NATURAL ALTERNATIVES INTERNATIONAL INC
Form SC 13G/A
February 09, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934

(Amendment No. 2)*

NATURAL ALTERNATIVES INTL

(Name of Issuer)

Common Stock

(Title of Class of Securities)

638842302

(CUSIP Number)

December 31, 2008

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

x Rule 13d-1(b)

¨ Rule 13d-1(c)

¨ Rule 13d-1(d)

* The remainder of this cover page shall be filled out for a reporting person s initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be filed for the purpose of Section 18 of the Securities Exchange Act of 1934 (Act) or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 638842302

1. Names of Reporting Persons.

   I.R.S. Identification Nos. of above persons (entities only).

   Dimensional Fund Advisors LP (Tax ID: 30-0447847)

2. Check the Appropriate Box if a Member of a Group (See Instructions)

   (a) ¨

   (b) x

3. SEC Use Only

4. Citizenship or Place of Organization

   Delaware Limited Partnership

Number of Shares Beneficially Owned by Each Reporting Person With	
	5. Sole Voting Power 373780 **see Note 1**
	6. Shared Voting Power 0
	7. Sole Dispositive Power 378880 **see Note 1**
	8. Shared Dispositive Power

0

9. Aggregate Amount Beneficially Owned by Each Reporting Person

378880 **see Note 1**

10. Check if the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions)

N/A

11. Percent of Class Represented by Amount in Row (9)

5.37%

12. Type of Reporting Person (See Instructions)

IA

Item 1.

(a) Name of Issuer

NATURAL ALTERNATIVES INTL

(b) Address of Issuer s Principal Executive Offices

1185 Linda Vista Dr, San Marcos, CA 92078-3877

Item 2.

(a) Name of Person Filing

Dimensional Fund Advisors LP

(b) Address of Principal Business Office or, if none, Residence

Palisades West, Building One, 6300 Bee Cave Road, Austin, Texas, 78746

(c) Citizenship

Delaware Limited Partnership

(d) Title of Class of Securities

Common Stock

(e) CUSIP Number

638842302

Item 3. If this statement is filed pursuant to §§240.13d-1(b) or 240.13d-2(b) or (c), check whether the person filing is a:

(a) ¨ Broker or dealer registered under section 15 of the Act (15 U.S.C. 78o).

(b) ¨ Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c).

(c) ¨ Insurance company as defined in section 3(a)(19) of the Act (15 U.S.C. 78c).

(d) ¨ Investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C 80a-8).

(e) x An investment adviser in accordance with §240.13d-1(b)(1)(ii)(E);

(f) ¨ An employee benefit plan or endowment fund in accordance with §240.13d-1(b)(1)(ii)(F);

(g) ¨ A parent holding company or control person in accordance with § 240.13d-1(b)(1)(ii)(G);

(h) ¨ A savings associations as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);

(i) ¨ A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);

(j) ¨ Group, in accordance with §240.13d-1(b)(1)(ii)(J).

Item 4. Ownership.

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

(a) Amount beneficially owned:

378880 **see Note 1**

(b) Percent of class:

5.37%

(c) Number of shares as to which the person has:

(i) Sole power to vote or to direct the vote:

373780 **see Note 1**

(ii) Shared power to vote or to direct the vote:

0

(iii) Sole power to dispose or to direct the disposition of:

378880 **see Note 1**

(iv) Shared power to dispose or to direct the disposition of:

0

** Note 1 ** Dimensional Fund Advisors LP (Dimensional), an investment advisor registered under Section 203 of the Investment Advisors Act of 1940, furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other commingled group trusts and separate accounts. These investment companies, trusts and accounts are the Funds. In its role as investment advisor or manager, Dimensional possesses investment and/or voting power over the securities of the Issuer described in this schedule that are owned by the Funds, and may be deemed to be the beneficial owner of the shares of the Issuer held by the Funds. However, all securities reported in this schedule are owned by the Funds. Dimensional disclaims beneficial ownership of such securities. In addition, the filing of this Schedule 13G shall not be construed as an admission that the reporting person or any of its affiliates is the beneficial owner of any securities covered by this Schedule 13G for any other purposes than Section 13(d) of the Securities Exchange Act of 1934.

Item 5. Ownership of Five Percent or Less of a Class

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following [ ].

Item 6. Ownership of More than Five Percent on Behalf of Another Person.

The Funds described in Note 1 above have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, the securities held in their respective accounts. To the knowledge of Dimensional, the interest of any one such Fund does not exceed 5% of the class of securities. Dimensional disclaims beneficial ownership of all such securities.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company or Control Person.

N/A

Item 8. Identification and Classification of Members of the Group

N/A

Item 9. Notice of Dissolution of Group

N/A

Item 10. Certification

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

DIMENSIONAL FUND ADVISORS LP

February 9, 2009

Date

By: Dimensional Holdings Inc., General Partner

/s/ Christopher Crossan

Signature

Global Chief Compliance Officer

Title

de 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 42 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. During 2002, we recorded a non-cash charge of $1.7 million to impairment of intangible assets, which represents the write-off of the carrying value of the licensing fees associated with BrachySeed I-125 and BrachySeed Pd-103, as the carrying value will not be recoverable. In October 2002, we entered into a five-year agreement with Matritech Inc. to be the sole distributor for Matritech's NMP22 BladderChek point-of-care test to urologists and oncologists in the United States. Retention of exclusivity rights depends upon meeting certain minimum annual purchases. We paid Matritech $150,000 upon the execution of the agreement, which was recorded as other assets in the accompanying consolidated balance sheet for the respective period and is being amortized over the five year estimated performance period of the agreement. We determined that we did not have any impairment regarding Matritech's license fee at December 31, 2002. COMMITMENTS As outlined in Notes 7, 10 and 16 of the Notes to our Consolidated Financial Statements, we have entered into various contractual obligations and commercial commitments. The following table summarizes our contractual obligations as of December 31, 2002: Less than 1 1 to 3 4 to 5 After 5 Contractual Obligation year years years years Total ----------------------------- ------------ ----------- ----------- ----------- ----------- Long-term debt .... $ - $ 2,280,000 $ - $ - $ 2,280,000 Capital lease obligations .... 80,000 82,000 - - 162,000 Facility leases .... 609,000 899,000 103,000 - 1,611,000 Other operating leases .... 228,000 8,000 - - 236,000 Manufacturing and research and development contracts .... 1,317,000 327,000 260,000 1,140,000 3,044,000 Minimum royalty payments ..... 1,000,000 2,000,000 2,000,000 7,000,000 12,000,000 -----------

----------- ----------- ----------- ----------- Total .... $ 3,234,000 $ 5,596,000 $ 2,363,000 $ 8,140,000 $19,333,000 =========== =========== =========== =========== =========== 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 achieved specific development milestones or commercial milestones as outlined in Notes 5 and 7 of the Notes to our Consolidated Financial Statements. In subsequent periods, we expect to provide funding for the development of the PSMA technologies through our joint venture with Progenics at even higher levels than the current year. Such funding amount may vary dependent upon, among other things, the results of the clinical trials and research and development activities, competitive and technological developments, and market opportunities. Recently Enacted Accounting Pronouncements In June 2002, the Financial Accounting Standards Board isssued Statement of Financial Accounting Standard No. 146, "Accounting for Exit or Disposal Activities." SFAS 146 addresses significant issues regarding the recognition, measurement and reporting of costs associated with exit and disposal activities, including restructuring activities. SFAS 146 also addresses recognition of certain costs related to terminating a contract that is not a capital lease, costs to consolidate facilities or relocate employees and termination of benefits provided to employees that are involuntarily terminated under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred compensation contract. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. 43 Item 7A. Quantitative and Qualitative Disclosures About Market Risk We do not have operations subject to risks of foreign currency fluctuations, nor do we use derivative financial instruments in our operations or investment portfolio. As of December 31, 2002, the Company had $2.3 million of debt outstanding with a fixed interest rate of 7%. We do not have exposure to market risks associated with changes in interest rates, as we have no variable interest rate debt outstanding. Changes in interest rates could expose us to market risk associated with a fixed interest rate debt. We do not believe that this note will have material exposure to market risks associated with interest rates. Item 8. Financial Statements and Supplementary Data The financial statements required by this Item 8 are submitted as a separate section of this Form 10-K. Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure The information required to be disclosed under this Item regarding former accountants was previously reported by the Company on: (i) a Current Report on Form 8-K filed with the Securities & Exchange Commission on May 20, 2002, and an amendment thereto filed with the Securities & Exchange Commission on May 22, 2002; and (ii) a Current Report on Form 8-K filed with the Securities & Exchange Commission on May 24 2002. 44 PART III Item 10. Directors and Executive Officers of the Company The information relating to our directors, nominees for election as directors and executive officers under the headings "Election of Directors", "Executive Officers" and "Compliance with Section 16(a) of the Exchange Act" in our definitive proxy statement for the 2003 Annual Meeting of Stockholders is incorporated herein by reference to such proxy statement. Item 11. Executive Compensation The discussion under the heading "Executive Compensation" in our definitive proxy statement for the 2003 Annual Meeting of Stockholders is incorporated herein by reference to such proxy statement. Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters The discussion under the heading "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" in our definitive proxy statement for the 2003 Annual Meeting of Stockholders is incorporated herein by reference to such proxy statement. Item 13. Certain Relationships and Related Transactions The discussion under the heading "Certain Relationships and Related Transactions" in our definitive proxy statement for the 2003 Annual Meeting of Stockholders is incorporated herein by reference to such proxy statement. Item 14. Controls and Procedures (1) Evaluation of disclosure controls and procedures. Based on their evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934) as of a date within 90 days of the filing date of this Annual Report on Form 10-K, the Company's chief executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities & Exchange Commission's rules and forms and are operating in an effective manner. (2) Changes in internal controls. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their most recent evaluation. 45 PART IV Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K (a) Documents filed as a part of the Report: (1) and (2) The response to this portion of Item 15 is submitted as a separate section of this Form 10-K. (3) Exhibits - Exhibit No. ----------- 3.1 Restated Certificate of Incorporation of Cytogen Corporation, as amended. Filed as an exhibit to Form 10-Q Quarterly Report for the quarter ended June 30, 1996, and incorporated herein by reference. 3.2 Certificate of Amendment to the Restated Certificate of Incorporation of Cytogen Corporation, as amended. Filed as an exhibit to Form 10-Q Quarterly Report for the quarter ended June 30, 2000, and incorporated herein by reference. 3.3 Certificate of Amendment to the Restated Certificate of Incorporation, as amended, as filed with the Secretary of State of the State of Delaware on October 25, 2002. Filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on October 25, 2002, and incorporated herein by reference. 3.4 Certificate of Designations of Series C Junior Participating Preferred Stock of Cytogen Corporation. Filed as an exhibit to the Company's Registration Statement on Form S-8 (File No. 333-59718), filed with the Commission on April 27, 2001, and incorporated herein by reference. 3.5 By-Laws of Cytogen Corporation, as amended. Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2002, filed with the Commission on March 31, 2003, and incorporated herein by reference. 4.1 Amended and Restated Rights Agreement, dated as of October 19, 1998 between Cytogen Corporation and Chase Mellon Shareholder Services, L.L.C., as Rights Agent. The Amended and Restated Rights Agreement includes the Form of Certificate of Designations of Series C Junior Participating Preferred Stock as Exhibit A, the form of Right Certificate as Exhibit B and the Summary of Rights as Exhibit C. Filed as an exhibit to Form 10-Q Quarterly Report for the quarter ended September 30, 1998, and incorporated herein by reference. 10.1 Lease Agreement, dated as of March 16, 1987, by and between Peregrine Investment Partners I, as lessor, and Cytogen Corporation, as lessee. Filed as an exhibit to Form 10-K Annual Report for Year Ended January 2, 1988, and incorporated herein by reference. 10.2 Amendment, dated as of October 16, 1987, to Lease Agreement between Peregrine Investment Partners I and Cytogen Corporation. Filed as an exhibit to Form S-8 Registration Statement (No. 33-30595), and incorporated herein by reference. 10.3 1989 Employee Stock Option Plan. Filed as an exhibit to Form S-8 Registration Statement (No. 33-30595), and incorporated herein by reference. + 10.4.1 1988 Stock Option Plan for Non-Employee Directors. Filed as an exhibit to Form S-8 Registration Statement (No. 33-30595), and incorporated herein by reference. + 10.4.2 Amendment to the Cytogen Corporation 1988 Stock Option Plan for Non-Employee Directors dated May 22, 1996. Filed as an exhibit to Form 10-Q Quarterly Report for the quarter ended June 30, 1996, and incorporated herein by reference. + 46 10.5 Standard Form of Indemnification Agreement entered into between Cytogen Corporation and its officers, directors, and consultants. Filed as an exhibit to Amendment No. 1 to Form S-1 Registration Statement (No. 33-31280), and incorporated herein by reference. + 10.6 1989 Stock Option Policy for Outside Consultants. Filed as an exhibit to Amendment No. 1 to Form S-1 Registration Statement (No. 33-31280), and incorporated herein by reference. + 10.7.1 License Agreement dated as of March 31, 1993 between Cytogen Corporation and The Dow Chemical Company. Filed as an exhibit to Form 10-Q/A-1 Amendment to Quarterly Report for the quarter ended July 3, 1993, and incorporated herein by reference.* 10.7.2 Amendment of the License Agreement between Cytogen Corporation and The Dow Chemical Company dated September 5, 1995. Filed as an exhibit to Form 10-Q Quarterly Report for the quarter ended March 31, 1996, and incorporated herein by reference.* 10.7.3 Second Amendment to the License Agreement between Cytogen Corporation and The Dow Chemical Company dated May 20, 1996. Filed as an exhibit to Form 10-Q/A-1 Amendment to Quarterly Report for the quarter ended June 30, 1996, and incorporated herein by reference.* 10.8 1992 Cytogen Corporation Employee Stock Option Plan II, as amended. Filed as an exhibit to Form S-4 Registration Statement (No. 33-88612), and incorporated herein by reference. + 10.9 License Agreement, dated March 10, 1993, between Cytogen Corporation and The University of North Carolina at Chapel Hill, as amended. Filed as an exhibit to Form 10-K Annual Report for the year ended December 31, 1994, and incorporated herein by reference.* 10.10 Option and License Agreement, dated July 1, 1993, between Cytogen Corporation and Sloan-Kettering Institute for Cancer Research. Filed as an exhibit to Form 10-K Annual Report for the year ended December 31, 1994, and incorporated herein by reference.* 10.11 Cytogen Corporation Amended and Restated 1995 Stock Option Plan. Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2002, filed with the Commission on March 31, 2003, and incorporated herein by reference. + 10.12 Horosziewicz - Cytogen Agreement, dated April 20, 1989, between Cytogen Corporation and Julius S. Horosziewicz, M.D., DMSe. Filed as an exhibit to Form 10-K Annual Report for the year ended December 31, 1995, and incorporated herein by reference.* 10.13 Marketing and Co-Promotion Agreement between Cytogen Corporation and C.R. Bard, Inc. effective August 1, 1996. Filed as an exhibit to Form 10-Q Quarterly Report for the quarter ended September 30, 1996, and incorporated herein by reference.* 10.14 Severance Agreement effective as of March 26, 1996 between Cytogen Corporation and John D. Rodwell, Ph.D. Filed as an exhibit to Form 10-K Annual Report for the year ended December 31, 1996, and incorporated herein by reference. + 10.15 Cytogen Corporation Employee Stock Purchase Plan, as amended. Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2002, filed with the Commission on March 31, 2003, and incorporated herein by reference. + 10.16 License Agreement between Targon Corporation and Elan Corporation, plc dated July 21, 1997. Filed as an exhibit to Form 10-Q Quarterly Report for the quarter ended June 30, 1997, and incorporated herein by reference.* 10.17 Convertible Promissory Note dated as of August 12, 1998 between Cytogen Corporation and Elan International Services, Ltd. Filed as an exhibit to Form 10-Q Quarterly Report for the quarter ended June 30, 1998, and incorporated herein by reference. 47 10.18 Employment agreement effective as of August 20, 1998 between Cytogen Corporation and H. Joseph Reiser. Filed as an exhibit to Form 10-Q Quarterly Report for the quarter ended September 30, 1998, and incorporated herein by reference. + 10.19 License Agreement by and between Berlex Laboratories, Inc. and Cytogen Corporation dated as of October 28, 1998. Filed as an exhibit to Form 10-Q/A-1 Amendment to Quarterly Report for the quarter ended September 30, 1998, and incorporated herein by reference. 10.20 Manufacturing Space Agreement between Bard BioPharma L.P. and Cytogen Corporation dated as of January 7, 1999. Filed as an exhibit to Form S-1/A-1 Amendment to Registration Statement, filed with the Commission on January 27, 1999, and incorporated herein by reference. 10.21 Employment Agreement effective as of June 10, 1997 between Cytogen Corporation and Donald F. Crane, Jr. Filed as an exhibit to Form 10-K Annual Report for the year ended December 31, 1999, and incorporated herein by reference. + 10.22 Amended and Restated 1999 Stock Option Plan for Non-Employee Directors. Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2002, filed with the Commission on March 31, 2003, and incorporated herein by reference. 10.23 Strategic Alliance Agreement between AxCell Biosciences Corporation and InforMax, Inc. dated as of September 15, 1999. Filed as an exhibit to Form 10-K Annual Report for the year ended December 31, 1999, and incorporated herein by reference.* 10.24 AxCell Biosciences Corporation Employee Stock Option Plan. Filed as an exhibit to Form 10-K Annual Report for the year ended December 31, 1999, and incorporated herein by reference. + 10.25 Master Loan and Security Agreement No. S7600 among Cytogen Corporation, AxCell Biosciences Corporation and Finova Capital Corporation dated December 30, 1999. Filed as an exhibit to Form 10-K Annual Report for the year ended December 31, 1999, and incorporated herein by reference. 10.26 Amendment No. 1 to Marketing and Co-Promotion Agreement effective as of January 1, 2000 by and between Cytogen Corporation and C.R. Bard, Inc. Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, and incorporated herein by reference. 10.27 License and Marketing Agreement by and between Cytogen Corporation and Advanced Magnetics, Inc. dated August 25, 2000. Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, and incorporated herein by reference.* 10.28 Development and Manufacturing Agreement by and between Cytogen Corporation and DSM Biologics Company B.V. dated July 12, 2000. Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, and incorporated herein by reference.* 10.29 Common Stock Purchase Agreement, dated September 29, 2000, by and between Cytogen Corporation and Acqua Wellington North American Equities Fund, Ltd. Filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on October 5, 2000, and incorporated herein by reference. 10.30 Common Stock Purchase Agreement, dated October 4, 2000, by and between Cytogen Corporation and Acqua Wellington North American Equities Fund, Ltd. Filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on October 12, 2000, and incorporated herein by reference. 48 10.31 Written Compensatory Agreement by and between Cytogen Corporation and H. Joseph Reiser dated August 24, 1998, as revised on July 11, 2000. Filed as an exhibit to the Company's Registration Statement on Form S-8 (File No. 333-48454), filed with the Commission on October 23, 2000, and incorporated herein by reference. + 10.32 Written Compensatory Agreement by and between Cytogen Corporation and Lawrence Hoffman dated July 10, 2000. Filed as an exhibit to the Company's Registration Statement on Form S-8 (File No. 333-48454), filed with the Commission on October 23, 2000, and incorporated herein by reference. + 10.33 Product Manufacturing and Supply Agreement by and between Cytogen Corporation and Draximage Inc. dated December 5, 2000. Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, and incorporated herein by reference. * 10.34 License and Distribution Agreement by and between Cytogen Corporation and Draximage Inc. dated December 5, 2000. Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, and incorporated herein by reference. * 10.35 Form of Executive Change of Control Severance Agreement by and between the Company and each of its Executive Officers. Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2001, and incorporated herein by reference. + 10.36.1 Lease Agreement by and between Newtown Associates, L.P. and AxCell Biosciences Corporation dated as of July 23, 1999. Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2001, and incorporated herein by reference. 10.36.2 First Amendment to the Lease Agreement by and between 826 Newtown Associates, L.P. and AxCell Biosciences Corporation dated as of March 16, 2001. Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001, and incorporated herein by reference. 10.37 Cytogen Corporation Stock Payment Bonus Plan Program. Filed as an exhibit to the Company's Registration Statement on Form S-8 (File No. 333-58384), filed with the Commission on April 6, 2001, and incorporated herein by reference. + 10.38 MFS Fund Distributors, Inc. 401(K) Profit Sharing Plan and Trust. Filed as an exhibit to the Company's Registration Statement on Form S-8 (File No. 333-59718), filed with the Commission on April 27, 2001, and incorporated herein by reference. + 10.39 Adoption Agreement for MFS Fund Distributors, Inc. Non-Standardized 401(K) Profit Sharing Plan and Trust, with amendments. Filed as an exhibit to the Company's Registration Statement on Form S-8 (File No. 333-59718), filed with the Commission on April 27, 2001, and incorporated herein by reference. 10.40 Cytogen Corporation Performance Bonus Plan with Stock Payment Program. Filed as an exhibit to Company's Registration Statement on Form S-8 (File No. 333-75304), filed with the Commission on December 17, 2001, and incorporated herein by reference. + 10.41 Share Purchase Agreement by and between Cytogen Corporation and the State of Wisconsin Investment Board dated as of June 18, 2001. Filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on June 19, 2001, and incorporated herein by reference. 10.42 Share Purchase Agreement by and between Cytogen Corporation and the State of Wisconsin Investment Board dated as of January 18, 2002. Filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on January 24, 2002, and incorporated herein by reference. 49 10.43 Limited Liability Company Agreement of PSMA Development Company LLC by and between Cytogen Corporation, Progenics Pharmaceuticals, Inc. and the PSMA Development Company LLC dated June 15, 1999. Filed as an exhibit to the Company's Registration Statement on Form S-3, filed with the Commission on July 20, 1999, and incorporated herein by reference. 10.44 Amendment No. 1 to Limited Liability Company Agreement of PSMA Development Company LLC by and between Cytogen Corporation, Progenics Pharmaceuticals, Inc. and PSMA Development Company LLC dated as of March 22, 2002. Filed as an exhibit to the Company's Quarterly Report on Form 10-Q, filed with the Commission on May 14, 2002, and incorporated herein by reference. 10.45 Sublease Agreement by and between Cytogen Corporation and Hale and Dorr LLP dated as of May 23, 2002. Filed as an exhibit to the Company's Quarterly Report on Form 10-Q, filed with the Commission on August 14, 2002, and incorporated herein by reference. 10.46 Addendum to Stock Exchange Agreement among Cytogen Corporation and the Shareholders and Debtholders of Prostagen, Inc. dated as of May 14, 2002, and amended as of August 13, 2002. Filed as an exhibit to the Company's Quarterly Report on Form 10-Q, filed with the Commission on August 14, 2002, and incorporated herein by reference. 10.47 Distribution Agreement by and between Cytogen Corporation and Matritech Inc. dated October 18, 2002. Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2002, filed with the Commission on March 31, 2003, and incorporated herein by reference. ** 10.48 Written Compensatory Agreement by and between Cytogen Corporation and Michael D. Becker dated December 17, 2002. Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2002, filed with the Commission on March 31, 2003, and incorporated herein by reference. + 10.49 Contract Manufacturing Agreement by and between Cytogen Corporation and Laureate Pharma L.P. dated January 15, 2003. Filed herewith. ** 10.50 Quality Agreement by and between Cytogen Corporation and Laureate Pharma L.P. dated January 15, 2003. Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2002, filed with the Commission on March 31, 2003, and incorporated herein by reference. ** 16.1 Letter from Arthur Andersen LLP to the Securities and Exchange Commission dated May 20, 2002. Filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on May 20, 2002, and incorporated herein by reference. 16.2 Letter from Arthur Andersen LLP to the Securities and Exchange Commission dated May 22, 2002. Filed as an exhibit to the Company's Current Report on Form 8-K/A, filed with the Commission on May 22, 2002, and incorporated herein by reference. 16.3 Letter from Arthur Andersen LLP to the Securities and Exchange Commission dated May 24, 2002. Filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on May 24, 2002, and incorporated herein by reference. 21 Subsidiaries of Cytogen Corporation. Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2002, filed with the Commission on March 31, 2003, and incorporated herein by reference. 23.1 Consent of KPMG LLP. Filed herewith. 50 23.2 Consent of PricewaterhouseCoopers. Filed herewith.

31.1 Certification of President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith. 31.2 Certification of Vice President and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith. 32.1 Certification of President and Chief Executive Officer pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith. 32.2 Certification of Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith. 99.1 Code of Ethics of Cytogen Corporation adopted by the Company as of March 2003. Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2002, filed with the Commission on March 31, 2003, and incorporated herein by reference. + Management contract or compensatory plan or arrangement. * We have received confidential treatment of certain provisions contained in this exhibit pursuant to an order issued by the Securities and Exchange Commission. The copy filed as an exhibit omits the information subject to the confidentiality grant. ** We have 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. (b) Reports on Form 8-K: We filed two current reports on Form 8-K during the quarter ended December 31, 2002. On October 25, 2002, we filed a current report on Form 8-K with the Securities and Exchange Commission reporting the results of our special meeting of stockholders held on October 25, 2002, and that we filed a Certificate of Amendment to our Restated Certificate of Incorporation, as amended, with the Secretary of State of the State of Delaware to affect a one-for-ten reverse stock split of all outstanding, issued and authorized shares of our common Stock, $0.01 par value per share. On December 17, 2002, we filed a current report on Form 8-K with the Securities and Exchange Commission reporting certain changes to our senior management team. (c) Exhibits: The Exhibits filed with this Form 10-K are listed above in response to Item 15(a)(3). (d) Financial Statement Schedules: None. 51 SIGNATURES Pursuant to the requirements of Section 13 or 15(d) 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 on the 19th day of September 2003. Cytogen Corporation By: /s/ Michael D. Becker -------------------------------------- Michael D. Becker, President and Chief Executive Officer 52 Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. Signature Title Date -- --- By: /s/ Michael D. Becker Chief Executive Officer and President September 19, 2003 -- (Principal Executive Officer and Michael D. Becker Director) By: /s/ Christopher P. Schnittker Vice President, Chief Financial Officer September 19, 2003 -- (Principal Financial and Accounting Christopher P. Schnittker Officer) By: /s/ John E. Bagalay, Jr. Director September 19, 2003 -- John E. Bagalay, Jr. By: /s/ Allen Bloom Director September 19, 2003 -- Allen Bloom By: /s/ Stephen K. Carter Director September 18, 2003 -- Stephen K. Carter By: /s/ James A. Grigsby Director and Chairman of the Board September 19, 2003 -- James A. Grigsby By: /s/ Robert F. Hendrickson Director September 19, 2003 -- Robert F. Hendrickson By: /s/ Kevin G. Lokay Director September 19, 2003 -- Kevin G. Lokay By: /s/ H. Joseph Reiser Director September 19, 2003 -- H. Joseph Reiser 53 Form 10-K Item 15(a)(1) and (2) CYTOGEN CORPORATION AND SUBSIDIARIES (1) Index to Financial Statements ---------------------------- F-1 INDEPENDENT AUDITOR'S REPORT The Board of Directors and Stockholders Cytogen Corporation: We have audited the accompanying consolidated balance sheet of Cytogen Corporation and subsidiaries as of December 31, 2002 and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of

PSMA Development Company LLC (a development stage enterprise), a 50% owned unconsolidated investee company. The Company's equity interest in the loss of PSMA Development Company LLC was $2.9 million for the year ended December 31, 2002. The financial statements of PSMA Development Company LLC were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for PSMA Development Company LLC, is based solely on the report of the other auditors. The consolidated financial statements of Cytogen Corporation and subsidiaries as of December 31, 2001 and for each of the years in the two-year period ended December 31, 2001, were audited by other auditors who have ceased operations. Those auditors' report dated February 5, 2002, on those consolidated financial statements was unqualified before the restatement described in Note 1 to the consolidated financial statements, and included an explanatory paragraph that described the change in Cytogen Corporation's method of accounting for revenue recognition discussed in Note 1 to the consolidated financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provides a reasonable basis for our opinion. In our opinion, based on our audit and the report of other auditors, the 2002 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cytogen Corporation and subsidiaries as of December 31, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. As discussed above, the consolidated financial statements of Cytogen Corporation and subsidiaries as of December 31, 2001 and for each of the years in the two-year period ended December 31, 2001, were audited by other auditors who have ceased operations. As described in Note 1, the Company implemented a reverse stock split in 2002, and the number of shares and per share amounts in the accompanying 2001 and 2000 consolidated financial statements have been restated to reflect such reverse stock split. We audited the adjustments that were applied to restate the number of shares and per share amounts reflected in the 2001 and 2000 consolidated financial statements for the reverse stock split. In our opinion, such adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review or apply any procedures to the 2001 and 2000 consolidated financial statements of Cytogen Corporation and subsidiaries, other than with respect to such adjustments and, accordingly, we do not express an opinion or any form of assurance on the 2001 and 2000 consolidated financial statements taken a whole. /s/ KPMG LLP Princeton, New Jersey January 31, 2003 F-2 Report of Independent Accountants To the Board of Directors and Stockholders of PSMA Development Company LLC: In our opinion, the accompanying balance sheets and the related statements of operations, of stockholders' (deficit) equity and of cash flows present fairly, in all material respects, the financial position of PSMA Development Company LLC (the "Company") (a development stage enterprise) at December 31, 2001 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 and the cumulative period from June 15, 1999 (inception) to December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit of these financial statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. PricewaterhouseCoopers LLP New York, New York February 14, 2003, except for Notes 1 and 3, as to which the date is March 28, 2003 F-3 THE FOLLOWING IS A COPY OF A REPORT ISSUED BY ARTHUR ANDERSEN LLP, AND INCLUDED IN CYTOGEN CORPORATION'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2001. THIS REPORT HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN, AND ARTHUR ANDERSEN HAS NOT CONSENTED TO ITS USE IN THIS ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2002. ALL NUMBERS SET FORTH IN THIS FORM 10-K REFLECT THE EFFECT OF A ONE-FOR-TEN REVERSE STOCK SPLIT EFFECTIVE OCTOBER 25, 2002. REPORT OF INDEPENDENT PUBLIC

ACCOUNTANTS To Cytogen Corporation: We have audited the accompanying consolidated balance sheets of Cytogen Corporation (a Delaware Corporation) and Subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cytogen Corporation and Subsidiaries as of December 31, 2001 and 2000 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States. As explained in Note 1 to the consolidated financial statements, effective January 1, 2000, the Company changed its method of accounting for revenue recognition. ARTHUR ANDERSEN LLP Philadelphia, Pennsylvania February 5, 2002 F-4 CYTOGEN CORPORATION AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (All amounts in thousands, except share and per share data) December 31, ------------------------ 2002 2001 ---------- --------- ASSETS: Current Assets: Cash and cash equivalents .... $ 14,725 $ 11,309 Marketable securities .... - 1,376 Receivable on income tax benefit sold .... - 1,103 Accounts receivable, net .... 1,778 1,621 Inventories .... 1,262 1,889 Other current assets .... 643 508 --------- --------- Total current assets .... 18,408 17,806 Property and Equipment, net .... 1,072 1,831 Other Assets .... 414 1,855 --------- --------- $ 19,894 $ 21,492 ========= ========= LIABILITIES AND STOCKHOLDERS' EQUITY: Current Liabilities: Current portion of long-term liabilities .... $ 80 $ 77 Accounts payable and accrued liabilities .... 4,427 5,315 Deferred revenue .... 385 534 --------- --------- Total current liabilities .... 4,892 5,926 --------- --------- Long-Term Liabilities .... 2,614 2,291 --------- --------- Deferred Revenue .... 1,800 2,061 --------- --------- Commitments and Contingencies (Note 16) Stockholders' Equity: Preferred stock, $.01 par value, 5,400,000 shares authorized - Series C Junior Participating Preferred Stock, $.01 par value, 200,000 shares authorized, none issued and outstanding .... - - Common stock, $.01 par value, 25,000,000 shares authorized, 8,758,235 and 7,893,734 shares issued and outstanding at December 31, 2002 and 2001, respectively .... 88 79 Additional paid-in capital .... 366,884 351,577 Deferred compensation .... (4) (621) Accumulated other comprehensive income .... - 860 Accumulated deficit .... (356,380) (340,681) --------- --------- Total stockholders' equity .... 10,588 11,214 --------- --------- $ 19,894 $ 21,492 ========= ========= The accompanying notes are an integral part of these statements. F-5 CYTOGEN CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS (All amounts in thousands, except per share data) Year Ended December 31, ------------------------------------ 2002 2001 2000 -------- -------- -------- Revenues: Product related: ProstaScint .... $ 7,923 $ 7,640 $ 7,004 BrachySeed .... 2,507 779 - Others .... 196 363 519 -------- -------- -------- Total product sales .... 10,626 8,782 7,523 Quadramet royalties .... 1,842 2,063 2,004 -------- -------- -------- Total product related .... 12,468 10,845 9,527 License and contract .... 463 912 1,024 -------- -------- -------- Total revenues .... 12,931 11,757 10,551 -------- -------- -------- Operating Expenses: Cost of product related revenues .... 4,748 4,216 4,513 Impairment of intangible assets .... 1,729 - - Research and development .... 7,605 10,091 6,957 Acquisition of marketing and technology rights .... - - 13,241 Equity loss in PSMA LLC .... 2,886 332 - Selling and marketing .... 5,846 6,314 6,126 General and administrative .... 5,401 4,864 4,934 -------- -------- -------- Total operating expenses .... 28,215 25,817 35,771 -------- -------- -------- Operating loss

.... (15,284) (14,060) (25,220) Insurance reimbursement .... - 402 - Loss on investment .... (516) - - Interest income .... 274 635 774 Interest expense .... (173) (180) (163) -------- -------- -------- Loss before income taxes and cumulative effect of accounting change .... (15,699) (13,203) (24,609) Income tax benefit .... - (1,103) (1,625) -------- -------- -------- Loss before cumulative effect of accounting change .... (15,699) (12,100) (22,984) Cumulative effect of accounting change (Note 1) .... - - (4,314) -------- -------- -------- Net loss .... $(15,699) $(12,100) $(27,298) ======== ======== ======== Net loss per share: Basic and diluted net loss before cumulative effect of accounting change .... $ (1.85) $ (1.56) $ (3.13) Cumulative effect of accounting change .... - - (0.59) -------- -------- -------- Basic and diluted net loss .... $ (1.85) $ (1.56) $ (3.72) ======== ======== ======== Weighted average common shares outstanding .... 8,466 7,778 7,334 ======== ======== ======== The accompanying notes are an integral part of these statements. F-6 CYTOGEN CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (All amounts in thousands, except share data) Accumulated Other Additional Deferred Compre- Accu- Total Common Paid-in Compen- hensive mulated Stockholders' Stock Capital sation Income Deficit Equity ------ ----------- ----------- --------- --------- ------------ Balance, December 31, 1999 $ 71 $ 311,843 $ (82) $ - $(301,283) $ 10,549 Sale of 356,777 shares of common stock; including exercise of stock options .... 4 10,374 - - - 10,378 Issuance of 150,000 shares of common stock in connection with the acquisition of product candidates marketing rights .... 1 13,078 - - - 13,079 Issuance of options to purchase shares of common stock .... - 261 - - - 261 Deferred compensation related to stock options .... - 1,062 (1,062) - - - Amortization of deferred compensation .... - - 249 - - 249 Net loss .... - - - - (27,298) (27,298) ----- --------- -------- ------ --------- --------- Balance, December 31, 2000 .... 76 336,618 (895) - (328,581) 7,218 Sale of 324,149 shares of common stock; including exercise of stock options .... 3 14,235 - - - 14,238 Issuance of 10,141 shares of common stock and stock options related to compensation .... - 282 - - - 282 Issuance of options and warrants to purchase shares of common stock .... - 201 - - - 201 Deferred compensation related to stock options .... - 241 (241) - - - Amortization of deferred compensation .... - - 515 - - 515 Comprehensive loss: Net loss .... - - - - (12,100) (12,100) Unrealized gain on marketable securities .... - - - 860 - 860 --------- Total comprehensive loss .... (11,240) ----- --------- -------- ------ --------- --------- Balance, December 31, 2001 .... 79 351,577 (621) 860 (340,681) 11,214 Sale of 716,290 shares of common stock; including exercise of stock options .... 7 12,966 - - - 12,973 Issuance of 20,512 shares of common stock and stock options related to compensation .... 1 736 - - - 737 Issuance of 127,699 shares of common stock in connection with Prostagen .... 1 2,038 - - - 2,039 Reversal of deferred compensation related to stock options .... - (433) 433 - - - Amortization of deferred compensation .... - - 184 - - 184 Comprehensive loss: Net loss .... - - - - (15,699) (15,699) Unrealized loss on marketable securities .... - - - (860) - (860) --------- Total comprehensive loss .... (16,559) ----- --------- -------- ------ --------- --------- Balance, December 31, 2002 .... $ 88 $ 366,884 $ (4) $ - $(356,380) $ 10,588 ===== ========= ======== ====== ========= ========= The accompanying notes are an integral part of these statements. F-7 CYTOGEN CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (All amounts in thousands) Year Ended December 31, -------------------------------------- 2002 2001 2000 -------- --------- ---------- Cash Flows From Operating Activities: Net loss .... $(15,699) $(12,100) $ (27,298) Adjustments to reconcile net loss to net cash used in operating activities: Depreciation and amortization .... 779 1,186 1,027 Imputed interest (income) expense .... - (43) 29 Stock based compensation expenses .... 655 809 510 Stock based milestone payment .... 2,033 - - Amortization of deferred revenue .... (410) (860) (859) Acquisition of marketing and technology rights .... - - 13,079 Cumulative effect of accounting change .... - - 4,314 Asset impairment .... 2,446 - - Loss on investment .... 516 - - Gain on sale of property and equipment .... - - (148) Changes in assets and liabilities: Receivables, net .... 946 263 397 Inventories .... 627 (1,006) (198) Other assets .... 548 24 (1,631) Accounts payable and accrued liabilities .... (692) (1,714) 1,740 -------- -------- -------- Net cash used in operating activities .... (8,251) (13,441) (9,038) -------- -------- -------- Cash Flows From Investing Activities: Purchases of property and equipment .... (148) (813) (1,209) Purchase of product rights .... (1,150) (500) (500) Net proceeds from sale of property and equipment .... 100 - 148 Decrease in short-term investments .... - - 1,593 -------- -------- -------- Net cash provided by (used in) investing activities (1,198) (1,313) 32 -------- -------- -------- Cash Flows From Financing Activities: Proceeds from issuance of common stock .... 12,973 14,238 10,378 Payments of long-term liabilities .... (108) (168) (180) -------- -------- -------- Net cash provided by financing activities .... 12,865 14,070 10,198 -------- -------- -------- Net increase (decrease) in cash and cash equivalents .... 3,416 (684) 1,192 Cash and cash equivalents, beginning of year .... 11,309 11,993 10,801 -------- -------- -------- Cash and cash equivalents, end of year .... $ 14,725 $ 11,309 $ 11,993 ======== ======== ======== The accompanying notes are an integral part of these statements. F-8 CYTOGEN CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Business Cytogen Corporation ("Cytogen" or the "Company") of Princeton, New Jersey is a product-driven, oncology-focused biopharmaceutical company. The Company markets oncology products through its in-house sales force: ProstaScint(R) (a monoclonal antibody-based imaging agent used to image the extent and spread of prostate cancer) and NMP22(R) BladderChek(TM) (a point-of-care test for bladder cancer detection). The Company has also developed Quadramet(R), a skeletal targeting therapeutic radiopharmaceutical for the relief of bone pain in prostate and other types of cancer, for which the Company receives royalties on product sales through Berlex Laboratories, the United States affiliate of Schering AG Germany, which markets the product in the United States. The Company's pipeline comprises product candidates at various stages of clinical development, including fully human monoclonal antibodies and cancer vaccines based on PSMA (prostate specific membrane antigen) technology, which the Company exclusively licensed from Memorial Sloan-Kettering Cancer Center. The Company also conducts research in cell signaling through its AxCell Biosciences research subsidiary in Newtown, Pennsylvania. In August 2000, we expanded our product pipeline by entering into marketing, license and supply agreements with Advanced Magnetics, Inc. for Combidex(R), which is an investigational magnetic resonance imaging (MRI) contrast agent that assists in the differentiation of metastatic from non-metastatic lymph nodes. We hold exclusive United States marketing rights to Combidex. Advanced Magnetics is continuing its discussions with the FDA relating to outstanding issues regarding an approvable letter received from the FDA dated June 2000, in an effort to bring Combidex to market. Basis of Consolidation The consolidated financial statements include the accounts of Cytogen and its subsidiaries. Intercompany balances and transactions have been eliminated in consolidation. Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Statements of Cash Flows Cash and cash equivalents include cash on hand, cash in banks and all highly liquid investments with maturities of three months or less at the time of purchase. Cash paid for interest expense was $169,000, $180,000 and $99,000 in 2002, 2001 and 2000, respectively. During 2002, 2001 and 2000, the Company purchased $189,000, $11,000 and $49,000, respectively, of equipment under various capital leases. Marketable Securities In connection with the acquisition of Prostagen Inc. in June 1999 (see Note 5), the Company received 275,350 shares of Northwest Biotherapeutics, Inc. ("Northwest") common stock. The Company had classified this investment as available-for-sale securities. The fair value of Northwest stock, based on quoted market prices, had significantly decreased from the Company's original carrying value of this investment of $516,000. Based on the evaluation of the financial condition of Northwest and the significant decline in stock price, management concluded that the carrying amount of this investment would not be recoverable. Accordingly, the Company recorded a non-cash charge of $516,000 related to the other than temporary decline in the value of this investment during 2002. Receivables At both December 31, 2002 and 2001, accounts receivable were net of an allowance for doubtful accounts of $30,000. There was no expense charged to the provision for doubtful accounts during 2002, 2001 and 2000. The Company wrote off $0, $5,000 and $47,000 of uncollectible accounts in 2002, 2001 and 2000, respectively. F-9 At December 31, 2001, the Company had a $1.1 million receivable due from Public Service Electric and Gas Company relating to the sales of New Jersey State operating loss carryforwards and research and development credits. The Company received the proceeds from this receivable in January 2002. Inventories The Company's inventories are primarily related to ProstaScint and NMP22 BladderChek. Inventories are stated at the lower of cost or market using the first-in, first-out method and consisted of the following: December 31, ------------ 2002 2001 - ---- ---- Raw materials............................ $ 506,000 $ 506,000 Work-in process.......................... 39,000 1,371,000 Finished goods........................... 717,000 12,000 ---------- ---------- $1,262,000 $1,889,000 ========== ========== Property and Equipment Property and equipment are stated at cost, net of depreciation. Leasehold improvements are amortized on a straight-line basis over the lease period or the estimated useful life, whichever is shorter. Equipment and furniture are depreciated on a straight-line basis over three to five years. Expenditures for repairs and maintenance are charged to expense as incurred. Property and equipment consisted of the following: December 31, ------------ 2002 2001 ---- ---- Leasehold improvements.............................. $ 103,000 $ 3,425,000 Equipment and furniture............................. 2,420,000 6,224,000 ----------- ----------- 2,523,000 9,649,000 Less - accumulated depreciation and amortization..... (1,451,000) (7,818,000) ----------- ----------- $ 1,072,000 $ 1,831,000 =========== =========== In 2002, the Company wrote off approximately $1.7 million of fully depreciated property and equipment, and sold $5.3 million of its manufacturing property and equipment which had a net value of $100,000 to Bard BioPharma L.P., a subsidiary of Purdue Pharma L.P., for proceeds of $100,000. Depreciation expense was $600,000, $1.2 million, and $1.0 million in 2002, 2001, and 2000, respectively. Fair Value of Financial Instruments The Company's financial instruments consist primarily of cash and cash equivalents, marketable securities, accounts receivable, accounts payable, accrued expenses and long-term debt. Management believes the carrying value of these assets and liabilities are considered to be representative of their fair market value. Impairment of Long-Lived Assets In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," if indicators of impairment exist, management assesses 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 and eventual disposition of the asset. If impairment is indicated, management measures 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 F-10 asset. During the fourth quarter of 2002, the Company recorded a charge of $1.7 million for the asset impairment associated with licensing fees paid by the Company related to BrachySeed I-125 and BrachySeed Pd-103 (See Note 4). Other Assets Other assets consisted of the following: December 31, ------------ 2002 2001 ---- ---- NMP22 BladderChek license fee, net.......................... $145,000 $ - BrachySeed I-125 license fee, net (Note 4).................. - 903,000 Investment in PSMA Development Co. LLC (Note 6).............. 1,000 588,000 Other .... 268,000 364,000 --------- ---------- $414,000 $1,855,000 ======== ========== Revenue Recognition Product related revenues include product sales by Cytogen to its customers and Quadramet royalties. Product sales are recognized upon shipment of the finished goods. The Company does not grant price protection to its customers. Royalties are recognized as revenue when earned. License and contract revenues include milestone payments and fees under collaborative agreements with third parties, revenues from contract manufacturing and research services, and revenues from other miscellaneous sources. In 2000, the Company discontinued contract manufacturing services, concurrent with the sale of the manufacturing and laboratory facilities and therefore has received no revenue from this source since 2000. Effective January 1, 2000, the Company adopted U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"), which, as applied to the Company, requires up-front, non-refundable license fees to be deferred and recognized over the performance period. The cumulative effect of adopting SAB 101 resulted in a one-time, non-cash charge of $4.3 million or $0.59 per share, which reflects the deferral of an up-front license fee received from Berlex Laboratories, Inc. ("Berlex"), net of associated costs, related to the licensing of Quadramet recognized in October 1998 and a license fee for certain applications of PSMA to a joint venture formed by Cytogen and Progenics Pharmaceuticals Inc. ("Progenics") recognized in June 1999 (see Note 6). Previously, the Company had recognized up-front license fees when the Company had no obligations to return the fees under any circumstances. Under SAB 101, these payments are recorded as deferred revenue to be recognized over the remaining term of the related agreements. For the years ended December 31, 2002, 2001 and 2000, the Company recognized $410,000, $860,000 and $859,000 in revenues, respectively, that were included in the cumulative effect adjustment as of January 1, 2000. Prior year financial statements have not been restated to apply SAB 101 retroactively; however, the following pro forma amounts present the net loss to common stockholders and net loss per share assuming the Company had retroactively applied SAB 101. Year Ended December 31, 2000 --------------------- Net loss, as reported........................... $(27,298,000) =========== Net loss per share, as reported................. $ (3.72) =========== Pro forma net loss .... $(22,984,000) =========== Pro forma net loss per share.................... $ (3.13) =========== In accordance with Emerging Issues Task Force ("EITF") 00-10, the Company records shipping and handling charges billed to customers as revenue and the related costs as cost of product sales. F-11 Research and Development Research and development expenditures consist of projects conducted by the Company and payments made to sponsored research programs and consultants. All research and development costs are charged to expense as incurred. Research and development expenditures for customer sponsored programs were $53,000, $17,000 and $45,000 in 2002, 2001 and 2000, respectively. Patent Costs Patent costs are charged to expense as incurred. Income Taxes The Company accounts for income taxes under the asset and liability method in accordance with SFAS No. 109, "Accounting for Income Taxes." Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Net Loss Per Share Basic net loss per common share is based upon the weighted average common shares outstanding during each period. Diluted net loss per common share is the same as basic net loss per share, as the inclusion of common stock equivalents would be antidilutive due to the Company's losses (see Note 12). Reverse Stock Split On October 25, 2002, upon the receipt of approval of the Company's stockholders, the Company's Board of Directors authorized and implemented a reverse stock split (the "Reverse Split") of Cytogen's issued, outstanding and authorized shares of common stock at a ratio of one-for-ten. All references in the accompanying consolidated financial statements to the number of shares and per share amounts have been retroactively restated to reflect the Reverse Split. Stock-based Compensation The Company follows the intrinsic value method of accounting for stock-based employee compensation in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. The Company records deferred compensation for option grants to employees for the amount, if any, by which the market price per share exceeds the exercise price per share at the measurement date, which is generally the grant date. In addition, the Company applies fair value accounting for option grants to non-employees in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" and EITF Issue 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." The Company follows the disclosure provisions of SFAS 123, as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." Had compensation cost for options been recognized in the consolidated statements of operations using the fair value method of accounting, the Company's net loss and net loss per share would have been: F-12 Year Ended December 31, -- 2002 2001 2000 ------------- ------------ ------------- Net loss, as reported $(15,699,000) $(12,100,000) $(27,298,000) Add: Stock-based employee compensation expense included in reported net loss 184,000 515,000 249,000 Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards (4,000,000) (5,838,000) (3,640,000) ------------ ------------ ------------ Pro forma net loss $(19,515,000) $(17,423,000) $(30,689,000) ============ ============ ============ Basic and diluted net loss per share, as reported $(1.85) $(1.56) $(3.72) Pro forma basic and diluted net loss per share $(2.31) $(2.24) $(4.18) Other Comprehensive Income The Company follows SFAS No. 130, "Reporting Comprehensive Income." This statement requires the classification of items of other comprehensive income by their nature and disclosure of the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the balance sheet. Recent Accounting Pronouncements In June 2002, the FASB issued Statement of Financial Accounting Standard No. 146, "Accounting for Exit or Disposal Activities." SFAS 146 addresses significant issues regarding the recognition, measurement and reporting of costs associated with exit and disposal activities, including restructuring activities. SFAS 146 also addresses recognition of certain costs related to terminating a contract that is not a capital lease, costs to consolidate facilities or relocate employees and termination of benefits provided to employees that are involuntarily terminated under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred compensation contract. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. Reclassifications Certain amounts in prior years consolidated financial statements have been reclassified to conform the current year presentation. 2. DSM BIOLOGICS COMPANY B.V. In July 2000, the Company entered into a Development and Manufacturing Agreement with DSM Biologics Company B.V. ("DSM"), pursuant to which DSM was to conduct certain development activities with respect to ProstaScint, including the delivery of a limited number of batches of ProstaScint for testing and evaluation purposes. During 2002, the parties ceased to operate under the terms of such agreement. In 2002, 2001 and 2000, the

Company recorded $551,000, $3.2 million and $559,000, respectively, of development expenses related to this agreement. 3. ADVANCED MAGNETICS, INC. In August 2000, the Company and Advanced Magnetics, Inc., a developer of novel diagnostic pharmaceuticals for use in magnetic resonance imaging (MRI), entered into marketing, license and supply agreements ("AVM Agreements"). Under the AVM Agreements, Cytogen acquired certain United State's rights to Advanced Magnetics' product candidates: Combidex(R), MRI contrast agent for the detection of lymph node metastases (for all applications) and imaging agent Code 7228 (for oncology applications only). Advanced Magnetics will be responsible for all costs associated with the clinical development, supply and manufacture of Combidex and Code 7228 and will receive royalties based upon product sales. In exchange for the future marketing rights to Combidex (for all applications) and Code 7228 (for oncology applications only), Cytogen issued 150,000 shares of its Common Stock to Advanced Magnetics at closing and may issue an additional 50,000 shares, which are currently in escrow, subject to the achievement of F-13 certain milestones. Of such 50,000 shares, 25,000 are being held in escrow pending the achievement of certain milestones relating to Combidex and 25,000 are being held in escrow pending the achievement of certain milestones relating to Code 7228. Since the Advanced Magnetics' product candidates have not yet received FDA approval, the Company recorded a $13.2 million charge in the 2000 consolidated statement of operations for the acquisition of marketing and technology rights, of which $13.1 million was non-cash and represented the fair value of the 150,000 shares of Common Stock issued. There can be no assurance that Advanced Magnetics will receive FDA approval to market Combidex or Code 7228 for oncology applications in the United States. At this time, Advanced Magnetics does not intend to develop Code 7228 for oncology imaging. 4. DRAXIMAGE INC. In December 2000, the Company entered into a Product Manufacturing and Supply Agreement with Draximage, Inc. to market and distribute BrachySeed implants for prostate cancer therapy in the United States. Under the terms of the agreement, Draximage supplied radioactive iodine and palladium seeds to Cytogen in exchange for product transfer payments, royalty payments on sales and certain milestone payments. Cytogen paid Draximage $500,000 upon execution of the contract in 2000, $500,000 upon the first sale of the Iodine-125 BrachySeeds in 2001 and $1.0 million related to the first sale of BrachySeed Pd-103 in 2002. These payments were recorded as other assets in the accompanying consolidated balance sheet for the respective period (see Note 1) and were being amortized over the ten year term of the Draximage Agreement. In January 2003, the Company served notice of termination for each of its License and Distribution Agreement and Product Manufacturing and Supply Agreement with Draximage with respect to both the BrachySeed I-125 and BrachySeed Pd-103 products. As a result, effective January 24, 2003, the Company no longer accepts or fills new orders for the BrachySeed products. In 2002, the Company recorded a non-cash charge of $1.7 million to write off the carrying values of the licensing fees paid for BrachySeed I-125 and BrachySeed Pd-103. Prior to the write-off of such licensing rights, amortization expense was $174,000, $93,000 and $4,000 in 2002, 2001 and 2000, respectively. The Company also recorded $503,000 and $113,000 in royalty expense for 2002 and 2001, respectively. 5. ACQUISITION OF PROSTAGEN, INC. Pursuant to a Stock Exchange Agreement ("Prostagen Agreement") related to the Company's acquisition of Prostagen Inc. ("Prostagen") in June 1999, the Company agreed to issue up to an additional $4.0 million worth of Cytogen Common Stock to the shareholders and debtholders of Prostagen (the "Prostagen Partners"), if certain milestones are achieved in the dendritic cell therapy and PSMA development programs. During 2002, the Company and the Prostagen Partners agreed that a milestone was achieved based on the progress of the dendritic cell prostate cancer clinical trials at Northwest. As a result, the Company recorded a $2.0 million charge to research and development expense which represented the fair value of the 122,699 shares of Common Stock issued. In May 2002, the Company entered into an addendum to the Prostagen Agreement (the "Addendum"), which clarifies the future milestone payments to be made under the Prostagen Agreement, as well as the timing of such payments. Pursuant to the Addendum, the Company may be obligated to pay two additional milestone payments of $1.0 million each, upon the earlier of certain clinical achievements regarding the PSMA development programs or January 2003 and July 2003, respectively, provided that the payments shall be due on these dates only if safety has been established in a completed Phase I clinical trial and the research program on immunotherapy for prostate cancer is continuing on such dates. Any future milestone payments are payable in shares of Cytogen Common Stock. In addition, the Company issued 5,000 shares of Common Stock to the Prostagen Partners in 2002 upon the satisfactory termination of a lease obligation originally assumed by the Company. 6. PROGENICS PHARMACEUTICALS, INC. JOINT VENTURE In June 1999, Cytogen entered into a joint venture with Progenics, PSMA Development Company LLC, (the "Joint Venture"), to develop vaccine and antibody-based immunotherapeutic products utilizing Cytogen's proprietary PSMA technology. The Joint Venture is owned equally by Cytogen and Progenics. Through November 2001, Progenics funded the first $3.0 million of development costs of the Joint Venture. Beginning in December 2001, the Company and Progenics began to equally share the future costs of the Joint Venture. Cytogen has the exclusive North American marketing rights for products developed by the Joint Venture. The Company accounts for the Joint Venture using the equity method of accounting. As discussed above, through November 2001, Progenics was obligated to fund the initial $3.0 million of the development costs. Beginning in December 2001, Cytogen began to recognize 50% of the Joint Venture's operating results, expected to be losses, in its consolidated statement of operations. For the year ended December 31, 2002, Cytogen recognized $2.9 million of these losses compared to $332,000 during the year ended December 31, 2001. As of December 31, 2002 and 2001, the carrying value of the Company's investment in the Joint Venture was $1,000 and $588,000, respectively, which represents Cytogen's F-14 investment to date in the Joint Venture, less its cumulative share of losses, which net investment is recorded in other assets (see Note 1). Selected financial statement information of the Joint Venture is as follows: December 31, -------------------------------- 2002 2001 ------------ ----------- Balance Sheet Data: Cash .... $ 290,000 $ 1,010,000 ============ =========== Accounts payable................................ $ 304,000 $ 351,000 Capital contributions.......................... 11,399,000 6,799,000 Contribution receivable from Progenics.......... - (500,000) Accumulated deficit............................ (11,413,000) (5,640,000) ------------ ----------- $ 290,000 $ 1,010,000 ============ =========== For the Period For the Year Ended From June 15, 1999 ------------------------------------- (inception) to 2002 2001 2000 December 31, 2002 ----------- ----------- ----------- ----------------- Interest income............................ $ 13,000 $ 47,000 $ 96,000 $ 229,000 Total expenses............................. 5,786,000 2,623,000 1,085,000 11,642,000 ----------- ----------- ----------- ------------ Net loss.................................... $(5,773,000) $(2,576,000) $ (989,000) $(11,413,000) =========== =========== =========== ============ In connection with the licensing of the PSMA technology to the Joint Venture in June 1999, Cytogen recognized approximately $1.8 million in license fee revenue. In connection with the adoption of SAB 101, effective January 1, 2000 (see Note 1), the Company deferred approximately $1.5 million of this previously recognized license fee and recognized $150,000 $599,000 and $599,000 of the deferred revenue as license and contract revenue in 2002, 2001 and 2000, respectively. The remaining $125,000 of deferred revenue will be recognized on a straight-line basis over the estimated remaining performance period of the development program. 7. THE DOW CHEMICAL COMPANY In 1993, Cytogen acquired from The Dow Chemical Company an exclusive license for the treatment of osteoblastic bone metastases in the United States for Quadramet. This license was amended in 1995 and 1998 to expand the territory to include Canada, Latin America, Europe and Japan, in 1996 to expand the field to include all osteoblastic diseases, and in 1998 to include rheumatoid arthritis. The agreement requires the Company to pay Dow royalties based on a percentage of net sales of Quadramet, or a guaranteed contractual minimum payments, whichever is greater, and future payments upon achievement of certain milestones. The Company recorded $1.0 million, $824,000 and $802,000 in royalty expense for 2002, 2001 and 2000, respectively. Future annual minimum royalties due to Dow are $1.0 million per year in 2003 through 2012 and $2.0 million in 2013. 8. REVENUES FROM MAJOR CUSTOMERS Revenues from major customers (greater than 10%) as a percentage of total revenues were as follows: Year Ended December 31, ----------------------- 2002 2001 2000 ---- ---- ---- Berlex Laboratories Inc.......................... 16% 20% 22% Mallinckrodt Medical Inc.......................... 18 20 19 Medi-Physics.................................... 12 12 7 Syncor International Corporation................. 9 11 11 F-15 Mallinckrodt Medical Inc., Medi-Physics and Syncor International Corporation are chains of radiopharmacies, which distribute ProstaScint and OncoScint CR/OV kits. Revenues from Berlex include the recognition of deferred revenue following the adoption of SAB 101. As of December 31, 2002, the receivables from four of the Company's largest customers accounted for 57% of total accounts receivable. 9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES December 31, ------------------------- 2002 2001 ---- ---- Accounts payable...................................... $1,726,000 $1,166,000 Accrued payroll and related expenses.................. 298,000 989,000 Accrued research contracts and materials.............. 238,000 831,000 Accrued commission and royalties....................... 720,000 250,000 Accrued professional and legal......................... 519,000 1,061,000 Facility payable and accrued restructuring............. 130,000 462,000 Other accruals.. 796,000 556,000 -------- ---------- $4,427,000 $5,315,000 ========= ========= 10. LONG-TERM LIABILITIES December 31, -------------------------- 2002 2001 ---------- ---------- Due to Elan Corporation, plc........................ $2,280,000 $2,280,000 Capital lease obligations.......................... 162,000 88,000 Lease obligation................................... 246,000 -

Other... 6,000 - ---------- ---------- 2,694,000 2,368,000 Less: Current portion of long-term liabilities.... (80,000) (77,000) ---------- ---------- $2,614,000 $2,291,000 ========== ========== In August 1998, Cytogen received $2.0 million from Elan Corporation, plc ("Elan") in exchange for a convertible promissory note. The note is convertible into shares of Cytogen Common Stock at $28 per share, subject to adjustments, and matures in August 2005. The note bears annual interest of 7%, compounded semi-annually, however, such interest was not payable in cash but was added to the principal for the first 24 months; thereafter, interest is payable in cash. In 2002, 2001 and 2000, the Company recorded $160,000, $160,000 and $141,000, respectively, in interest expense on this note. The note contains certain non-financial covenants. The Company leases certain equipment under capital lease obligations, which will expire on various dates through 2005. Property and equipment leased under non-cancellable capital leases have a net book value of $159,000 at December 31, 2002. Payments to be made under capital lease obligations (including total interest of $9,000) are $86,000 in 2003, $79,000 in 2004 and $6,000 in 2005. In an effort to reduce expenses and position Cytogen for stronger long-term growth in oncology, the Company restructured AxCell in September 2002 by reducing 75% of AxCell's workforce. As a result, during 2002, the Company recorded a charge of $869,000 related to employee severance costs, the impairment of property and equipment and future rental payments on leased facilities that will not be used in operations, which has been included in general and administrative expense in the accompanying consolidated statement of F-16 operations. As of December 31, 2002, the Company has accrued its obligations for future lease payments of $322,000, of which $246,000 is long-term and will be paid through 2006. 11. COMMON STOCK In 2000, the Company sold 100,000 shares of Cytogen Common Stock to Berlex for $1.0 million or consideration equal to $10.00 per share upon an exercise of a warrant and 166,000 additional shares of Cytogen Common Stock for total proceeds of $3.5 million at an average price of $21.20 per share upon the exercises of employee stock options and other warrants. In September 2000, the Company sold to Acqua Wellington North American Equities Fund, Ltd., ("Acqua Wellington") 90,260 registered shares of Cytogen Common Stock at an aggregate price of $6.0 million or consideration equal to $66.47 per share. In October 2000, the Company entered into an equity financing facility with Acqua Wellington for up to $70 million of Common Stock. Under the terms of the agreement, Cytogen could, at its discretion, sell shares of its Common Stock to Acqua Wellington at a small discount to the market price. Pursuant to this Equity Financing Facility, in February 2001, the Company sold to Acqua Wellington 127,656 shares of its Common Stock at an aggregate price of $6.5 million or consideration equal to $50.92 per share. The equity financing facility was terminated in June 2001. In June 2001, the Company entered into a Share Purchase Agreement with the State of Wisconsin Investment Board ("SWIB"), pursuant to which the Company sold 182,000 shares of Cytogen Common Stock to SWIB for an aggregate purchase price of $8.2 million, before transaction costs, or consideration equal to $45.00 per share. In connection with the Share Purchase Agreement, the Company was required to discontinue the use of the Acqua Wellington equity financing facility and such agreement was terminated. In January 2002, the Company sold 297,067 shares of Cytogen Common Stock to SWIB for an aggregate purchase price of $8.0 million, or consideration equal to $26.90 per share pursuant to a January 2002 Share Purchase Agreement between SWIB and the Company. In connection with our stock issuances to SWIB, the Company agreed not to enter into equity line arrangements in the future, issue certain securities at less than fair market value or undertake certain other securities issuances without requisite stockholder approval. The Company sold an additional 416,670 shares of its Common Stock to SWIB in June 2002 for an aggregate purchase price of $5.0 million or consideration equal to $12.00 per share. See Note 5 for information regarding Cytogen Common Stock issued to the Prostagen Partners. 12. STOCK OPTIONS The Company has various stock option plans that provide for the issuance of incentive and non-qualified stock options to purchase Cytogen Common Stock ("Cytogen Options") to employees, non-employee directors and outside consultants, for which an aggregate of 607,889 shares of Common Stock have been reserved. The persons to whom Cytogen Options may be granted and the number, type, and terms of the Cytogen Options vary among the plans. Cytogen Options are granted with an exercise term of 10 years and generally become exercisable in installments over periods of up to 5 years at an exercise price determined either by the plan or equal to the fair market value of the Cytogen Common Stock at the date of grant. Under certain circumstances, vesting may accelerate. Activity under these plans was as follows: F-17 Weighted Average Aggregate Number of Price Range Exercise Price Exercise Cytogen Options Per Share Per Share Price -------------- -------------- --------------- ----------- Balance at December 31, 1999 508,000 $ 7.00 - 166.30 $20.17 $10,248,263 Granted 134,050 24.70 - 169.38 63.64 8,530,540 Exercised (134,344) 8.30 - 166.30 23.90 (3,210,282) Cancelled (38,077) 9.50 - 169.38 26.91 (1,024,568) -- Balance at December 31, 2000 469,629 7.00 -

169.38 30.97 14,543,953 Granted 74,736 25.60 - 61.30 38.08 2,845,773 Exercised (13,090) 7.00 - 28.40 16.61 (217,478) Cancelled (37,027) 8.30 - 169.38 43.95 (1,627,480) -- Balance at December 31, 2001 494,248 7.00 - 169.38 31.45 15,544,768 Granted 102,063 3.48 - 23.30 4.32 440,688 Exercised (905) 8.13 - 20.00 18.87 (17,077) Cancelled (123,300) 8.28 - 165.00 42.87 (5,285,848) -- Balance at December 31, 2002 472,106 $3.48 - 169.38 22.63 $10,682,531 -- The following table summarizes information about Cytogen stock options at December 31, 2002: Outstanding Cytogen Stock Options Exercisable Cytogen Stock Options --- ------------------------------- Weighted-Average Remaining Weighted-Average Range of Outstanding Contractual Weighted-Average Exercisable Exercise Exercise Prices Shares Life Exercise Price Shares Price -------------- ---------- -------------- --------------- ---------- -------------- $ 3.48 - 18.33 304,751 3.6 $ 8.66 252,538 $ 9.41 18.34 - 36.66 95,669 5.8 27.37 75,939 26.04 36.67 - 54.99 24,220 6.4 47.38 14,796 46.80 55.00 - 73.32 11,383 7.1 58.40 10,558 58.25 73.33 - 91.65 2,550 4.1 78.23 2,430 77.67 91.66 - 109.98 33,333 0.2 101.41 33,333 101.41 164.97 - 169.38 200 7.2 169.38 140 169.38 --- ----------------------- $ 3.48 - 169.38 472,106 4.1 $22.63 389,734 $23.75 === ======================= At December 31, 2002, Cytogen Options to purchase 389,734 shares of Cytogen Common Stock were exercisable and 68,510 shares of Cytogen Common Stock were available for issuance under approved plans of additional options that may be granted under the plans. Included in the above tables is an option granted to a key employee in 1998 to purchase 135,000 shares of Cytogen Common Stock ("Performance Options"), at an exercise price of $10.94 per share. The vesting of Performance Options were subject to the completion of certain performance based milestones as determined by the Board of Directors (the "Board"). The Company recorded approximately $1.1 million of deferred compensation upon the commencement of the vesting of the Performance Options, which represented the fair market value of Cytogen's Common Stock in excess of the exercise price of the option on the date which the Board determined the performance milestones had been met. Deferred compensation was amortized over the three-year vesting period of the Performance Options. Upon the resignation of the key employee in December 2002, $354,000 of the deferred compensation related to unvested options was reversed. F-18 Not included in the above table are options to purchase 150,000 shares of our common stock granted in 2002 to our executive officer outside any of the Company's approved stock option plans, at an exercise price of $3.54 per share. This option has three separate and equal traunches which will each vest based upon the achievement of certain milestones that will be established by the Company's Board of Directors. If the fair market value of the common stock is greater than the exercise price of the option when such milestones are met, the Company will record compensation expense to be recognized over the vesting period of such options, which will be established by the Board of Directors. AxCell, a 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 Options") to employees, for which 2,000,000 shares of AxCell common stock have been reserved. In 2002, the Company granted 20,000 shares of AxCell Common Stock to members of AxCell's Scientific Advisory Board. The Company recorded $93,000 of expense related to these grants, based upon the estimated fair value of those shares on the date of grant. As of December 31, 2002, 8,035,000 shares of AxCell Common Stock are outstanding; 8,000,000 of which are held by Cytogen. AxCell options are granted with an exercise term of 10 years and generally become exercisable in installments over periods of up to 5 years. The Company granted AxCell Options to purchase 183,035, 438,365 and 0 shares of AxCell Common Stock during 2002, 2001 and 2000, respectively. The weighted average exercise price per share for all outstanding options was $3.52 in 2002 and $3.69 in 2001. As of December 31, 2002, options to purchase 190,531 shares of AxCell Common Stock were outstanding, of which 85,537 shares were exercisable and 1,794,469 shares were available for future grant. During 2001, in connection with the grant of AxCell Options, the Company recorded deferred compensation of $241,000, representing the estimated fair value of AxCell Common Stock in excess of the exercise price of the options on the date such options were granted. The deferred compensation is being amortized over the vesting period of the options. Due to employee terminations, primary as a result of the restructuring at AxCell, $79,000 of deferred compensation related to unvested options was reversed. The Company adopted an employee stock purchase plan under which eligible employees may elect to purchase shares of Cytogen Common Stock at the lower of 85% of fair market value as of the first trading day of each quarterly participation period, or as of the last trading day of each quarterly participation period. In 2002, 2001 and 2000, employees purchased 4,911, 1,287 and 3,239 shares, respectively, for aggregate proceeds of $24,000, $28,000 and $80,000, respectively. The Company has reserved 30,639 shares for future issuance under its employee stock purchase plan. The weighted average fair value of the options granted under the Cytogen stock option plans during 2002, 2001 and 2000 is estimated as $3.70, $30.74 and $54.01 per option, respectively, on the date of grant using the Black-Scholes option pricing model with the following assumptions for 2002, 2001 and 2000: dividend yield of zero, volatility of 143.46%, 124.95% and 120.39%, respectively, risk-free interest rate of 2.94%, 4.55% and 5.98%, respectively, and an expected life ranging from 4 to 5 years. The average fair value per option ascribed to the employee stock purchase plan during 2002, 2001 and 2000 is estimated at $5.72, $14.73 and $13.53, respectively, on the date of grant using the Black-Scholes option pricing model with the following assumptions for 2002, 2001 and 2000: dividend yield of zero, volatility of 20.83%, 125.41% and 109.83%, respectively, risk free interest rate of 1.67%, 4.12% and 5.52%, respectively, and expected life of three months. The weighted average fair value of AxCell Options granted during 2002 and 2001 is estimated at $4.16 and $4.06, respectively, on the date of grant using the Black-Scholes pricing model with the following assumptions for 2002 and 2001: dividend yield of zero, volatility of 142.07% and 124.91%, respectively, risk-free interest rate of 4.02% and 4.59%, respectively, and an expected life of 5 years. As of December 31, 2002, the Company has outstanding warrants to purchase 32,363 shares of Common Stock, at exercise prices ranging from $16.25 to $49.80 per share. The warrants are exercisable through November 2004. 13. RELATED PARTY TRANSACTION Consulting services have been provided to the Company under an agreement with the Chairman of the Board of Directors related to time spent in that function on Company matters. Fees and expenses under this agreement were $52,000, $53,000 and $54,000 in 2002, 2001 and 2000, respectively. 14. RETIREMENT SAVINGS PLAN The Company maintains a defined contribution plan for its employees. The contribution is determined by the Board of Directors each year and is based upon a percentage of gross wages of eligible employees. The plan provides for vesting over four years, with credit given for prior service. The Company also makes contributions under a 401(k) plan in amounts which match up to 50% of the salary deferred by the participants. Matching is capped at 6% of deferred salaries. Total expense was $98,000, $140,000 and $95,000 for 2002, 2001 and 2000, respectively. F-19 15. INCOME TAXES As of December 31, 2002, Cytogen had federal net operating loss carryforwards of approximately $264 million. The Company also had federal and state research and development tax credit carryforwards of approximately $7.1 million. These net operating loss and credit carryforwards have begun to expire and will continue to expire through 2022. In addition, certain operating loss and credit carryforwards began to expire in 1995. The Tax Reform Act of 1986 contains provisions that limit the utilization of net operating loss and tax credit carryforwards if there has been an "ownership change". Such an "ownership change", as described in Section 382 of the Internal Revenue Code may limit the Company's utilization of its net operating loss and tax credit carryforwards. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for income tax purposes. Based on the Company's net loss before income taxes during 2002, 2001 and 2000, the Company would have recorded a tax benefit. During 2002, 2001 and 2000, there were increases of $3,529,000, $6,926,000 and $8,880,000, respectively in the valuation allowance, due to the Company's loss history, and uncertainty regarding the realization of deferred tax assets. These increases to the valuation allowance reduced the actual benefit to zero. Deferred tax assets have been fully reserved as of December 31, 2002 and 2001. A portion of the Company's net operating loss carryforward relates to tax deductions from stock option exercises and disqualifying dispositions that would be accounted for as capital contributions for financial reporting purposes to the extent such deductions could be utilized by the Company. 2002 2001 ---- ---- Deferred tax assets: Net operating loss carryforwards $ 89,859,000 $ 81,860,000 Capitalized research and development expenses 7,396,000 11,808,000 Research and development credit 7,075,000 6,800,000 Acquisition of in-process technology 977,000 720,000 Other, net 9,148,000 9,738,000 ------------ ------------ Total deferred tax assets 114,455,000 110,926,000 Valuation allowance (114,455,000) (110,926,000) ------------ ------------ Net deferred tax assets $ -- $ -- ============ ============ In 1995, Cytogen acquired CytoRad and Cellcor, both of which had net operating loss carryforwards. Due to Section 382 limitations, approximately $10 million of CytoRad and $12.0 million of Cellcor carryforwards may be available to offset future taxable income. A full valuation allowance was established on the acquisition dates as realization of these tax assets is uncertain. During 2001 and 2000, the Company sold New Jersey state operating loss carryforwards and research and development credits, resulting in the recognition of a $1.1 million and $1.6 million tax benefit, respectively. In addition, in January 2003, the Company sold additional New Jersey State net operating loss carryforwards which will result in $584,000 of income tax benefits, which will be recorded during the first quarter of 2003. 16. COMMITMENTS AND CONTINGENCIES The Company leases its facilities and certain equipment under non-cancellable operating leases that expire at various times through 2006. Rent expense on these leases was $832,000, $1.6 million and $1.3 million in 2002, 2001 and 2000, respectively. Minimum future obligations under the operating leases are $1.8 million as of December 31, 2002 and will be paid as follows: $837,000 in 2003, $616,000 in 2004, $291,000 in 2005 and $103,000 in 2006. In addition, the Company has an agreement to receive annual sublease income of $54,000 in 2003, 2004 and 2005 and $36,000 in 2006. The Company is obligated to make minimum future payments under manufacturing and research and development contracts that expire at various times. As of December 31, 2002, the minimum future payments under contracts are $1.3 million in 2003, $197,000 in 2004 and $130,000 each year from 2005 to 2018. In addition, the Company is obligated to pay milestone payments upon achievement of certain milestones and royalties on revenues from commercial product sales including certain guaranteed minimum payments. F-20 In subsequent periods, we expect to provide funding for the development of the PSMA technologies through our joint venture with Progenics at even higher levels than the current year. Such funding amount may vary dependent upon, among other things, the results of the clinical trials and research and development activities, competitive and technological developments, and market opportunities. On March 17, 2000, Cytogen was served with a complaint filed against the Company in the United States Federal Court for the District of New Jersey by M. David Goldenberg ("Goldenberg") and Immunomedics, Inc. (collectively "Plaintiffs"). The litigation claims that ProstaScint infringes a patent purportedly owned by Goldenberg and licensed to Immunomedics. The Company believes that ProstaScint does not infringe this patent, and that the patent is invalid and unenforceable. The patent sought to be enforced in the litigation has now expired; as a result, the claim even if successful would not result in an injunction barring the continued sale of ProstaScint or affect any other of Cytogen's products or technology. In addition, the Company has certain rights to indemnification against litigation and litigation expenses from the inventor of technology used in ProstaScint, which may be offset against royalty payments on sales of ProstaScint. On December 17, 2001, Cytogen filed a motion for summary judgment of non-infringement of the asserted claims of the patent-in-suit. The Plaintiffs opposed that motion and filed their own cross-motion for summary judgment of infringement. On July 3, 2002, the Court denied both parties' summary judgment motions, with leave to renew those motions after presenting expert testimony and legal argument based upon that testimony. Subsequently, the Court heard expert testimony and further argument, and received further briefing, and the parties' renewed summary judgment motions are pending. The Court has not indicated when it expects to issue a ruling. However, given the uncertainty associated with litigation, the Company cannot give any assurance that the litigation could not result in a material expenditure to the Company. 17. CONSOLIDATED QUARTERLY FINANCIAL DATA - UNAUDITED The following table provides quarterly data for the years ended December 31, 2002 and 2001. Three Months Ended -- March 31, June 30, Sept. 30, Dec. 31, 2002 2002 2002 2002 -------- -------- --------- -------- (amounts in thousands except per share data) Total revenues .... $ 3,296 $ 3,167 $ 3,101 $ 3,367 Total operating expenses .... 8,329 6,404 6,588 6,894 ------- ------- ------- ------- Operating loss .... (5,033) (3,237) (3,487) (3,527) Other income (loss), net .... 35 30 (484) 4 ------- ------- ------- ------- Net loss .... $(4,998) $(3,207) $(3,971) $(3,523) ======= ======= ======= ======= Basic and diluted net loss per share ...... $ (0.62) $ (0.39) $ (0.46) $ (0.40) ======= ======= ======= ======= Weighted average common share outstanding.. 8,122 8,308 8,660 8,758 ======= ======= ======= ======= Product related gross margin .... $ 2,027 $ 1,861 $1,882 $ 1,950 F-21 Three Months Ended --- March 31, June 30, Sept. 30, Dec. 31, 2001 2001 2001 2001 --------- -------- --------- -------- (amounts in thousands except per share data) Total revenues .... $ 3,014 $ 2,856 $ 2,821 $ 3,066 Total operating expenses .... 5,840 6,053 6,718 7,206 -------- ------- ------- ------- Operating loss .... (2,826) (3,197) (3,897) (4,140) Other income, net .... 172 112 118 455 -------- ------- ------- ------- Loss before income taxes .... (2,654) (3,085) (3,779) (3,685) Income tax benefit .... - - - (1,103) -------- ------- ------- ------- Net loss .... $ (2,654) $(3,085) $(3,779) $(2,582) ======== ======= ======= ======= Basic and diluted net loss per share ...... $ (0.35) $ (0.40) $ (0.48) $ (0.33) ======== ======= ======= ======= Weighted average common share outstanding.. 7,624 7,744 7,887 7,890 ======== ======= ======= ======= Product related gross margin .... $ 1,624 $ 1,955 $ 1,175 $ 1,875 18. MATRITECH, INC. In October 2002, the Company entered into a five-year agreement with Matritech Inc. to be the sole distributor for Matritech's NMP22 BladderChek test to urologists and oncologists in the United States. Retention of exclusivity rights depends upon meeting certain minimum annual purchases. NMP22 BladderChek is a point-of-care antibody-based diagnostic test for bladder cancer detection. During November 2002, the Company began promoting NMP22 BladderChek to urologists in the United States using its in-house sales force. The Company paid Matritech $150,000 upon the execution of the agreement, which was recorded as other assets in the accompanying consolidated balance sheet and is being amortized over the five year estimated performance period of the agreement.