE OPTIONS | NUMBER OF CYTOGEN STOCK OPTIONS | WEIGHTED-AVERAGE EXERCISE PRICE PER SHARE | WEIGHTED-AVERAGE REMAINING CONTRACTUA LIFE |
|---|---|---|---|
| Balance at December 31, 2005..... | 980,796 | $ 10.04 | |
| Granted..... | 585,350 | 3.36 | |
| Exercised..... | -- | -- | |
| Forfeited..... | (122,260) | 5.06 | |
| Expired..... | (56,480) | 14.59 | |
| Balance at September 30, 2006..... | 1,387,406 | $ 7.47 | 8.23 |
| Exercisable and expected to vest at September 30, 2006..... | 1,257,947 | $ 7.78 | 8.20 |
| Exercisable at September 30, 2006..... | 622,149 | $ 11.25 | 7.02 |

A summary of option activities related to performance options for the nine months ended September 30, 2006 is as follows:

| PERFORMANCE OPTIONS | NUMBER OF CYTOGEN STOCK OPTIONS | WEIGHTED-AVERAGE EXERCISE PRICE PER SHARE | WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE |
|---|---|---|---|
| Balance at December 31, 2005..... | 150,000 | $ 3.54 | |
| Granted..... | -- | -- | |
| Exercised..... | -- | -- | |
| Forfeited and Expired..... | -- | -- | |

| | | | | |
|---|---|---|---|---|
| Balance at September 30, 2006..... | 150,000 | $ | 3.54 | 6.22 |
| Exercisable and expected to vest at September 30, 2006..... | 50,000 | $ | 3.54 | 6.22 |
| Exercisable at September 30, 2006..... | 50,000 | $ | 3.54 | 6.22 |



In 2002, options to purchase 150,000 shares of Cytogen common stock were granted to a key employee. These options have three separate and equal tranches for which vesting are based upon the achievement of certain milestones established by the Company's Board of Directors. In June 2006, the Board of Directors determined that one of the performance milestones had been met, and as a result, approved the vesting of 50,000 performance options. During the three and nine months ended September 30, 2006, the Company recorded $0 and $152,000 in selling, general and administrative expenses, respectively, which represent the grant date fair value of the vested options based on the Black-Scholes option pricing model. The remaining 100,000 performance options are not deemed probable of becoming exercisable at September 30, 2006.

At September 30, 2006, the weighted-average exercise price of outstanding, exercisable and expected to vest, and exercisable options each was higher than the market price of the Company's underlying common share, and as a result, the aggregate intrinsic value was zero.

Nonvested Shares

Under the 2004 Plan, the Company may issue nonvested shares to employees, officers, consultants and advisors. The maximum number of shares authorized for grant under the 2004 Incentive Plan is 200,000. Generally, the nonvested shares will vest in installments over three to six year periods. The Company may also issue stock awards to its employees and non-employee directors under the 2006 Plan. As of September 30, 2006, no awards have been granted under this plan.

A summary of the Cytogen's nonvested share activities for the nine months ended September 30, 2006 is as follows:

| NONVESTED SHARES | NUMBER OF NONVESTED SHARES | | WEIGHTED-AVERAGE GRANT DATE FAIR VALUE | WEIGHTED-AVERAGE REMAINING VESTING TERM | |
|---|---|---|---|---|---|
| Balance at December 31, 2005..... | 136,200 | $ | 5.15 | | |
| Granted..... | 76,800 | | 3.47 | | |
| Vested..... | -- | | -- | | |
| Forfeited..... | (34,300) | | 4.77 | | |
| Balance at September 30, 2006..... | 178,700 | $ | 4.50 | 2.60 | $ |
| Vested and expected to vest at | | | | | |

| | | | | |
|---|---|---|---|---|
| September 30, 2006..... | 144,662 | $ 4.42 | 2.51 | $ |
| Vested at September 30, 2006..... | -- | -- | -- | |

Employee Stock Purchase Plan

In September 2005, the Board of Directors of the Company adopted the 2005 Employee Stock Purchase Plan (the "2005 ESPP"). The 2005 ESPP, which was approved by the



Company's stockholders on June 13, 2006, is effective October 1, 2005, and replaces the Company's existing employee stock purchase plan which had no remaining shares available for future issuance. Under the 2005 ESPP, eligible employees may elect to purchase shares of Cytogen common stock at 85% of the lower of fair market value as of the first or last trading day of each participation period. Under the 2005 ESPP, officers of the Company who purchase shares may not transfer such shares for a period of 12 months after the purchase date. The initial offering period was a nine-month period beginning on October 1, 2005 and ending on June 30, 2006. Subsequent purchase periods will be three-month periods beginning on the first day in July, October, January and April. The Company has reserved 500,000 shares of common stock for future issuance under the 2005 ESPP. The 2005 ESPP plan is compensatory under SFAS 123(R). In the three and nine months ended September 30, 2006, employees purchased 8,314 and 28,645 shares of common stock for aggregate proceeds to the Company of $17,000 and $60,000, respectively. At September 30, 2006, 471,355 shares remain available for purchase under the 2005 ESPP.

Warrants and Options Issued to Non-Employees

From time to time, the Company may issue warrants and options to purchase Cytogen common stock to non-employees, excluding directors, in exchange for goods or services. Warrants are issued outside of any approved compensation plans. Terms of warrants and options vary among various arrangements, with vesting period generally up to one year and may require exercise if certain conditions are met. Contractual term ranges up to ten years.

A summary of the Cytogen warrants and options issued to non-employees for the nine months ended September 30, 2006 is as follows:

| WARRANTS AND OPTIONS TO NON-EMPLOYEES | NUMBER OF CYTOGEN WARRANTS AND OPTIONS | WEIGHTED-AVERAGE EXERCISE PRICE PER SHARE | WEIGHTED-AVERAGE REMAINING CONTRACTU LIFE |
|---|---|---|---|
| Balance at December 31, 2005..... | 359,978 | $ 6.96 | |
| Granted..... | -- | -- | |
| Exercised..... | -- | -- | |
| Forfeited..... | -- | -- | |
| Expired..... | (70,000) | $ 5.65 | |

| | | | | |
|---|---|---|---|---|
| Balance at September 30, 2006..... | 289,978 | $ | 7.27 | 3.34 |
| Exercisable and expected to vest at September 30, 2006..... | 289,978 | $ | 7.27 | 3.34 |
| Exercisable at September 30, 2006..... | 289,978 | $ | 7.27 | 3.34 |

At September 30, 2006, the weighted-average exercise price of outstanding, exercisable and expected to vest, and exercisable warrants each was higher than the market price of the Company's underlying common share, and as a result, the aggregate intrinsic value was zero.



AxCell BioSciences Stock Options

AxCell BioSciences, a non-publicly traded subsidiary of Cytogen Corporation, also has a stock option plan that provides for the issuance of incentive and non-qualified stock options to purchase AxCell common stock ("AxCell Stock Options") to employees, for which 2,000,000 shares of AxCell common stock have been reserved. AxCell Stock Options are granted with a term of 10 years and generally become exercisable in installments over periods of up to 5 years.

A summary of AxCell stock option activities for the nine months ended September 30, 2006 is as follows:

| AXCELL STOCK OPTIONS | NUMBER OF AXCELL STOCK OPTIONS | WEIGHTED-AVERAGE EXERCISE PRICE | W A RE CON |
|---|---|---|---|
| Balance at December 31, 2005..... | 69,405 | $ 4.34 | |
| Granted..... | -- | -- | |
| Exercised..... | -- | -- | |
| Forfeited..... | -- | -- | |
| Expired..... | (19,405) | 3.60 | |
| Balance at September 30, 2006..... | 50,000 | $ 4.63 | |
| Exercisable and expected to vest at September 30, 2006..... | 50,000 | $ 4.63 | |
| Exercisable at September 30, 2006..... | 50,000 | $ 4.63 | |

AxCell is not a publicly traded subsidiary. While there was not a readily available market price for AxCell's underlying common share at September 30, 2006, the Company estimated that its fair value was less than the exercise price, and as a result, the aggregate intrinsic value was zero.

Effective January 1, 2006, the Company adopted SFAS No. 123(R) which requires companies to measure and recognize compensation expense for all

share-based payments at fair value. Prior to the adoption of SFAS 123(R), the Company accounted for its stock-based employee compensation expense under the recognition and measurement principles of APB 25, and related interpretations. Under APB 25, compensation costs related to stock options granted with exercise prices equal to or greater than the fair value of the underlying shares at the date of grant under those plans were not recognized in the consolidated statements of operations. Compensation costs related to nonvested shares and stock options granted with exercise prices below fair value of the underlying shares at the date of grant were recognized in the consolidated statements of operations over the requisite service period, generally the vesting periods of the awards. Compensation costs associated with those awards granted prior to the adoption of SFAS 123(R) were recognized using the accelerated attribution method in accordance with FIN 28 and forfeitures were recorded as incurred. The following table illustrates the effect on net loss and net



loss per share as if the fair value method under SFAS 123 had been applied for the three and nine months ended September 30, 2005 (all amounts in thousands, except per share data):

| | THREE MONTHS ENDED SEPTEMBER 30, 2005 | NIN ENDED SEPTEMB |
|---|---|---|
| Net loss, as reported | $ (7,121) | $ |
| Add: Stock-based employee compensation expense included in reported net loss | 65 | |
| Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards | (525) | |
| Pro forma net loss | $ (7,581) | $ |
| Basic and diluted net loss per share, as reported | $ (0.40) | $ |
| Pro forma basic and diluted net loss per share | $ (0.42) | $ |

The Company adopted SFAS No. 123(R) using the modified prospective transition method, which requires that share-based compensation cost be based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R) and is recognized for all awards granted, modified or settled after the effective date as well as awards granted to employees prior to the effective date that remain unvested as of the effective date. For the three months ended September 30, 2006, the Company recorded $587,000 of share-based compensation expense, of which $482,000 was included in selling, general and administrative expenses and $105,000 was recorded in research and development expenses. For the nine months ended September 30, 2006, the Company recorded $1.4 million of

share-based compensation expense, of which $1.2 million was included in selling, general and administrative expenses and $157,000 in research and development expenses. For the three and nine months ended September 30, 2005, the Company recorded charges of $65,000 and $78,000, respectively, for share-based compensation. During the three and nine months ended September 30, 2006, there were no modification to the share-based awards and no compensation cost was capitalized into assets.

The adoption of SFAS 123(R) resulted in higher loss for the three months ended September 30, 2006 of $525,000, or $0.02 per basic and diluted share, and higher loss for the nine months ended September 30, 2006 of $1.2 million, or $0.05 per basic and diluted share, than if the Company had continued to account for the share-based compensation under APB 25. At September 30, 2006, unrecognized compensation expense, which includes the impact of estimated forfeitures, related to unvested awards granted under the Company's share-based compensation plans is approximately $1.9 million and remains to be recognized over a weighted average period of 1.2 years. The Company recognizes share-based compensation on a straight-line basis over the requisite service period for grants on or after January 1, 2006, however, the cumulative amount of compensation expense recognized at any point in time for an award cannot be less than the portion of the grant date fair value of the award that is vested at that date.



Unrecognized compensation expense related to grants made prior to adoption of SFAS 123(R) are recognized using the accelerated amortization method. Prior periods were not restated to reflect the impact of adopting the new standard. No cumulative effect adjustment was recorded for the accounting change related to recording actual forfeitures as incurred under APB 25 to estimating forfeitures in accordance with SFAS 123(R) as the amount was de minimus.

The Company's share-based compensation costs are generally based on the fair value of the option awards calculated using a Black-Scholes option pricing model on the date of grant. The weighted-average grant date fair value per share of the options granted under the Cytogen stock option plans during the three and nine months ended September 30, 2006 is estimated at $1.72 and $2.71 per share, respectively, as compared to $3.95 and $3.70, respectively, in the same periods of 2005, using the Black-Scholes option pricing model with the following weighted average assumptions:

| | THREE MONTHS ENDED SEPTEMBER 30, 2006 | NINE MONTHS ENDED SEPTEMBER 30, 2006 |
|---|---|---|
| Expected life (years) | 5.96 | 6.48 |
| Expected volatility | 91% | 97% |
| Dividend yield | 0% | 0% |
| Risk-free interest rate | 4.92% | 4.94% |

| | THREE MONTHS ENDED SEPTEMBER 30, 2005 | NINE MONTHS ENDED SEPTEMBER 30, 2005 |
|---|---|---|
| Expected life (years) | 5.74 | 4.52 |
| Expected volatility | 109% | 96% |

| | | |
|---|---|---|
| Dividend yield..... | 0% | 0% |
| Risk-free interest rate..... | 4.18% | 3.95% |

The compensation costs for nonvested share awards are based on the fair value of Cytogen common stock on the date of grant. The weighted-average grant date fair value per share of nonvested share awards granted during the three and nine month periods ended September 30, 2006 was $2.18 and $3.47, respectively, as compared to $5.15 during the nine months ended September 30, 2005. There were no nonvested share awards granted during the three months ended September 30, 2005.

The weighted-average fair value per share of the shares purchased under the employee stock purchase plan during each of the three and nine months ended September 30, 2006 was $0.60 and $0.56 per share on the date of grant, respectively, as compared to $1.92 and $3.35 per share, respectively, in the same periods in 2005 using the Black-Scholes option pricing model with the following weighted-average assumptions:



| | THREE MONTHS ENDED SEPTEMBER 30, 2006 | NINE MONTHS ENDED SEPTEMBER 30, 2006 |
|---|---|---|
| Expected life (months)..... | 3 | 1 |
| Expected volatility..... | 44% | 42% |
| Dividend yield..... | 0% | 0% |
| Risk-free interest rate..... | 4.99% | 4.92% |

| | THREE MONTH ENDED SEPTEMBER 30, 2005 | NINE MONTHS ENDED SEPTEMBER 30, 2005 |
|---|---|---|
| Expected life (months)..... | 3 | 3 |
| Expected volatility..... | 66% | 112% |
| Dividend yield..... | 0% | 0% |
| Risk-free interest rate..... | 3.17% | 2.70% |

No warrants were granted to non-employees in exchange for services during the three and nine months ended September 30, 2006 and 2005.

The Company calculates the expected life using the simplified method as described in the SEC's Staff Accounting Bulletin No. 107 ("SAB 107") for "plain vanilla" options meeting certain criteria. The simplified method is based on the vesting period and the contractual term for each grant or each vesting-tranche of awards with graded vesting. The mid-point between the vesting date and the expiration date is used as the expected term under this method. The Company calculates expected volatility for stock-based awards using historical volatility, measured over a period equal to the expected term of the award, which it believes is a reasonable estimate of future volatility. As options granted to the Board of Director members do not meet the criteria of "plain vanilla" options, the Company determines the expected term for these options by analyzing the historical exercise experience and post-vesting termination behaviors. The Company believes the result is a reasonable estimate of the length of time that the options are expected to be outstanding.

In addition, under SFAS 123(R), the Company is required to estimate

expected forfeitures of options and stock grants over the requisite service period and adjust shared-based compensation accordingly. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. The cumulative effect of changes in estimated forfeitures will be recognized in the period of change and will also impact the amount of stock compensation expense to be recognized in future periods. Under the provisions of SFAS 123(R), the Company will record additional expense if the actual forfeiture rate is lower than what had been estimated and the Company will record a recovery of prior expense if the actual forfeiture rate is higher than what had been estimated.

During the three and nine months ended September 30, 2006, total fair value on the date of vesting of stock options that became vested was $32,000 and $857,000, respectively, as compared to $86,000 and $1.1 million, respectively, for the same periods in 2005. There was no



vesting of nonvested shares during the three and nine months ended September 30, 2006 and 2005. There were no option exercises during the three and nine months ended September 30, 2006 as compared to total intrinsic value of $1,000 and $2,000, respectively, for options exercised during the same periods in 2005. Cash received from the option exercises for the three and nine month periods ended September 30, 2005 was $5,000 and $7,000, respectively.

3. JOINT VENTURE - THE PSMA DEVELOPMENT COMPANY LLC

In June 1999, Cytogen entered into a joint venture with Progenics to form the PSMA Development Company LLC (the "Joint Venture"), a development stage enterprise. The Joint Venture was developing antibody-based and vaccine immunotherapeutic products utilizing Cytogen's proprietary PSMA technology. The Joint Venture was owned equally by Cytogen and Progenics until April 20, 2006 (see below). Cytogen accounted for the Joint Venture using the equity method of accounting. Cytogen had recognized 50% of the Joint Venture's operating results in its consolidated statements of operations until April 20, 2006, when the Company entered into a Membership Interest Purchase Agreement with Progenics to sell the Company's 50% ownership interest in the Joint Venture. In addition, the Company entered into an Amended and Restated PSMA/PSMP License Agreement with Progenics and the Joint Venture pursuant to which the Company licensed the Joint Venture certain rights in PSMA technology. Under the terms of such agreements, the Company sold its 50% interest in the Joint Venture for a cash payment of $13.2 million, potential future milestone payments totaling up to $52 million payable upon regulatory approval and commercialization of the Joint Venture products, and royalties on future product sales of the Joint Venture, if any. Cytogen has no continuing involvement and no further obligations to provide any products, services, or financial support to the Joint Venture. This transaction was a sale of an asset in which the consideration was fully received and for which the earning process is complete. As a result, the Company recorded $12.9 million in gain on sale of equity interest in the Joint Venture in the second quarter of 2006, which represents the net proceeds after transaction costs less the carrying value of the Company's investment in the Joint Venture at the time of sale.

For the three and nine months ended September 30, 2006, Cytogen recorded $0 and $120,000, respectively, of the Joint Venture's net losses compared to $677,000 and $2.9 million of the Joint Venture's losses in the same periods of 2005. At December 31, 2005, the carrying value of the Company's investment in the Joint Venture was $379,000, which represented Cytogen's investment in the

Joint Venture, less its cumulative share of losses, which net investment was recorded in other assets. Selected financial statement information of the Joint Venture is as follows (all amounts in thousands):

BALANCE SHEET DATA:

| | December 31, 2005 |
|---|---|
| ASSETS: | |
| Cash | $ 873 |
| Prepaid expenses | 9 |
| Accounts receivable from Progenics Pharmaceuticals, Inc., a related party | 194 |
| | $ 1,076 |



| LIABILITIES AND MEMBERS' EQUITY: | |
|---|---|
| Accounts payable to Cytogen Corporation, a related party | $ 3 |
| Accounts payable and accrued expenses | 332 |
| Total liabilities | 335 |
| Capital contributions | 31,198 |
| Deficit accumulated during the development stage | (30,457) |
| Total members' equity | 741 |
| Total liabilities and members' equity | $ 1,076 |

INCOME STATEMENT DATA:

| | THREE MONTHS MONTHS ENDED SEPTEMBER 30, 2005 | FROM JANUARY 1, 2006 TO APRIL 20, 2006 | NINE MONTHS ENDED SEPTEMBER 30,2005 | FOR THE PERIO FROM JUNE 15 1999 (INCEPTION) T APRIL 20, 200 |
|---|---|---|---|---|
| Interest income | $ 3 | $ 6 | $ 6 | $ 256 |
| Total operating (income) expenses | 1,358 | 246 | 5,764 | 30,953 |
| Net income (loss) | $ (1,355) | $ (240) | $ (5,758) | $ (30,697) |

Prior to the sale of its interest in the Joint Venture in April 2006, the Company provided limited research and development services to the Joint Venture.

During the three and nine months ended September 30, 2005, the Company recorded revenue related to the Joint Venture of $33,000 and $152,000, respectively, and incurred costs of $25,000 and $129,000, respectively. The Company did not provide any research and development services to the Joint Venture in 2006.

4. BRISTOL-MYERS SQUIBB MEDICAL IMAGING, INC.

Effective January 1, 2004, the Company entered into a manufacturing and supply agreement with Bristol-Myers Squibb Medical Imaging, Inc. ("BMSMI"), whereby BMSMI will manufacture, distribute and provide order processing and customer service for Cytogen relating to QUADRAMET. Under the terms of the agreement, Cytogen is obligated to pay at least $4.7 million annually, subject to future annual price adjustment, through 2008, unless terminated by BMSMI or Cytogen on two years prior written notice. This agreement will automatically renew for five successive one-year periods unless terminated by BMSMI or Cytogen on two years prior written notice. During each of the three months ended September 30, 2006 and 2005, Cytogen incurred $1.1 million of manufacturing costs for QUADRAMET. During the nine month periods ended September 30, 2006 and 2005, Cytogen incurred $3.4 million and $3.2 million, respectively, of manufacturing costs for QUADRAMET, all of which is included in cost of product revenue. The Company also pays BMSMI a variable amount per month for each QUADRAMET order placed to cover the costs of customer service which is included in selling, general and administrative expenses.



The two primary components of QUADRAMET, particularly Samarium-153 and EDTMP, are provided to BMSMI by outside suppliers. BMSMI obtains its supply of Samarium-153 from a sole supplier, and EDTMP from another sole supplier. Alternative sources for these components may not be readily available, and any alternate suppliers would have to be identified and qualified, subject to all applicable regulatory guidelines. If BMSMI cannot obtain sufficient quantities of these components on commercially reasonable terms, or in a timely manner, it would be unable to manufacture QUADRAMET on a timely and cost-effective basis.

5. LAUREATE PHARMA, L.P.

In September 2004, the Company entered into a non-exclusive manufacturing agreement with Laureate Pharma, L.P. pursuant to which Laureate manufactured PROSTASCINT and its primary raw materials for Cytogen in Laureate's Princeton, New Jersey facility. Laureate is the sole manufacturer of PROSTASCINT and its antibodies. The agreement terminated in the third quarter of 2006, upon Laureate's completion of the specified production campaign for PROSTASCINT and shipment of the resulting products from Laureate's facility. Under the terms of the agreement, the Company incurred approximately $4.2 million, which was recorded as inventory when purchased. During the three and nine month periods ended September 30, 2006 and 2005, the Company incurred $35,000 and $35,000, respectively, compared to $12,000 and $1.8 million in the same periods of 2005.

In September 2006, the Company entered into a non-exclusive manufacturing agreement with Laureate pursuant to which Laureate shall manufacture PROSTASCINT and its primary raw materials for Cytogen in Laureate's Princeton, New Jersey facility. The agreement will terminate, unless terminated earlier pursuant to its terms, upon Laureate's completion of the specified production campaign for PROSTASCINT and shipment of the resulting products from Laureate's facility. Under the terms of the agreement, the Company anticipates it will pay at least an aggregate of $3.9 million through the end of the term of contract, of which no amount was recorded during the three months ended September 30, 2006.

6. WARRANT LIABILITY

In July and August 2005, the Company sold 3,104,380 shares of common stock and 776,096 warrants to purchase shares of its common stock having an exercise price of $6.00 per share. These warrants are exercisable beginning six months and ending ten years after their issuance. The shares of common stock underlying the warrants were registered under the Company's existing shelf registration statement. The Company is required to maintain the effectiveness of the registration statement as long as any warrants are outstanding.

Under EITF No. 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" ("EITF 00-19"), to qualify as permanent equity, the equity derivative must permit the issuer to settle in unregistered shares. The Company does not have that ability under the securities purchase agreement for the warrants issued in July and August 2005 and, as EITF 00-19 considers the ability to keep a registration statement effective as beyond the Company's control, the warrants cannot be classified as permanent equity and are instead classified as a liability in the accompanying consolidated balance sheets. At September 30, 2006 and December 31, 2005, the Company recorded the warrant liability at its fair value of $1.6 million and $1.9 million, respectively, using a Black-Scholes option-pricing model with the following assumptions:



| | SEPTEMBER 30, 2006 | DECEMBER 31, 2005 |
|---|---|---|
| Dividend yield | 0% | 0% |
| Expected volatility | 108% | 106% |
| Expected life | 8.8 years | 9.6 years |
| Risk-free interest rate | 4.69% | 4.40% |
| Cytogen common stock price | $2.35 | $2.74 |

Equity derivatives not qualifying for permanent equity accounting are recorded at fair value and are remeasured at each reporting date until the warrants are exercised or expire. Changes in the fair value of the warrants will be reported in the consolidated statements of operations as non-operating income or expense. At September 30, 2006, the fair value of the warrants was $1.6 million, resulting in gains of $122,000 and $304,000 for the three and nine months ended September 30, 2006, respectively, compared to $703,000 and $703,000 for the same periods in 2005.

7. SAVIENT PHARMACEUTICALS, INC.

On April 21, 2006, the Company and Savient entered into a distribution agreement granting the Company exclusive marketing rights for SOLTAMOX in the United States. SOLTAMOX, a cytostatic estrogen receptor antagonist, is the first oral liquid hormonal therapy approved in the U.S. It is indicated for the treatment of breast cancer in adjuvant and metastatic settings and to reduce the risk of breast cancer in women with ductal carcinoma in situ (DCIS) or with high risk of breast cancer. The Company introduced SOLTAMOX to the U.S. oncology market in August 2006.

In the case of new products like SOLTAMOX, the Company has no historical return experience. Since the Company cannot reliably estimate expected returns of this new product, it will defer recognition of revenue until the right of return no longer exists or until the Company has developed sufficient historical experience to estimate sales returns. The Company has deferred revenue of

$100,000 at September 30, 2006.

In addition, the Company entered into a supply agreement with Rosemont for the manufacture and supply of SOLTAMOX. Under the terms of the final transaction, the Company paid Savient an upfront licensing fee of $2.0 million and may pay additional contingent sales-based payments of up to a total of $4.0 million to Savient and Rosemont. The Company is also required to pay Savient and Rosemont royalties on net sales of SOLTAMOX. Beginning in 2007, Cytogen is obligated to pay Savient and Rosemont quarterly minimum royalties based on an agreed upon percentage of total tamoxifen prescriptions in the United States. Unless terminated earlier, the distribution agreement with Savient and the supply agreement with Rosemont will each terminate upon the expiration of the last to expire patent covering SOLTAMOX in the United States, which is currently June 2018. In the event the tamoxifen prescriptions for an agreed upon period of time are less than the pre-established minimum, the agreement may be terminated if the parties are unable to reach an agreement to amend the terms of the contract to account for such impact.



The up-front license payment of $2.0 million was capitalized as SOLTAMOX license fee in the accompanying consolidated balance sheet and is being amortized on a straight-line basis over approximately twelve years which is the estimated performance period of the agreement. The amortization expense is recorded as cost of product revenue.

8. BERLEX, INC.

On May 8, 2006, the Company entered into a royalty buyout agreement with Berlex, Inc. for QUADRAMET which was to close within 90 days, subject to certain closing conditions. Under the terms of the agreement, Cytogen would have no longer paid Berlex a royalty on QUADRAMET sales in exchange for a one-time cash payment and a certain number of shares of Cytogen common stock. The closing of the transaction did not occur and the parties are no longer pursuing entering into a royalty buyout agreement. Cytogen will continue to pay Berlex royalties on net sales of QUADRAMET.

9. ONCOLOGY THERAPEUTICS NETWORK, J.V.

On June 20, 2006, the Company entered into a purchase and supply agreement with Oncology Therapeutics Network, J.V. ("OTN") appointing OTN as the exclusive distributor of SOLTAMOX in the United States. In August 2006, the agreement was amended to revise certain terms, including changing the role of OTN to the exclusive warehousing agent and non-exclusive distributor of SOLTAMOX. Under the terms of the amended agreement, OTN will purchase SOLTAMOX from the Company for its own wholesaler channels and, along with third party logistics providers, distribute SOLTAMOX to the Company's other customers through its warehousing and distribution facilities. The Company was obligated to pay OTN a minimal set up fee upon execution of the agreement which was recorded as selling, general and administrative expense in the second quarter of 2006. In addition, the Company will pay OTN management fees based upon a percentage of SOLTAMOX sales. This agreement has a three-year term and will automatically renew for successive one-year periods unless terminated by OTN or Cytogen on a 90 days written notice prior to the end of the applicable term. Either party also may terminate the agreement, without cause, on 180 days written notice.

During the three months ended September 30, 2006, OTN purchased and paid for $100,000 of SOLTAMOX product which is recorded as deferred revenue in the accompanying consolidated balance sheet at September 30, 2006. In the case of a

new product like SOLTAMOX, which was introduced in August 2006, the Company has no historical return experience. Since the Company cannot reliably estimate expected returns of this new product, the Company will defer recognition of revenue until the right of return no longer exists or until the Company has developed sufficient historical experience to estimate sales returns. The Company may use information from external sources to estimate our returns provision.

10. LITIGATION

In December 2005, Trapeziod Healthcare Communications LLC filed a complaint against the Company in the Superior Court of New Jersey, Law Division, Mercer County, seeking approximately $426,000 in damages arising from the Company's alleged failure to pay Trapezoid for marketing services allegedly provided to the Company. On May 22, 2006, the Company settled this matter for $365,000, without any admission of fault or liability. The Company had previously established a reserve for the full amount of this claim.



In January 2006, the Company filed a complaint against Advanced Magnetics in the Massachusetts Superior Court for breach of contract, fraud, unjust enrichment, and breach of the implied covenant of good faith and fair dealing in connection with the parties' 2000 license agreement. The complaint seeks damages along with a request for specific performance requiring Advanced Magnetics to take all reasonable steps to secure FDA approval of COMBIDEX in compliance with the terms of the licensing agreement. In February 2006, Advanced Magnetics filed an answer to the Company's complaint and asserted various counterclaims, including tortuous interference, defamation, consumer fraud and abuse of process. The Company believes these counterclaims have no merit and plans to conduct a vigorous defense of such counterclaims. Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Consequently, the Company is unable to estimate the ultimate financial impact, if any, to its results of operations and financial condition.

In addition, the Company is, from time to time, subject to claims and suits arising in the ordinary course of business. In the opinion of management, the ultimate resolution of any such current matters would not have a material effect on the Company's financial condition, results of operations or liquidity.

11. SUBSEQUENT EVENTS

On October 11, 2006, the Company and InPharma entered into a license agreement granting the Company exclusive rights for CAPHOSOL in North America and options to license the marketing rights for CAPHOSOL in Europe and Asia. Approved as a prescription medical device, CAPHOSOL is a topical oral agent indicated in the United States as an adjunct to standard oral care in treating oral mucositis caused by radiation or high dose chemotherapy. CAPHOSOL is also indicated for dryness of the mouth (hyposalivation) or dryness of the throat (xerostomia) regardless of the cause or whether the conditions are temporary or permanent. Under the terms of the Agreement, the Company is obligated to pay Inpharma $5.0 million in up-front fees, of which $4.6 million was paid upon the execution of the agreement, $400,000 will be paid into an escrow account by November 10, 2006 to be released over time provided there are no indemnification claims by the Company, and $1.0 million upon the six-month anniversary of the execution of the agreement. In addition, the Company is obligated to pay Inpharma royalties based on a percentage of net sales and future payments of up to an aggregate of $49.0 million based upon the achievement of certain sales-based milestones of which payments totaling $35 million are based upon

annual sales levels first reaching levels in excess of $30 million.

In the event Cytogen exercises the options to license marketing rights for CAPHOSOL in Europe and Asia, the Company is obligated to pay Inpharma additional fees and payments, including sales-based milestone payments for the respective territories.

The Company shall pay Inpharma a portion of any upfront license fees and milestone payments, but not royalties, received by Cytogen in consideration of the grant by Cytogen to other parties of the right to market CAPHOSOL in Europe and Asia, to the extent such upfront license fees and milestone payments are in excess of the respective amounts paid by Cytogen to Inpharma for such rights.



On November 7, 2006, the Company entered into purchase agreements with certain institutional investors for the sale of 7,092,203 shares of its common stock and 3,546,108 warrants to purchase shares of its common stock, through a private placement offering. The warrants will have an exercise price of $3.32 per share and will be exercisable beginning six months and ending five years after their issuance. In exchange for $2.82, the purchasers will receive one share of common stock and warrants to purchase .5 shares of common stock. The transaction is expected to close on November 10, 2006. The offering is expected to provide gross proceeds of approximately $20 million to the Company before deducting costs associated with the offering. The placement agents in this transaction will receive compensation consisting of a cash fee equal to 7% of the aggregate gross proceeds. In connection with this sale, the Company will enter into a Registration Rights Agreement with the investors. The Company is evaluating the accounting for this transaction under EITF 00-19 and may be required to classify the fair value of the warrants as a liability.



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

This Quarterly Report on Form 10-Q 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. These forward-looking statements regarding future events and our future results are based on current expectations, estimates, forecasts, and projections and the beliefs and assumptions of our management including, without limitation, our expectations regarding results of operations, selling, general and administrative expenses, research and development expenses and the sufficiency of our cash for future operations. Forward-looking statements may be identified by the use of forward-looking terminology such as "may," "will," "expect," "estimate," "anticipate," "continue," or similar terms, variations of such terms or the negative of those terms. These forward-looking statements include statements regarding the timing of the product launch for CAPHOSOL, growth and market penetration for QUADRAMET, PROSTASCINT and SOLTAMOX, increased expenses resulting from our sales force and marketing expansion, including sales and

marketing expenses for PROSTASCINT and QUADRAMET, the sufficiency of our capital resources and supply of products for sale, the continued cooperation of our contractual and collaborative partners, our need for additional capital and other statements included in this Quarterly Report on Form 10-Q that are not historical facts. 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. Factors that could cause actual results to differ materially, include, our ability to launch a new product, market acceptance of our products, the results of our clinical trials, our ability to hire and retain employees, economic and market conditions generally, our receipt of requisite regulatory approvals for our products and product candidates, the continued cooperation of our marketing and other collaborative and strategic partners, our ability to protect our intellectual property, and the other risks identified under Item 1A "Risk Factors" in this Quarterly Report on Form 10-Q and Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2005, 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.

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 given.

The following discussion and analysis should be read in conjunction with the consolidated 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, 2005, and from time to time in our other filings with the Securities and Exchange Commission.

OVERVIEW

Founded in 1980, Cytogen Corporation is a biopharmaceutical company dedicated to advancing the care of cancer patients by building, developing, and commercializing a portfolio



of specialty pharmaceutical products. Our specialized sales force currently markets QUADRAMET (samarium Sm-153 lexidronam injection), PROSTASCINT (capromab pendetide) kit, and SOLTAMOX (tamoxifen citrate, oral solution 10mg/5mL) to the U.S. oncology market. QUADRAMET is approved for the treatment of pain in patients whose cancer has spread to the bone, PROSTASCINT is a PSMA-targeting monoclonal antibody-based agent to image the extent and spread of prostate cancer, and SOLTAMOX is the first liquid hormonal therapy approved in the U.S. for the treatment of breast cancer in adjuvant and metastatic settings. We introduced SOLTAMOX to the U.S. oncology market in August 2006. In early 2007, we plan to introduce our fourth approved product to the U.S. market, CAPHOSOL. Approved as a prescription medical device, CAPHOSOL is a topical oral agent for the treatment of oral mucositis and dry mouth. We are also developing CYT-500, a third-generation radiolabeled antibody to treat prostate cancer. In addition, we have exclusive United States marketing rights to COMBIDEX(R) (ferumoxtran-10) for all applications, and the exclusive right to market and sell ferumoxytol (previously Code 7228) for oncology applications in the United States. Our product-focused strategy focuses on attaining sustainable growth through clinical, commercial, and strategic initiatives.

SIGNIFICANT EVENTS IN 2006

Cytogen Announces that FDA Clears IND for CYT-500, a Monoclonal Antibody for the Treatment of Metastatic Hormone-Refractory Prostate Cancer

On May 8, 2006, we announced that the U.S. Food and Drug Administration cleared an Investigational New Drug application for CYT-500, our lead therapeutic candidate targeting PSMA. We expect to begin the first U.S. Phase I clinical trial of CYT-500 in patients with hormone- refractory prostate cancer, subject to Institutional Review Board (IRB) approval at the planned clinical site. CYT-500 uses the same monoclonal antibody from our PROSTASCINT molecular imaging agent, but is linked through a higher affinity linker than is used for PROSTASCINT to a therapeutic as opposed to an imaging radionuclide. This novel product candidate is designed to enable targeted delivery of a cytotoxic agent to PSMA-expressing cells. We retain full and exclusive development rights to CYT-500.

Cytogen Sells Ownership in PSMA Development Joint Venture to Progenics

On April 20, 2006, we entered into a Membership Interest Purchase Agreement with Progenics Pharmaceuticals, Inc. ("Progenics") providing for the sale to Progenics of our 50% ownership interest in PSMA Development Company LLC ("PDC"), our joint venture with Progenics for the development of in vivo cancer immunotherapies based on PSMA. In addition, we entered into an Amended and Restated PSMA/PSMP License Agreement with Progenics and PDC pursuant to which we licensed PDC certain rights in PSMA technology. Under the terms of such agreements, we sold our 50% interest in PDC for a cash payment of $13.2 million, potential future milestone payments totaling up to $52.0 million payable upon regulatory approval and commercialization of PDC products, and royalties on future PDC product sales, if any. We are no longer responsible for funding PDC.



Cytogen and Savient Execute Marketing Agreement for SOLTAMOX

On April 21, 2006, we and Savient entered into a distribution agreement granting us exclusive marketing rights for SOLTAMOX (tamoxifen citrate) in the United States. SOLTAMOX, a cytostatic estrogen receptor antagonist, is the first oral liquid hormonal therapy approved in the U.S. It is indicated for the treatment of breast cancer in adjuvant and metastatic settings and to reduce the risk of breast cancer in women with ductal carcinoma in situ (DCIS) or with high risk of breast cancer. In addition, we entered into a supply agreement with Rosemont Pharmaceuticals Limited, previously a wholly-owned subsidiary of Savient ("Rosemont"), for the manufacture and supply of SOLTAMOX. Under the terms of the final transaction, we paid Savient an upfront licensing fee of $2.0 million and may pay additional contingent sales-based payments of up to a total of $4.0 million to Savient and Rosemont. We are also required to pay Savient and Rosemont royalties on net sales of SOLTAMOX. We introduced SOLTAMOX to the U.S. oncology market in August 2006.

Cytogen Enters into Purchase and Supply Agreement with Oncology Therapeutics Network

On June 20, 2006, we entered into a purchase and supply agreement with Oncology Therapeutics Network, J.V. ("OTN") appointing OTN as the exclusive distributor of SOLTAMOX in the United States. In August 2006, the agreement was amended to revise certain terms, including changing the role of OTN to the exclusive warehousing agent and non-exclusive distributor of SOLTAMOX. Under the terms of the amended agreement, OTN will purchase SOLTAMOX from us for its own

wholesaler channels and, along with third party logistics providers, distribute SOLTAMOX to our other customers through its warehousing and distribution facilities.

Cytogen Introduces SOLTAMOX in the United States

In August 2006, the Company introduced SOLTAMOX, the first oral liquid hormonal therapy approved in the United States. It is indicated for the treatment of breast cancer in adjuvant and metastatic settings and to reduce the risk of breast cancer in women with ductal carcinoma in situ (DCIS) or with high risk of breast cancer. We are now preparing for an upcoming symposium at the 2006 San Antonio Breast Cancer Conference in December. This meeting will represent an ideal forum for us to review various therapies, including SOLTAMOX, with a focused audience of key thought leaders.

Cytogen and InPharma Execute License Agreement for CAPHOSOL

On October 11, 2006, we entered into a license agreement with InPharma granting us exclusive rights for CAPHOSOL in North America. Approved as a prescription medical device, CAPHOSOL is a topical oral agent indicated in the United States as an adjunct to standard oral care in treating oral mucositis caused by radiation or high dose chemotherapy. CAPHOSOL is also indicated for dryness of the mouth (hyposalivation) or dryness of the throat (xerostomia) regardless of the cause or whether the conditions are temporary or permanent. Under the terms of the agreement, we are obligated to pay Inpharma $5.0 million in up-front fees, of which $4.6 million was paid upon the execution of the agreement, $400,000 will be paid into an escrow account by November 10, 2006, and $1.0 million after six months. In addition, InPharma is



eligible to receive royalties and sales-based milestone payments. The transaction also provides us with options to acquire the rights to CAPHOSOL for the European and Asian markets.

Appointment of New Chief Financial Officer

On October 26, 2006, we announced the appointment of Kevin Bratton as our new chief financial officer. A finance executive with more than 35 years of experience in healthcare, biotechnology and technology, Mr. Bratton was previously chief financial officer at Metrologic Instruments, Inc. (Nasdaq: MTLG), a global technology company. During his tenure at Metrologic, Mr. Bratton directed the company's finance operations during a period of significant growth in sales, net income, cash flow from operations, and working capital.

Sale of Common Stock and Warrants

On November 7, 2006, we entered into purchase agreements with certain institutional investors for the sale of 7,092,203 shares of our common stock and 3,546,108 warrants to purchase shares of our common stock, through a private placement offering. The warrants will have an exercise price of $3.32 per share and will be exercisable beginning six months and ending five years after their issuance. In exchange for $2.82, the purchasers will receive one share of common stock and warrants to purchase .5 shares of common stock. The transaction is expected to close on November 10, 2006. The offering is expected to provide gross proceeds of approximately $20 million to us before deducting costs associated with the offering. The placement agents in this transaction will receive compensation consisting of a cash fee equal to 7% of the aggregate gross proceeds. In connection with this sale, we will enter into a Registration Rights

Agreement with the investors. We are evaluating the proper accounting for this transaction and may be required to classify the fair value of the warrants as a liability.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

REVENUES

| | | | INCREASE/(DECREASE) | |
|---|---|---|---|---|
| | 2006 | 2005 | $ | % |
| | (ALL AMOUNTS IN THOUSANDS, EXCEPT PERCENTAGE DATA) | | | |
| QUADRAMET | $ 1,998 | $ 1,991 | $ 7 | --% |
| PROSTASCINT | 2,171 | 1,525 | 646 | 42% |
| License and Contract | 3 | 35 | (32) | (91)% |
| | $ 4,172 | $ 3,551 | $ 621 | 17% |

Total revenues were $4.2 million for the third quarter of 2006, compared to $3.6 million in the third quarter of 2005. Product revenues accounted for 100% and 99% of total revenues for the third quarters of 2006 and 2005, respectively. License and contract revenues accounted for the remainder of revenues.

QUADRAMET. QUADRAMET sales for each of the third quarters of 2006 and 2005 were $2.0 million. QUADRAMET sales accounted for 48% and 57% of product revenues for



the third quarters of 2006 and 2005, respectively. QUADRAMET unit sales in 2006 were slightly lower than the prior year period, and is partially offset by the effect of a 5% price increase which we implemented on September 1, 2006. Such price increase did not have a material effect on third quarter revenues because of notification requirements to key customers. In addition, because QUADRAMET has only a 72-hour shelf life, stocking by customers of QUADRAMET is not possible. Currently, we market QUADRAMET only in the United States and have no rights to market QUADRAMET in Europe. We are focusing on multiple key initiatives to position QUADRAMET for future growth and market penetration, including: (i) distinguishing the physical properties of QUADRAMET from first-generation agents within its class; (ii) empowering and marketing to key prescribing audiences; (iii) broadening palliative use within label beyond prostate cancer to include breast, lung and multiple myeloma; (iv) evaluating the role of QUADRAMET in combination with other commonly used oncology agents; and (v) expanding clinical development to evaluate the potential tumoricidal versus palliative attributes of QUADRAMET. We cannot assure you that we will be able to successfully market QUADRAMET or that QUADRAMET will achieve greater market penetration on a timely basis or result in significant revenues for us.

PROSTASCINT. PROSTASCINT sales were $2.2 million for the third quarter of 2006, compared to $1.5 million in the third quarter of 2005. PROSTASCINT sales accounted for 52% and 43% of product revenues for the third quarters of 2006 and 2005, respectively. The increase from the prior year period was due to the implementation of a 9% price increase for PROSTASCINT on September 1, 2006 and increased demand associated with our focused marketing programs. We have implemented a price increase in the middle of the quarter to provide enough time

for the demand to be normalized within the quarter. Our customers are careful not to maintain inventory in excess of the customers' ordinary course of business inventory levels because we do not accept returns on PROSTASCINT. We are focusing on multiple key areas to position PROSTASCINT for future growth and market penetration, including: (i) improving image quality through fusion technology; (ii) validating the antigen targeted by PROSTASCINT as an independent prognostic factor; (iii) the publication and presentation of outcomes data; (iv) development of image-guided applications including brachytherapy, intensity modulated radiation therapy, surgery, and cryotherapy; and (v) expanding clinical development to evaluate the potential for PROSTASCINT to monitor response to cytotoxic therapies and image other cancers. We cannot assure you that we will be able to successfully market PROSTASCINT, or that PROSTASCINT will achieve greater market penetration on a timely basis or result in significant revenues for us.

LICENSE AND CONTRACT REVENUES. License and contract revenues were $3,000 and $35,000 for the third quarters of 2006 and 2005, respectively. During the third quarter of 2005, license and contract revenues reflected $33,000 of contract revenues for limited research and development services provided by us to the PSMA Development Company LLC, our joint venture with Progenics. We did not provide any research services to the joint venture in 2006.



OPERATING EXPENSES

| | | | INCREASE/(DEC |
|---|---|---|---|
| | 2006 | 2005 | $ |
| | (ALL AMOUNTS IN THOUSANDS, EXCEPT PERCENTAG | | |
| Cost of product revenue | $ 2,681 | $ 2,386 | $ 295 |
| Selling, general and administrative | 6,737 | 6,740 | (3) |
| Research and development | 990 | 1,746 | (756) |
| Equity in loss of joint venture | -- | 677 | (677) |
| | $ 10,408 | $ 11,549 | $(1,141) |

Total operating expenses for the third quarter of 2006 were $10.4 million compared to $11.5 million in the same quarter of 2005.

COST OF PRODUCT REVENUE. Cost of product revenue for the third quarters of 2006 and 2005 were $2.7 million and $2.4 million, respectively, and primarily reflect manufacturing costs for PROSTASCINT and QUADRAMET, royalties on our sales of products and amortization of the up-front payments to acquire the marketing rights to QUADRAMET in 2003 and SOLTAMOX in April 2006. The increase in cost of product revenue is primarily attributable to a higher product revenue in 2006.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expenses for each of the third quarters of 2006 and 2005 were $6.7 million. The expenses in the 2006 period include $381,000 of launch costs associated with SOLTAMOX, which we introduced in the third quarter 2006, and the recognition of $482,000 of share-based compensation in 2006 for options and nonvested shares

granted to employees. The 2005 expenses include the expanded investment for the commercial support of both QUADRAMET and PROSTASCINT and $50,000 of share-based compensation for nonvested shares granted to employees.

RESEARCH AND DEVELOPMENT. Research and development expenses for the third quarter of 2006 were $990,000 compared to $1.7 million in the same period of 2005. The decrease from the prior year period is primarily driven by costs of clinical supplies incurred in 2005 associated with our radiolabeled therapeutic program to attach the therapeutic radionuclide lutetium-177 as a payload to the 7E11 monoclonal antibody utilized in PROSTASCINT, partially offset by the recognition of $105,000 of share-based compensation in 2006 for options and nonvested shares granted to employees.

EQUITY IN LOSS OF JOINT VENTURE. During the third quarter of 2006, we had no expense with respect to the former joint venture with Progenics, as compared to an expense of $677,000 in the third quarter of 2005. Such amount represented 50% of the joint venture's net loss. We equally shared ownership and costs of the joint venture with Progenics and accounted for the joint venture using the equity method of accounting until April 20, 2006 when we sold to Progenics our ownership interest in PDC. Following the sale of our interest in the joint venture in April 2006, we have no further obligations to the joint venture.



INTEREST INCOME/EXPENSE. Interest income for the third quarter of 2006 was $384,000 compared to $195,000 in the same period of 2005. The increase in 2006 from the prior year period was due to a higher average yield on higher average cash balances in 2006. Interest expense for the third quarter of 2006 was $8,000 compared to $21,000 in the same period in 2005. Interest expense includes interest on outstanding debt, which was repaid in August 2005, and finance charges related to various equipment leases that are accounted for as capital leases.

DECREASE IN WARRANT LIABILITY. In connection with the sale of our common stock and warrants in July and August 2005, we recorded the warrants as a liability at their fair value using a Black-Scholes option-pricing model and will remeasure them at each reporting date until they are exercised or expire. Changes in the fair value of the warrants are reported in the statements of operations as non-operating income or expense. For the three months ended September 30, 2006, we reported a gain of $122,000 related to the decrease in fair value of these warrants since June 30, 2006 compared to a $703,000 gain recorded in the same period of 2005 related to the decrease in fair value of these warrants since their issuance dates in July and August 2005. The market price for our common stock has been and may continue to be volatile. Consequently, future fluctuations in the price of our common stock may cause significant increases or decreases in the fair value of these warrants.

NET LOSS. We had net loss of $5.7 million, compared to a net loss of $7.1 million in the same quarter of 2005. The basic and diluted net loss per share for the third quarter of 2006 was $0.26 based on 22.5 million weighted average common shares outstanding, compared to a basic and diluted net loss per share of $0.40 based on 17.9 million weighted average common shares outstanding for the same period in 2005.

NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

REVENUES

Increase/(Decrease)
---

| | 2006 | 2005 | $ | % |
|---|---|---|---|---|
| | (All amounts in thousands, except percentage data) | | | |
| QUADRAMET | $ 6,242 | $ 6,198 | $ 44 | 1% |
| PROSTASCINT | 6,535 | 5,348 | 1,187 | 22% |
| License and Contract | 9 | 155 | (146) | (94)% |
| | $ 12,786 | $ 11,701 | $ 1,085 | 9% |

Total revenues for the nine months of 2006 were $12.8 million compared to $11.7 million for the same period in 2005. Product revenues accounted for 100% and 99% of total revenues for the nine months of 2006 and 2005, respectively. License and contract revenues accounted for the remainder of revenues.

QUADRAMET. QUADRAMET sales for each of the nine months of 2006 and 2005 were $6.2 million. QUADRAMET sales accounted for 49% and 54% of product revenues for the nine months of 2006 and 2005, respectively. The increase from the prior year period was due to the effect of 5% price increases in June 2005 and September 2006, partially offset by lower



QUADRAMET unit sales in 2006. Such price increase in 2006 did not have a material effect on third quarter revenues because of notification requirements to key customers. In addition, because QUADRAMET has only a 72-hour shelf life, stocking by customers of QUADRAMET was not possible. Currently, we market QUADRAMET only in the United States and have no rights to market QUADRAMET in Europe. We are focusing on multiple key initiatives to position QUADRAMET for future growth and market penetration, including: (i) distinguishing the physical properties of QUADRAMET from first-generation agents within its class; (ii) empowering and marketing to key prescribing audiences; (iii) broadening palliative use within label beyond prostate cancer to include breast, lung and multiple myeloma; (iv) evaluating the role of QUADRAMET in combination with other commonly used oncology agents; and (v) expanding clinical development to evaluate the potential tumoricidal versus palliative attributes of QUADRAMET. We cannot assure you that we will be able to successfully market QUADRAMET or that QUADRAMET will achieve greater market penetration on a timely basis or result in significant revenues for us.

PROSTASCINT. PROSTASCINT sales were $6.5 million for the nine months of 2006, an increase of $1.2 million from $5.3 million in the nine months of 2005. Sales of PROSTASCINT accounted for 51% and 46% of product revenues for the nine months of 2006 and 2005, respectively. The increase from the prior year period was due to the implementation of a 9% price increase for PROSTASCINT on September 1, 2006 and increased demand associated with our focused marketing programs. We have implemented a price increase in the middle of the quarter to provide enough time for the demand to be normalized within the quarter. Our customers are careful not to maintain inventory in excess of the customers' ordinary course of business inventory levels because we do not accept returns on PROSTASCINT. We are focusing on multiple key areas to position PROSTASCINT for future growth and market penetration, including: (i) improving image quality through fusion technology; (ii) validating the antigen targeted by PROSTASCINT as an independent prognostic factor; (iii) the publication and presentation of outcomes data; (iv) development of image-guided applications including brachytherapy, intensity modulated radiation therapy, surgery, and cryotherapy; and (v) expanding clinical development to evaluate the potential for PROSTASCINT

to monitor response to cytotoxic therapies and image other cancers. We cannot assure you that we will be able to successfully market PROSTASCINT, or that PROSTASCINT will achieve greater market penetration on a timely basis or result in significant revenues for us.

LICENSE AND CONTRACT REVENUES. License and contract revenues were $9,000 and $155,000 for the nine months of 2006 and 2005, respectively. During the nine months of 2005, we recognized $152,000 of contract revenues for limited research and development services provided by us to the PSMA Development Company LLC, our joint venture with Progenics. We did not provide any research services to the joint venture in 2006.



OPERATING EXPENSES

| | | | INCREASE/(DECREASE) | |
|---|---|---|---|---|
| | 2006 | 2005 | $ | % |
| | (ALL AMOUNTS IN THOUSANDS, EXCEPT PERCENTAGE DATA) | | | |
| Cost of product revenues | $ 7,691 | $ 7,064 | $ 627 | 9% |
| Selling, general and administrative | 19,968 | 20,456 | (488) | (2)% |
| Research and development | 5,435 | 3,847 | 1,588 | 41% |
| Equity in loss of joint venture | 120 | 2,879 | (2,759) | (96)% |
| | $ 33,214 | $ 34,246 | $ (1,032) | (3)% |

Total operating expenses for the nine months of 2006 were $33.2 million compared to $34.2 million in the same period of 2005.

COST OF PRODUCT REVENUES. Cost of product revenues for the nine months of 2006 were $7.7 million compared to $7.1 million in the same period of 2005 and primarily reflects manufacturing costs for PROSTASCINT and QUADRAMET, royalties on our sales of products and amortization of the up-front payments to acquire the marketing rights to QUADRAMET in 2003 and SOLTAMOX in April 2006. The increase in cost of product revenues from the prior year period is primarily attributable to the higher product revenues in 2006.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expenses for the nine months of 2006 were $20.0 million compared to $20.5 million in the same period of 2005. The decrease from the prior year period is primarily driven by $743,000 of pre-launch costs in 2005 associated with COMBIDEX, which is currently awaiting approval from the FDA, and the expanded investment for the commercial support of both QUADRAMET and PROSTASCINT in 2005, partially offset by $833,000 of costs associated with the launch activities for SOLTAMOX and by share-based compensation expenses related to options and nonvested shares. In 2006, the Company recorded $1.2 million of share-based compensation for options and nonvested shares granted to employees compared to $58,000 of the share-based compensation expenses related to nonvested shares in 2005.

RESEARCH AND DEVELOPMENT. Research and development expenses for the nine months of 2006 were $5.4 million compared to $3.8 million in the same period of

2005. The increase from the prior year period is primarily driven by new clinical development initiatives for both QUADRAMET and PROSTASCINT and the preclinical development costs associated with our radiolabeled therapeutic program to attach the therapeutic radionuclide lutetium-177 as a payload to the 7E11 monoclonal antibody utilized in PROSTASCINT, partially offset by a $500,000 charge in the second quarter of 2005 for a non-cash milestone obligation incurred related to the progress of the PSMA development programs.

EQUITY IN LOSS OF JOINT VENTURE. Our share of the loss of the PSMA Development Company LLC, our former joint venture with Progenics, was $120,000 during the nine months of 2006 compared to $2.9 million in the same period of 2005. Such amounts represented 50% of



the joint venture's net losses. We equally shared ownership and costs of the joint venture with Progenics and accounted for the joint venture using the equity method of accounting until April 20, 2006 when we sold our ownership interest in PDC to Progenics. Following the sale of our interest in the joint venture in April 2006, we have no further obligations to the joint venture.

INTEREST INCOME/EXPENSE. Interest income for the nine months of 2006 was $1.1 million compared to $492,000 in the same period of 2005. The increase in 2006 from the prior year period was due to a higher average yield on higher average cash balances in 2006. Interest expense was $20,000 and $105,000 for the nine months of 2006 and 2005, respectively. Interest expense includes interest on outstanding debt, which was repaid in August 2005, and finance charges related to various equipment leases that are accounted for as capital leases.

GAIN ON SALE OF EQUITY INTEREST IN JOINT VENTURE. On April 20, 2006, we entered into a Membership Interest Purchase Agreement with Progenics providing for the sale to Progenics of our 50% ownership interest in PDC, our joint venture with Progenics for the development of in vivo cancer immunotherapies based on PSMA. In addition, we entered into an Amended and Restated PSMA/PSMP License Agreement with Progenics and PDC pursuant to which we licensed PDC certain rights in PSMA technology. Under the terms of such agreements, we sold our 50% interest in PDC for a cash payment of $13.2 million, potential future milestone payments totaling up to $52.0 million payable upon regulatory approval and commercialization of PDC products, and royalties on future PDC product sales, if any. As a result of the transaction, for the nine months ended September 30, 2006, we recorded $12.9 million in gain on sale of equity interest in the joint venture, which represents the net proceeds after transaction costs less the carrying value of our investment in the joint venture at the time of sale.

DECREASE IN WARRANT LIABILITY. In connection with the sale of our common stock and warrants in July and August 2005, we recorded the warrants as a liability at their fair value using a Black-Scholes option-pricing model and will remeasure them at each reporting date until they are exercised or expire. Changes in the fair value of the warrants are reported in the statements of operations as non-operating income or expense. For the nine months ended September 30, 2006, we reported a gain of $304,000 related to the decrease in fair value of these warrants since December 31, 2005 compared to a $703,000 gain recorded in the same period of 2005 related to the decrease in fair value of these warrants since their issuance dates in July and August 2005. The market price for our common stock has been and may continue to be volatile. Consequently, future fluctuations in the price of our common stock may cause significant increases or decreases in the fair value of these warrants.

NET LOSS. We had net loss of $6.2 million in the nine months of 2006 compared to $21.5 million reported in the nine months of 2005. The basic and diluted net loss per share for the nine months of 2006 was $0.28 based on 22.5 million weighted average common shares outstanding, compared to a basic and diluted net loss per share of $1.31 based on 16.3 million weighted average common shares outstanding for the same period in 2005. The significant fluctuation in results was due to the gain on the sale of our equity interest in the joint venture.



COMMITMENTS

We have entered into various contractual and commercial commitments. The following table summarizes our obligations with respect to theses commitments as of September 30, 2006:

| | LESS THAN 1 YEAR | 1 TO 3 YEARS | 4 TO 5 YEARS | MORE T 5 YE |
|---|---|---|---|---|
| | (ALL AMOUNTS IN THOUSANDS) | | | |
| Capital lease obligations | $ 62 | $ 76 | $ -- | $ |
| Facility leases | 338 | 28 | -- | |
| Research and development and other obligations | 586 | 213 | 151 | |
| Manufacturing contracts(1) | 5,189 | 4,689 | -- | |
| Minimum royalty payments(2) | 1,000 | 2,000 | 2,000 | 2, |
| Total | $ 7,175 | $ 7,006 | $ 2,151 | $ 2, |

(1) Effective January 1, 2004, we entered into a manufacturing and supply agreement with BMS-MI for QUADRAMET whereby BMS-MI manufactures, distributes and provides order processing and customer services for us relating to QUADRAMET. Under the terms of our agreement, we are obligated to pay at least $4.7 million annually, subject to future annual price adjustment, through 2008, unless terminated by BMS-MI or us on a two year prior written notice. This agreement will automatically renew for five successive one-year periods unless terminated by BMS-MI or us on a two-year prior written notice. Accordingly, we have not included commitments beyond September 30, 2008.

In September 2006, we entered into a non-exclusive manufacturing agreement with Laureate pursuant to which Laureate shall manufacture PROSTASCINT and its primary raw materials for Cytogen in Laureate's Princeton, New Jersey facility. The agreement will terminate, unless terminated earlier pursuant to its terms, upon Laureate's completion of the specified production campaign for PROSTASCINT and shipment of the resulting products from Laureate's facility. Under the terms of the agreement, we anticipate paying at least an aggregate of $3.9 million through the end of the term of the contract. We are obligated to pay $500,000 in liquidated damages if we cancel orders placed after November 2006 for certain production runs. Accordingly, we have included $500,000 in the commitment table.

(2) We acquired an exclusive license from The Dow Chemical Company for QUADRAMET for the treatment of osteoblastic bone metastases in certain territories. The agreement requires us to pay Dow royalties based on a percentage of net sales of QUADRAMET, or a guaranteed contractual minimum payment, whichever is greater, and future payments upon achievement of certain milestones. Future annual minimum royalties due to Dow are $1.0 million per year in 2006 through 2012 and $833,000 in 2013.

In addition to the above, we are obligated to make certain royalty payments based on sales of the related product and certain milestone payments if our collaborative partners achieve



specific development milestones or commercial milestones. We did not include in the table above any payments that do not represent fixed or minimum payments but are instead payable only upon the achievement of a milestone, if the achievement of that milestone is uncertain or the obligation amount is not determinable. We also did not include in the table above the amounts required to be paid to Inpharma since this transaction was not consummated until October 2006 (see Note 1 to the Consolidated Financial Statements).

LIQUIDITY AND CAPITAL RESOURCES

CONDENSED STATEMENT OF CASH FLOWS:

| | NINE MONTHS ENDED SEPTEMBER 30, 2006 |
|---|---|
| | (ALL AMOUNTS IN THOUSANDS) |
| Net loss | $ (6,198) |
| Adjustments to reconcile net loss to net cash used in operating activities | (8,218) |
| Net cash used in operating activities | (14,416) |
| Net cash provided by investing activities | 11,029 |
| Net cash provided by financing activities | 22 |
| Net decrease in cash and cash equivalents | $ (3,365) |

OVERVIEW

Our cash and cash equivalents were $27.0 million as of September 30, 2006, compared to $30.3 million as of December 31, 2005. During the nine months ended September 30, 2006 and 2005, net cash used in operating activities was $14.4 million and $23.9 million, respectively. The decrease in cash usage from the prior year period was primarily due to the prior year's build-up of our PROSTASCINT inventory, pre-launch costs associated with COMBIDEX in 2005 and the termination of funding obligations in 2006 related to the PDC joint venture, partially offset by costs associated with launch activities for SOLTAMOX and increased investment in clinical programs. On April 20, 2006, we sold our 50% interest in PDC for a cash payment of $13.2 million. Following the sale of our interest in the joint venture in April 2006, we have no further obligations to the joint venture. We expect our operating expenditures in the fourth quarter of 2006 to increase compared to the nine months of 2006 as we market SOLTAMOX and prepare to launch Caphosol in early 2007.

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.

Our long-term financial objectives are to meet our capital and operating requirements through revenues from existing products and licensing arrangements. To achieve these 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. We cannot assure you of 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, debt or other 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 at September 30, 2006, along with the proceeds expected to be received from the November 2006 sale of equity, should be adequate to fund our operations and commitments at least into the second half of 2007. 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. We cannot assure you 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.

OTHER LIQUIDITY EVENTS

On April 20, 2006, we entered into a Membership Interest Purchase Agreement with Progenics providing for the sale to Progenics of our 50% ownership interest in PDC. In addition, we entered into an Amended and Restated PSMA/PSMP License Agreement with Progenics and PDC pursuant to which we licensed PDC certain rights in PSMA technology. Under the terms of such agreements, we sold our 50% interest in PDC for a cash payment of $13.2 million, potential future milestone payments totaling up to $52.0 million payable upon regulatory approval and commercialization of PDC products, and royalties on future PDC product sales, if any.



Following the sale of our interest in the joint venture in April 2006, we have no further obligations to the joint venture.

On April 21, 2006, we and Savient entered into a distribution agreement granting us exclusive marketing rights for SOLTAMOX in the United States. SOLTAMOX, a cytostatic estrogen receptor antagonist, is the first oral liquid hormonal therapy approved in the U.S. It is indicated for the treatment of breast cancer in adjuvant and metastatic settings and to reduce the risk of breast cancer in women with ductal carcinoma in situ (DCIS) or with high risk of breast cancer. In addition, we entered into a supply agreement with Rosemont for the manufacture and supply of SOLTAMOX. Under the terms of the final transaction, we paid Savient an upfront licensing fee of $2.0 million and may pay additional contingent sales-based payments of up to a total of $4.0 million to Savient and Rosemont. We introduced SOLTAMOX to the U.S. oncology market in August 2006. We are also required to pay Savient and Rosemont royalties on net sales of SOLTAMOX. Beginning in 2007, Cytogen is obligated to pay Savient and Rosemont quarterly minimum royalties based on an agreed upon percentage of total tamoxifen prescriptions in the United States. Unless terminated earlier, each of the distribution agreement with Savient and the supply agreement with Rosemont will terminate upon the expiration of the last to expire patent covering SOLTAMOX in the United States, which is currently June 2018. In the event the tamoxifen prescriptions for an agreed upon period of time are less than the pre-established minimum, the agreement may be terminated if the parties are unable to reach an agreement to amend the terms of the contract to account for such impact.

On May 8, 2006, we entered into a royalty buyout agreement with Berlex, Inc. for QUADRAMET which was to close within 90 days, subject to certain closing conditions. Under the terms of the agreement, Cytogen would have no longer paid Berlex a royalty on QUADRAMET sales in exchange for a one-time cash payment of $6.0 million and 623,441 shares of Cytogen common stock. The closing of the transaction did not occur and the parties are no longer pursuing entering into a royalty buyout agreement. Cytogen will continue to pay Berlex royalties on net sales of QUADRAMET.

On October 11, 2006, we entered into a license agreement with InPharma granting us exclusive rights for CAPHOSOL in North America and options to license the marketing rights for CAPHOSOL in Europe and Asia. Approved as a prescription medical device, CAPHOSOL is a topical oral agent indicated in the United States as an adjunct to standard oral care in treating oral mucositis caused by radiation or high dose chemotherapy. CAPHOSOL is also indicated for dryness of the mouth (hyposalivation) or dryness of the throat (xerostomia) regardless of the cause or whether the conditions are temporary or permanent. Under the terms of the Agreement, we are obligated to pay Inpharma $5.0 million

in up-front fees, of which $4.6 million was paid upon the execution of the agreement, $400,000 will be paid into an escrow account by November 10, 2006, and $1.0 million after six months. In addition, we are obligated to pay Inpharma royalties based on a percentage of net sales and future payments of up to an aggregate of $49.0 million based upon the achievement of certain sales-based milestones of which payments totaling $35 million are based upon annual sales levels first reaching levels in excess of $30 million.

In the event we exercise the options to license marketing rights for CAPHOSOL in Europe and Asia, we are obligated to pay Inpharma additional fees and payments, including sales-based milestone payments for the respective territories.



We also shall pay Inpharma a portion of any upfront license fees and milestone payments, but not royalties, received by us in consideration of the grant by us to other parties of the right to market CAPHOSOL in Europe and Asia, to the extent such upfront license fees and milestone payments are in excess of the respective amounts paid by us to Inpharma for such rights.

On November 7, 2006, we entered into purchase agreements with certain institutional investors for the sale of 7,092,203 shares of our common stock and 3,546,108 warrants to purchase shares of our common stock, through a private placement offering. The warrants will have an exercise price of $3.32 per share and will be exercisable beginning six months and ending five years after their issuance. In exchange for $2.82, the purchasers will receive one share of common stock and warrants to purchase .5 shares of common stock. The transaction is expected to close on November 10, 2006. The offering is expected to provide gross proceeds of approximately $20 million to us before deducting costs associated with the offering. The placement agents in this transaction will receive compensation consisting of a cash fee equal to 7% of the aggregate gross proceeds.

In September 2004, we entered into a non-exclusive manufacturing agreement with Laureate Pharma, L.P. pursuant to which Laureate manufactured PROSTASCINT and its primary raw materials for us in its Princeton, New Jersey facility. This agreement terminated upon Laureate's completion of the production campaign and shipment of the resulting products from Laureate's facility. During the nine months ended September 30, 2006, we incurred approximately $35,000 under this agreement. In October 2004, Laureate was acquired by Safeguard Scientifics, Inc. Laureate has continued to operate as a full service contract manufacturing organization and we have not experienced any disruption in Laureate's performance of its obligations to produce PROSTASCINT.

In September 2006, we entered into a non-exclusive manufacturing agreement with Laureate pursuant to which Laureate shall manufacture PROSTASCINT and its primary raw materials for Cytogen in Laureate's Princeton, New Jersey facility. The agreement will terminate, unless terminated earlier pursuant to its terms, upon Laureate's completion of the specified production campaign for PROSTASCINT and shipment of the resulting products from Laureate's facility. Under the terms of the agreement, we anticipate paying at least an aggregate of $3.9 million through the end of the term of contract, of which no amount was recorded during the three months ended September 30, 2006.

Effective January 1, 2004, we entered into a manufacturing and supply agreement with Bristol-Myers Squibb Medical Imaging, Inc. ("BMS-MI") whereby BMS-MI manufactures, distributes and provides order processing and customer services for us relating to QUADRAMET. Under the terms of the new agreement, we are obligated to pay at least $4.7 million annually, subject to future annual

price adjustment, through 2008, unless terminated by BMS-MI or us on two years prior written notice. During the nine months ended September 30, 2006, we incurred $3.4 million of manufacturing costs for QUADRAMET. This agreement will automatically renew for five successive one-year periods unless terminated by BMS-MI or us on a two year prior written notice. We also pay BMS-MI a variable amount per month for each QUADRAMET order placed to cover the costs of customer service.



We acquired an exclusive license from The Dow Chemical Company for QUADRAMET for the treatment of osteoblastic bone metastases in certain territories. The agreement requires us to pay Dow royalties based on a percentage of net sales of QUADRAMET, or a guaranteed contractual minimum payment, whichever is greater, and future payments upon achievement of certain milestones. Future annual minimum royalties due to Dow are $1.0 million per year in 2006 through 2012 and $833,000 in 2013.

On May 6, 2005, we entered into a license agreement with The Dow Chemical Company to create a targeted oncology product designed to treat prostate and other cancers. The agreement applies proprietary MeO-DOTA bifunctional chelant technology from Dow to radiolabel our PSMA antibody with a therapeutic radionuclide. Under the agreement, proprietary chelation technology and other capabilities, provided through ChelaMedSM radiopharmaceutical services from Dow, will be used to attach a therapeutic radioisotope to the 7E11-C5 monoclonal antibody utilized in our PROSTASCINT molecular imaging agent. As a result of the agreement, we are obligated to pay a minimal license fee and aggregate future milestone payments of $1.9 million for each licensed product and royalties based on sales of related products, if any. Unless terminated earlier, the Dow agreement terminates at the later of (a) the tenth anniversary of the date of first commercial sale for each licensed product or (b) the expiration of the last to expire valid claim that would be infringed by the sale of the licensed product. We may terminate the license agreement with Dow on 90 days written notice.

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, 2005, 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

Product revenues include product sales by us to our customers. We recognize revenues in accordance with SEC Staff Accounting Bulletin No. 104 ("SAB 104"), "Revenue Recognition." We recognize product sales when substantially all the risks and rewards of ownership have transferred to the customer, which generally occurs on the date of shipment. Our revenue recognition policy has a substantial impact on our reported results and relies on certain estimates that require

subjective judgments on the part of management. We recognize product sales net of allowances for estimated returns, rebates and discounts. We estimate allowances based primarily on our past experience and other available information pertinent to the use and marketing of the product.



In the case of new products like SOLTAMOX, which we introduced in August 2006, we have no historical return experience. Since we cannot reliably estimate expected returns of this new product, we will defer recognition of revenue until the right of return no longer exists or until we have developed sufficient historical experience to estimate sales returns. We will recognize revenue of SOLTAMOX (net of provisions for estimated reductions to gross sales discussed below, which may involve significant estimates and judgments) when we have sufficient information to estimate expected product returns. We may use information from external sources to project the prescription demand-based sales and to estimate our gross to net sales adjustments.

Provisions for Estimated Reductions to Gross Sales
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At the time product sales are made, we reduce gross sales through accruals for product returns, rebates and volume discounts. We account for these reductions in accordance with Emerging Issues Task Force Issue No. 01-9, ("EITF 01-9"), Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products) ("EITF 01-9"), and Statement of Financial Accounting Standard No. 48, Revenue Recognition When Right of Return Exists ("SFAS 48"), as applicable.

Returns
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Quadramet is a radioactive product that is indicated for the relief of pain due to metastatic bone disease arising from various types of cancer. Due to its rapid rate of radioactive decay, QUADRAMET has a shelf life of only about 72 hours. For this reason, QUADRAMET is ordered for a specific patient on a pre-scheduled visit, and, as such, our customers are unable to maintain stock inventories of this product. In addition, because the product is ordered for pre-scheduled visits for specific patients, product returns are very low. Our methodology to estimate sales returns is based on historical experience that demonstrates that the vast majority of the returns occur within one month of when product was shipped. At the time of sale, we estimate the quantity and value of QUADRAMET that may ultimately be returned. We generally have the exact number of returns related to prior month sales in the current month, so the provision for returns is trued up to actual quickly.

We do not allow product returns for PROSTASCINT.

Returns from new product, like SOLTAMOX, are more difficult to assess. Since we have no historical return experience with SOLTAMOX, we cannot reliably estimate expected returns of this new product. Therefore, we will defer recognition of revenue until the right of return no longer exists or until we have developed sufficient historical experience to estimate sales returns. We may use information from external sources to estimate our return provisions.

Volume Discounts
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We provide volume discounts to certain customers based on sales levels of

given products during each calendar month. We recognize revenue net of these volume discounts at the end of each month. There are no volume discounts based on cumulative sales over more than a one month period. Accordingly, there is no current need to estimate volume discounts.



Rebates
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From time to time, we may offer rebates to our customers. We establish a rebate accrual based on the specific terms in each agreement, in an amount equal to our reasonable estimate of the expected rebate claims attributable to the sales in the current period and adjust the accrual each reporting period to reflect the actual experience. If the amount of future rebates cannot be reasonably estimated, a liability will be recognized for the maximum potential amount of the rebates.

License and contract revenues include milestone payments and fees under collaborative agreements with third parties, revenues from research services, and revenues from other miscellaneous sources. We defer non-refundable 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.

WARRANT LIABILITY

We follow Emerging Issues Task Force (EITF) No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" which provides guidance for distinguishing between permanent equity, temporary equity and assets and liabilities. Under EITF 00-19, to qualify as permanent equity, the equity derivative must permit us to settle in unregistered shares. We do not have that ability under the securities purchase agreement for the warrants issued in July and August 2005 and, as EITF 00-19 considers the ability to keep a registration statement effective as beyond our control, the warrants cannot be classified as permanent equity and are instead classified as a liability in the accompanying consolidated balance sheet.

We record the warrant liability at its fair value using a Black-Scholes option-pricing model and remeasure it at each reporting date until the warrants are exercised or expire. Changes in the fair value of the warrants are reported in the consolidated statements of operations as non-operating income or expense. The fair value of the warrants is subject to significant fluctuation based on changes in our stock price, expected volatility, expected life, the risk-free interest rate and dividend yield. The market price for our common stock has been and may continue to be volatile. Consequently, future fluctuations in the price of our common stock may cause significant increases or decreases in the fair value of the warrants issued in July and August 2005.

The warrants expected to be issued in connection with the November 2006 equity transaction may be required to be recorded as a liability.

SHARE-BASED COMPENSATION

We account for share-based compensation in accordance with SFAS No. 123(R), "Share-Based Payment." Under the fair value recognition provision of this statement, the share-based compensation, which is generally based on the fair value of the awards calculated using the Black-Scholes option pricing model on the date of grant, is recognized on a straight-line basis over the requisite service period, generally the vesting period, for grants on or after January 1, 2006. For nonvested shares, we use the fair value of the underlying common stock on the date of grant. Determining the fair value of share-based awards at the grant date requires judgment, including estimating expected dividend yield, expected forfeiture rates, expected volatility, the



expected term and expected risk-free interest rates. If we were to use different estimates or a different valuation model, our share-based compensation expense and our results of operations could be materially impacted.

RECENT ACCOUNTING PRONOUNCEMENTS

Evaluation of Misstatements

On September 13, 2006, the staff of the SEC issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"), which provides interpretive guidance on how the effects of prior year misstatements should be considered in evaluating a current year misstatement. The cumulative effect from the initial adoption of SAB 108 may be reported as a cumulative effect adjustment to the beginning of year retained earnings with disclosure of the nature and amount of each individual error. We will begin to apply the provisions of SAB 108 in the fourth quarter of 2006. Management is currently evaluating the requirements of SAB 108 and has not yet determined the impact it will have on our consolidated financial statements.

Fair Value Measurements

On September 15, 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective as of the beginning of the first fiscal year beginning after November 15, 2007. We will be required to adopt this statement in the first quarter of 2008. Management is currently evaluating the requirements of SFAS 157 and has not yet determined the impact this standard will have on our consolidated financial statements.

Income Taxes

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 is applicable for fiscal years beginning after December 15, 2006. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We are currently evaluating the impact of the adoption of FIN 48 upon our financial statements and related disclosures. We do not expect that the adoption will have a material effect on our results of operations or financial condition.

SALES TAX

In March 2006, the FASB's Emerging Issues Task Force released Issue 06-3, "How Sales Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement" or ("EITF 06-3"). A consensus was reached that entities may adopt a policy of presenting sales taxes in the income statement on either a gross or net



basis. If taxes are significant, an entity should disclose its policy of presenting taxes and the amount of taxes if reflected on a gross basis in the income statement. The guidance is effective for periods beginning after December 15, 2006. We present sales net of sales taxes in our consolidated statements of operations and do not anticipate changing our policy as a result of EITF 06-3.

Share-Based Payment

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment,"

which revised SFAS No. 123 ("SFAS 123") and superseded Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). SFAS 123(R) requires that companies recognize compensation expense associated with share-based compensation arrangements, including employee stock options, in the financial statements effective as of the first interim or annual reporting period that begins after June 15, 2005. SFAS 123(R) eliminates the Company's ability to account for such transactions using the intrinsic method of accounting under APB 25. SFAS 123(R) also requires that companies recognize compensation expense associated with purchases of shares of common stock by employees at a discount to market value under employee stock purchase plans that do not meet certain criteria.

In April 2005, the Securities and Exchange Commission announced the adoption of a new rule allowing companies to implement SFAS 123(R) at the beginning of their next fiscal year that begins after June 15, 2005. Accordingly, we adopted SFAS 123(R) in its fiscal year beginning January 1, 2006 using the modified prospective transition method. Under this method, compensation expense is reflected in the financial statements beginning January 1, 2006 with no restatement to the prior periods. As such, compensation expense, which is measured based on the fair value of the instrument on the grant date, is recognized for awards that are granted, modified, repurchased or cancelled on or after January 1, 2006 as well as for the portion of awards previously granted that have not vested as of January 1, 2006. We have implemented the straight-line expense attribution method for all options granted after January 1, 2006. Prior to adopting SFAS 123(R), we used the accelerated attribution method in accordance with FASB Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans" ("FIN 28"). The adoption of SFAS 123(R) had a material impact on our results of operations.

Abnormal Inventory Costs

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4" ("SFAS No. 151"), to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) should be recognized as current period charges, and that fixed production overheads should be allocated to inventory based on the normal capacity of production facilities. This statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Accordingly, we adopted SFAS No. 151 in its fiscal year beginning January 1, 2006. The adoption of this standard did not have any impact on the Company in the nine months ended September 30, 2006.



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. Our exposure to market risk is principally confined to interest rate sensitivity. Our cash equivalents and short-term investments are conservative in nature, with a focus on preservation of capital. Due to the short-term nature of our investments and our investment policies and procedures, we have determined that the risks associated with interest rate fluctuations related to these financial instruments are not material to our business.

We are exposed to certain risks arising from changes in the price of our common stock, primarily due to potential effect of changes in fair value of the warrant liability related to the warrants issued in July and August 2005. The warrant liability is measured at fair value using a Black-Scholes option-pricing

model at each reporting date and is subject to significant increases or decreases in value and a corresponding loss or gain in the statement of operations due to the effects of changes in the price of common stock at period end and the related calculation of volatility.

ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and vice president, finance, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2006. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. 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 vice president, finance concluded that, as of September 30, 2006, our disclosure controls and procedures were effective.

(2) Changes in Internal Control Over Financial Reporting

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 as of September 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In January 2006, we filed a complaint against Advanced Magnetics in the Massachusetts Superior Court for breach of contract, fraud, unjust enrichment, and breach of the implied covenant of good faith and fair dealing in connection with the parties' 2000 license agreement. The complaint seeks damages along with a request for specific performance requiring Advanced Magnetics to take all reasonable steps to secure FDA approval of COMBIDEX in compliance with the terms of the licensing agreement. In February 2006, Advanced Magnetics filed an answer to our complaint and asserted various counterclaims, including tortuous interference, defamation, consumer fraud and abuse of process. We believe these counterclaims have no merit and we plan to conduct a vigorous defense of such counterclaims.

ITEM 1A. RISK FACTORS

This section sets forth changes in the risks factors previously disclosed in our Annual Report on Form 10-K due to our activities during the quarter ended September 30, 2006.

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below together with the other risks described in our Annual Report on Form 10-K and the information included or incorporated by reference in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K in your decision as to whether or not to invest in our common stock. If any of the risks or uncertainties described below or in our Annual Report on Form 10-K actually occur, our business, financial condition or results of operations would likely suffer. In that case, the trading price of our common stock could fall, and you may lose all or part of the money you paid to buy our common stock.

We have a history of operating losses and an accumulated deficit and expect to incur losses in the future.

Given the high level of expenditures associated with our business and our inability to generate revenues sufficient to cover such expenditures, we have had a history of operating losses since our inception. We had a net loss of $5.7 million for the quarter ended September 30, 2006. We had a net loss of $6.2 million for the nine months ended September 30, 2006. We had an accumulated deficit of $419 million as of September 30, 2006.

In order to develop and commercialize our technologies, particularly our prostate-specific membrane antigen technology, and launch and expand our products, we expect to incur significant increases in our expenses over the next several years. As a result, we will need to generate significant additional revenue to become profitable.

To date, we have taken affirmative steps to address our trend of operating losses. Such steps include, among other things:

- undergoing steps to realign and implement our focus as a product-driven biopharmaceutical company;



- establishing and maintaining our in-house specialty sales force;
- reacquiring North American and Latin American marketing rights to QUADRAMET from Berlex Laboratories in August 2003; and
- enhancing our marketed product portfolio through marketing alliances and strategic arrangements.

Although we have taken these affirmative steps, we may never be able to successfully implement them, and our ability to generate and sustain significant additional revenues or achieve profitability will depend upon the risk factors discussed elsewhere in this section entitled, "Risk Factors" or in our Annual Report on Form 10-K for the year ended December 31, 2005. As a result, we may never be able to generate or sustain significant additional revenue or achieve profitability.

We depend on sales of QUADRAMET and PROSTASCINT for substantially all of our near-term revenues.

We expect QUADRAMET and PROSTASCINT to account for substantially all of our

product revenues in the near future. For the quarter ended September 30, 2006, revenues from QUADRAMET and PROSTASCINT accounted for approximately 48% and 52%, respectively, of our product revenues. For the nine months ended September 30, 2006, revenues from QUADRAMET and PROSTASCINT accounted for approximately 49% and 51%, respectively, of our product revenues. If QUADRAMET or PROSTASCINT does not achieve broader market acceptance, either because we fail to effectively market such products or our competitors introduce competing products, we may not be able to generate sufficient revenue to become profitable.

On April 21, 2006, we and Savient entered into a distribution agreement granting us exclusive marketing rights for SOLTAMOX in the United States. We introduced SOLTAMOX to the U.S. oncology market in August 2006. We have not recognized any sales of SOLTAMOX as of September 30, 2006.

On October 11, 2006, we entered into a license agreement with Inpharma granting us exclusive marketing rights for CAPHOSOL in North America. We expect to launch CAPHOSOL during the first quarter of 2007.

A small number of customers account for the majority of our sales, and the loss of one of them, or changes in their purchasing patterns, could result in reduced sales, thereby adversely affecting our operating results.

We sell our products to a small number of radiopharmacy networks. During the nine months ended September 30, 2006, we received 63% of our total revenues from three customers, as follows: 41% from Cardinal Health (formerly Syncor International Corporation); 13% from Mallinckrodt Inc.; and 9% from GE Healthcare (formerly Amersham Health). During the year ended December 31, 2005, we received 67% of our total revenues from three customers, as



follows: 47% from Cardinal Health (formerly Syncor International Corporation); 11% from Mallinckrodt Inc.; and 9% from GE Healthcare (formerly Amersham Health). During the year ended December 31, 2004, we received 68% of our total revenues from three customers, as follows: 46% from Cardinal Health (formerly Syncor International Corporation); 12% from Mallinckrodt Inc.; and 10% from GE Healthcare (formerly Amersham Health).

The small number of radiopharmacies, consolidation in this industry or financial difficulties of these radiopharmacies could result in the combination or elimination of customers for our products. We anticipate that our results of operations in any given period will continue to depend to a significant extent upon sales to a small number of customers. As a result of this customer concentration, our revenues from quarter to quarter and business, financial condition and results of operations may be subject to substantial period-to-period fluctuations. In addition, our business, financial condition and results of operations could be materially adversely affected by the failure of customer orders to materialize as and when anticipated. None of our customers have entered into an agreement requiring on-going minimum purchases from us. We cannot assure you that our principal customers will continue to purchase products from us at current levels, if at all. The loss of one or more major customers could have a material adverse effect on our business, financial condition and results of operations.

There are risks associated with the manufacture and supply of our products.

If we are to be successful, our products will have to be manufactured by contract manufacturers in compliance with regulatory requirements and at costs acceptable to us. If we are unable to successfully arrange for the manufacture

of our products and product candidates, either because potential manufacturers are not cGMP compliant, are not available or charge excessive amounts, we will not be able to successfully commercialize our products and our business, financial condition and results of operations will be significantly and adversely affected.

PROSTASCINT is currently manufactured at a current Good Manufacturing Practices, or cGMP, compliant manufacturing facility operated by Laureate Pharma, L.P. Although we entered into another agreement with Laureate in September 2006 which provides for Laureate's manufacture of PROSTASCINT for us, our failure to maintain a long term supply agreement on commercially reasonable terms will have a material adverse effect on our business, financial condition and results of operations. In October 2004, Laureate was acquired by Safeguard Scientifics, Inc. Laureate has continued to operate as a full service contract manufacturing organization and we have not experienced any disruption in Laureate's performance of its obligations to produce PROSTASCINT.

We have an agreement with BMS-MI to manufacture QUADRAMET for us. Both primary components of QUADRAMET, particularly Samarium-153 and EDTMP, are provided to BMS-MI by outside suppliers. Due to radioactive decay, Samarium-153 must be produced on a weekly basis. BMS-MI obtains its requirements for Samarium-153 from a sole supplier and EDTMP from another sole supplier. Alternative sources for these components may not be readily available, and any alternative supplier would have to be identified and qualified, subject to all applicable regulatory guidelines. If BMS-MI cannot obtain sufficient quantities of the components on commercially reasonable terms, or in a timely manner, it would be unable to



manufacture QUADRAMET on a timely and cost-effective basis, which would have a material adverse effect on our business, financial condition and results of operations.

We have a supply agreement with Rosemont to manufacture SOLTAMOX for us. The supply agreement with Rosemont will terminate upon the expiration of the last to expire patent covering SOLTAMOX in the United States, which is currently June 2018. Our failure to maintain a long term supply agreement for SOLTAMOX on commercially reasonable terms will have a material adverse effect on our business, financial condition and results of operations.

The Company, our contract manufacturers and testing laboratories are required to adhere to FDA regulations setting forth requirements for cGMP, and similar regulations in other countries, which include extensive testing, control and documentation requirements. Ongoing compliance with cGMP, labeling and other applicable regulatory requirements is monitored through periodic inspections and market surveillance by state and federal agencies, including the FDA, and by comparable agencies in other countries. Failure of our contract vendors or us to comply with applicable regulations could result in sanctions being imposed on us, including fines, injunctions, civil penalties, failure of the government to grant pre-market clearance or pre-market approval of drugs, delays, suspension or withdrawal of approvals, seizures or recalls of products, operating restrictions and criminal prosecutions any of which could significantly and adversely affect our business, financial condition and results of operations.

We rely heavily on our collaborative partners.

Our success depends largely upon the success and financial stability of our collaborative partners. We have entered into the following agreements for the

development, sale, marketing, distribution and manufacture of our products, product candidates and technologies:

- a license agreement with The Dow Chemical Company relating to the QUADRAMET technology;
- a manufacturing and supply agreement for the manufacture of QUADRAMET with Bristol-Myers Squibb Medical Imaging, Inc.;
- a manufacturing agreement for the manufacture of PROSTASCINT with Laureate Pharma, L.P.;
- marketing, license and supply agreements with Advanced Magnetics, Inc. related to COMBIDEX and ferumoxytol (formerly Code 7228);
- a distribution services agreement with Cardinal Health 105, Inc. (formerly CORD Logistics, Inc.) for PROSTASCINT;



- a license agreement with The Dow Chemical Company relating to Dow's proprietary MeO-DOTA bifunctional chelant technology for use with our Therapeutic 7E11-C5 Monoclonal Antibody program;
- a development and manufacturing agreement with Laureate Pharma, L.P. for the scale-up for the cGMP manufacturing of a MeO-DOTA chelator conjugate of the 7E11-C5 monoclonal antibody;
- a distribution agreement with Savient Pharmaceuticals, Inc. and a manufacture and supply agreement with Savient and Rosemont Pharmaceuticals Limited related to the supply and marketing of SOLTAMOX;
- a purchase and supply agreement with OTN for the distribution of SOLTAMOX; and
- a license agreement with Inpharma AS for the marketing of CAPHOSOL.

Because our collaborative partners are responsible for certain manufacturing and distribution activities, among others, these activities are outside our direct control and we rely on our partners to perform their obligations. In the event that our collaborative partners are entitled to enter into third party arrangements that may economically disadvantage us, or do not perform their obligations as expected under our agreements, our products may not be commercially successful. As a result, any success may be delayed and new product development could be inhibited with the result that our business, financial condition and results of operation could be significantly and adversely affected.

In January 2006, we filed a complaint against Advanced Magnetics in the Massachusetts Superior Court for breach of contract, fraud, unjust enrichment, and breach of the implied covenant of good faith and fair dealing in connection with the parties' 2000 license agreement. The complaint seeks damages along with a request for specific performance requiring Advanced Magnetics to take all reasonable steps to secure FDA approval of COMBIDEX in compliance with the terms of the licensing agreement. In February 2006, Advanced Magnetics filed an answer to our complaint and asserted various counterclaims, including tortuous interference, defamation, consumer fraud and abuse of process. We believe these counterclaims have no merit and we plan to conduct a vigorous defense of these

claims.

Certain of our products are in the early stages of development and commercialization and we may never achieve the revenue goals set forth in our business plan.

We began operations in 1980 and have since been engaged primarily in research directed toward the development, commercialization and marketing of products to improve the diagnosis and treatment of cancer. In October 1996, we introduced for commercial use our PROSTASCINT imaging agent. In March 1997, we introduced for commercial use our QUADRAMET therapeutic product. In June 2003, we reacquired the marketing rights to QUADRAMET in North America and Latin America.

In April 2006, we executed a distribution agreement with Savient granting us exclusive marketing rights for SOLTAMOX in the United States. SOLTAMOX, an oral liquid hormonal



therapy, is approved for marketing in the United States. We introduced SOLTAMOX to the U.S. oncology market in August 2006.

On October 11, 2006, we entered into a license agreement with Inpharma granting us exclusive marketing rights for CAPHOSOL in North America. We expect to launch CAPHOSOL during the first quarter of 2007.

In May 2006, the U.S. Food and Drug Administration cleared an Investigational New Drug application for CYT-500, our lead therapeutic candidate targeting PSMA. We expect to begin the first U.S. Phase I clinical trial of CYT-500 in patients with hormone- refractory prostate cancer, subject to Institutional Review Board (IRB) approval at the planned clinical site. CYT-500 uses the same monoclonal antibody from our PROSTASCINT molecular imaging agent, but is linked through a higher affinity linker than is used for PROSTASCINT to a therapeutic as opposed to an imaging radionuclide. This PSMA technology is still in the early stages of development.

In August 2000, we entered into a license and marketing agreement with Advanced Magnetics for COMBIDEX, for all applications, and ferumoxytol (formerly Code 7228) for oncology applications only. We have exclusive United States marketing rights to COMBIDEX. On March 3, 2005, the FDA's Oncologic Drugs Advisory Committee (ODAC) voted 15 to 4 to not recommend approval of the proposed broad indication for COMBIDEX being sought by Advanced Magnetics. On March 24, 2005, Advanced Magnetics, Inc. informed us that Advanced Magnetics received an approvable letter from the FDA for COMBIDEX, subject to certain conditions.

We cannot assure you, however, that Advanced Magnetics will obtain approval from the FDA for COMBIDEX on a timely basis, if at all. If Advanced Magnetics does not secure regulatory approval for COMBIDEX, we will not be permitted to sell and market COMBIDEX as we have anticipated and we will not realize any return on the significant amount of time and resources we have allocated to COMBIDEX. Ferumoxytol is being developed by Advanced Magnetics for use as an iron replacement therapeutic in chronic kidney disease patients and Advanced Magnetics has stated that no clinical applications are currently planned or contemplated for oncology applications. We cannot assure you that ferumoxytol will be developed for oncology applications.

In July 2004, as part of our continuing efforts to reduce non-strategic

expenses, we initiated the closure of facilities at our AxCell Biosciences subsidiary. Research projects through academic, governmental and corporate collaborators will continue to be supported and additional applications for the intellectual property and technology at AxCell are being pursued. We may be unable to further develop or commercialize any of these products and technologies in the future.

Our business is therefore subject to the risks inherent in an early-stage biopharmaceutical business enterprise, such as the need:

- to obtain sufficient capital to support the expenses of developing our technology and commercializing our products;



- to ensure that our products are safe and effective;
- to obtain regulatory approval for the use and sale of our products;
- to manufacture our products in sufficient quantities and at a reasonable cost;
- to develop a sufficient market for our products; and
- to attract and retain qualified management, sales, technical and scientific staff.

The problems frequently encountered using new technologies and operating in a competitive environment also may affect our business, financial condition and results of operations. If we fail to properly address these risks and attain our business objectives, our business could be significantly and adversely affected.

We depend on attracting and retaining key personnel.

We are highly dependent on the principal members of our management and scientific staff. The loss of their services might significantly delay or prevent the achievement of development or strategic objectives. Our success depends on our ability to retain key employees and to attract additional qualified employees. Competition for personnel is intense, and therefore we may not be able to retain existing personnel or attract and retain additional highly qualified employees in the future.

On June 20, 2006, Christopher P. Schnittker resigned as our Senior Vice President and Chief Financial Officer to pursue other career opportunities. On October 26, 2006, we announced the appointment of Kevin Bratton as our new chief financial officer. A finance executive with more than 35 years of experience in healthcare, biotechnology and technology, Mr. Bratton was previously chief financial officer at Metrologic Instruments, Inc. (Nasdaq: MTLG), a global technology company. During his tenure at Metrologic, Mr. Bratton directed the company's finance operations during a period of significant growth in sales, net income, cash flow from operations, and working capital.

We do not carry key person life insurance policies and we do not typically enter into long-term arrangements with our key personnel. If we are unable to hire and retain personnel in key positions, our business, financial condition and results of operations could be significantly and adversely affected unless qualified replacements can be found.

We may need to raise additional capital, which may not be available.

Our cash and cash equivalents were $27.0 million at September 30, 2006. On November 7, 2006, we entered into purchase agreements with certain institutional investors for the sale of 7,092,203 shares of our common stock and 3,546,108 warrants to purchase shares of our common stock, through a private placement offering. The warrants will have an exercise price of $3.32 per share and will be exercisable beginning six months and ending five years after their issuance. In exchange for $2.82, the purchasers will receive one share of common stock and



warrants to purchase .5 shares of common stock. The transaction is expected to close on November 10, 2006. The offering is expected to provide gross proceeds of approximately $20 million to us before deducting costs associated with the offering. We expect that our existing capital resources at September 30, 2006, along with the proceeds expected to be received from this November 2006 sale of equity, should be adequate to fund our operations and commitments into the second half of 2007.

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 based upon the:

- success of our product commercialization efforts;
- success of any future acquisitions of complementary products and technologies we may make;
- magnitude, scope and results of our product development and research and development efforts;
- progress of preclinical studies and clinical trials;
- progress toward regulatory approval for our products;
- costs of filing, prosecuting, defending and enforcing patent claims and other intellectual property rights;
- competing technological and market developments; and
- expansion of strategic alliances for the sale, marketing and distribution of our products.

Our business or operations may 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. To the extent that our 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. These financial sources may not be available when we need them or they may be available, but on terms that are not 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.



ITEM 6. EXHIBITS.

| Exhibit No. | Description |
|---|---|
| 10.1 | Manufacturing Agreement dated September 29, 2006 by and between the Company and Laureate Pharma, Inc.* Filed herewith. |
| 10.2 | Product License and Assignment Agreement dated as of October 11, 2006 by and among the Company, InPharma AS, and InPharma, Inc.* Filed herewith. |
| 10.3 | Securities Purchase Agreement dated as of November 1, 2006, among the Company and certain Purchasers. Filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on November 9, 2006, and incorporated herein by reference. |
| 10.4 | Form of Common Stock Purchase Warrant issued by the Company in favor of certain Purchasers. Filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on November 9, 2006, and incorporated herein by reference. |
| 10.5 | Form of Registration Rights Agreement among the Company and certain Purchasers. Filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on November 9, 2006, and incorporated herein by reference. |
| 31.1 | Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith. |
| 31.2 | Certification of Vice President, Finance, pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith. |
| 32.1 | Certification of President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Furnished herewith. |
| 32.2 | Certification of Vice President, Finance, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Furnished herewith. |

* The Company has submitted an application for confidential treatment with the Securities and Exchange Commission with respect to certain provisions contained in this exhibit. The copy filed as an exhibit omits the information subject to the confidentiality application.



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: November 9, 2006 By:/s/ Michael D. Becker
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Michael D. Becker
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 9, 2006 By:/s/ Thu A. Dang
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Thu A. Dang
Vice President, Finance
(Principal Financial and Accounting Officer)