PROGENICS PHARMACEUTICALS INC

FORM 10-Q
(Quarterly Report)

Filed 8/9/2005 For Period Ending 6/30/2005

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Industry	Biotechnology & Drugs
Sector	Healthcare
Fiscal Year	12/31

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2005

OR

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

For the transition period from _____ to _____

Commission file number **000-23143**

PROGENICS PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**13-3379479**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

777 Old Saw Mill River Road
Tarrytown, New York 10591
(Address of principal executive offices)
(Zip Code)

(914) 789-2800
(Registrant's telephone number, including area code)

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

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

As of August 5, 2005 there were 21,314,330 shares of common stock, par value $.0013 per share, of the registrant outstanding.

PROGENICS PHARMACEUTICALS, INC.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

PROGENICS PHARMACEUTICALS, INC.
CONDENSED BALANCE SHEETS

(amounts in thousands, except for par value and share amounts)
(Unaudited)

	June 30, 2005	December 31, 2004
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 26,342	$ 5,227
Marketable securities	42,211	24,994
Accounts receivable	1,997	1,112
Amount due from joint venture	1,257	189
Other current assets	1,477	1,810
Total current assets	73,284	33,332
Marketable securities		986
Fixed assets, at cost, net of accumulated depreciation and amortization	4,130	4,692
Investment in joint venture	93	
Restricted cash	535	535
Total assets	$ 78,042	$ 39,545
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable and accrued liabilities	$ 7,544	$ 7,260
Amount due to joint venture	1,100	
Investment deficiency in joint venture		405
Total current liabilities	8,644	7,665
Deferred lease liability	38	42
Total liabilities	8,682	7,707
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.001 par value, 20,000,000 shares authorized; none issued and outstanding		
Common stock, $.0013 par value, 40,000,000 shares authorized; issued and outstanding 21,222,445 in 2005 and 17,280,635 in 2004	28	22
Additional paid-in capital	216,404	153,469
Unearned compensation	(1,729)	(2,251)
Accumulated deficit	(145,300)	(119,311)
Accumulated other comprehensive (loss)	(43)	(91)
Total stockholders' equity	69,360	31,838
Total liabilities and stockholders' equity	$ 78,042	$ 39,545

The accompanying notes are an integral part of these condensed financial statements.

PROGENICS PHARMACEUTICALS, INC.
CONDENSED STATEMENTS OF OPERATIONS

(amounts in thousands, except net loss per share)
(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2005	**2004**	**2005**	**2004**
Revenues:				
Contract research and development from joint venture	$ 129	$ 587	$ 569	$ 1,143
Research grants and contracts	1,925	1,544	4,070	2,730
Product sales	21	44	25	50
Total revenues	2,075	2,175	4,664	3,923
Expenses:				
Research and development	10,466	9,376	22,565	17,750
General and administrative	2,900	3,038	6,042	5,853
Loss in joint venture	1,339	423	1,544	1,098
Depreciation and amortization	470	374	953	700
Total expenses	15,175	13,211	31,104	25,401
Operating loss	(13,100)	(11,036)	(26,440)	(21,478)
Other income:				
Interest income	305	191	451	408
Loss on sale of marketable securities		(31)		(31)
Total other income	305	160	451	377
Net loss	$ (12,795)	$ (10,876)	$ (25,989)	$ (21,101)
Net loss per share - basic and diluted	$ (0.65)	$ (0.64)	$ (1.40)	$ (1.26)
Weighted-average shares - basic and diluted	19,716	16,894	18,575	16,801

The accompanying notes are an integral part of these condensed financial statements

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PROGENICS PHARMACEUTICALS, INC.
CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS
FOR THE SIX MONTHS ENDED JUNE 30, 2005

(amounts in thousands)
(Unaudited)

	Common Stock		Additional Paid-In Capital	Unearned Compensation	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Comprehensive Loss
	Shares	Amount						
Balance at December 31, 2004	17,281	$ 22	$ 153,469	$ (2,251)	$ (119,311)	$ (91)	$ 31,838	
Issuance of Restricted Stock, net of forfeitures	(4)		(94)	94				
Amortization of unearned compensation				428			428	
Issuance of compensatory stock options			161				161	
Sale of Common Stock in public offerings, net of offering expenses of $2,173	3,532	5	57,822				57,827	
Sale of Common Stock under employee stock purchase plans and exercise of stock options	413	1	5,046				5,047	
Net (loss)					(25,989)		(25,989)	(25,989)
Change in unrealized loss on marketable securities						48	48	48
Balance at June 30, 2005	21,222	$ 28	$ 216,404	$ (1,729)	$ (145,300)	$ (43)	$ 69,360	$ (25,941)

The accompanying notes are an integral part of these condensed financial statements.

PROGENICS PHARMACEUTICALS, INC.
CONDENSED STATEMENTS OF CASH FLOWS

(amounts in thousands)
(Unaudited)

	Six months ended June 30,	
	2005	**2004**
Cash flows from operating activities:		
Net loss	$ (25,989)	$ (21,101)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	953	700
Loss on disposal of fixed assets		43
Loss on sale of marketable securities		31
Amortization of premiums/accretion of discounts, net on marketable securities	130	382
Amortization of unearned compensation	428	
Noncash expenses incurred in connection with issuance of common stock and stock options	161	243
Loss in joint venture	1,544	1,098
Adjustment to loss in joint venture	658	253
Changes in assets and liabilities:		
Increase in accounts receivable	(885)	(1)
Increase in amount due from joint venture	(1,068)	(15)
Decrease in other current assets and other assets	333	541
Increase (decrease) in accounts payable and accrued expenses	284	(158)
Increase (decrease) in amount due to joint venture	1,100	(109)
Increase in investment in joint venture	(2,700)	(950)
Decrease in deferred lease liability	(4)	(4)
Net cash used in operating activities	(25,055)	(19,047)
Cash flows from investing activities:		
Capital expenditures	(391)	(923)
Increase in restricted cash		(1)
Sales of marketable securities	26,941	40,571
Purchase of marketable securities	(43,254)	(30,102)
Net cash (used in) provided by investing activities	(16,704)	9,545
Cash flows from financing activities:		
Proceeds from public offerings of Common Stock	60,000	
Expenses associated with public offerings of Common Stock	(2,173)	
Proceeds from the exercise of stock options and sale of common stock under the Employee Stock Purchase Plan	5,047	3,794
Net cash provided by financing activities	62,874	3,794
Net increase (decrease) in cash and cash equivalents	21,115	(5,708)
Cash and cash equivalents at beginning of period	5,227	11,837
Cash and cash equivalents at end of period	$ 26,342	$ 6,129
Supplemental disclosure of noncash investing and financing activities:		
Fixed asset purchases included in accounts payable and accrued expenses	$	$ $ 17

The accompanying notes are an integral part of these condensed financial statements.

PROGENICS PHARMACEUTICALS , INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS
(amounts in thousands, except per share amounts or unless otherwise noted)

1. Interim Financial Statements

Progenics Pharmaceuticals, Inc. (the "Company") is a biopharmaceutical company focusing on the development and commercialization of innovative therapeutic products to treat the unmet medical needs of patients with debilitating conditions and life-threatening diseases. The Company's principal programs are directed toward symptom management and supportive care and the treatment of Human Immunodeficiency Virus ("HIV") infection and cancer. The Company was incorporated in Delaware on December 1, 1986. All of the Company's operations are located in New York State. The Company operates in a single segment.

With the exception of the years ended December 31, 1997 and 1998, the Company has had recurring losses and had, at June 30, 2005, an accumulated deficit of approximately $145.3 million. During the quarter ended June 30, 2005, the Company received $57.8 million, net of underwriting discounts and offering expenses, through two public offerings, totaling approximately 3.5 million shares of its common stock. At June 30, 2005, the Company had cash, cash equivalents and marketable securities totaling $68.6 million. During the three months and six months then ended, the Company had a net loss of $12.8 million and $26.0 million, respectively, and used cash in operating activities of $25.1 million during the six months ended June 30, 2005 **.** Other than potential revenues from methylnaltrexone ("MNTX"), the Company does not anticipate generating significant recurring revenues, from product sales or otherwise, in the near term, and the Company expects its expenses to increase. Consequently, the Company will require significant additional external funding to continue its operations at the current levels.

The Company expects that cash, cash equivalents and marketable securities at June 30, 2005 will be sufficient to fund current operations through the fourth quarter of 2006. The Company is currently in negotiations with potential collaborators for development of MNTX programs. The Company expects that such a collaboration agreement would include up-front license fees or other payments as well as potential milestone payments. The Company also expects that a collaborator would assume some or all of the financial responsibility for further clinical development and commercialization of a majority of the MNTX programs. The Company may also enter into a collaboration agreement, or license or sale transaction, with respect to other of its product candidates. The Company may also seek to raise additional capital through the sale of its common stock or other securities and expects to fund aspects of its operations through government grants and contracts.

Adequate additional funding may not be available to the Company on acceptable terms or at all. The Company has the ability to make cost-saving changes in its operations in the event that the Company is unable to secure additional funding. Such changes would likely involve focusing the Company's resources on its late-stage MNTX program, which the Company believes has the greatest likelihood of generating near-term cash flows, and reducing or eliminating funding to some or all of its other programs. The Company believes that these measures would significantly reduce its operating expenses. The extent to which these changes will be implemented, if at all, will depend upon a variety of factors, including cash in-flows from collaborations, financings or other sources, the extent to which negative cash flows from operations continue and the perceived likelihood of success, and expected costs to completion, of the Company's various product development programs.

The interim Condensed Financial Statements of the Company included in this report have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and disclosures necessary for a presentation of the Company's financial position, results of operations and cash flows in conformity with generally accepted accounting principles. In the opinion of management, these financial statements reflect all adjustments, consisting primarily of normal recurring accruals, necessary for a fair statement of results for the periods presented. The results of operations for interim periods are not necessarily indicative of the results for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.

PROGENICS PHARMACEUTICALS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)
(amounts in thousands, except per share amounts or unless otherwise noted)

2. Stock-Based Employee Compensation

The accompanying statements of financial position and results of operations have been prepared in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). Under APB No. 25, generally no compensation expense is recognized in the financial statements in connection with the awarding of stock option grants to employees provided that, as of the grant date, all terms associated with the award are fixed and the fair value of the Company's stock, as of the grant date, is equal to or less than the amount an employee must pay to acquire the stock. The Company recognizes compensation expense if the terms of an option grant are not fixed or the quoted market price of the Company's common stock on the grant date is greater than the amount an employee must pay to acquire the stock. Compensation expense is also recognized for performance-based vesting of stock options upon achievement of defined milestones. Unearned compensation for restricted stock awards granted is recorded on the date of the grant based on the intrinsic value of such awards. Such unearned compensation is expensed, using a straightline method, over the period during which the related restrictions on such stock lapse. Upon termination of employment, unvested restricted stock awards are forfeited and compensation expense and unearned compensation previously recognized are reversed.

The Company intends to adopt Statement of Financial Accounting Standards No. 123 (revised 2004) "Share-Based Payment" ("SFAS No.123R") on January 1, 2006, using the modified prospective method (see Note 9). In anticipation of the adoption of SFAS No.123R, the Company has revised certain assumptions used in the Black-Scholes option pricing model to value equity-based awards. The estimate of expected term has been increased from 5 years to 6.5 years for all awards granted on or after January 1, 2005, in accordance with the simplified method described in Staff Accounting Bulletin No. 107 for options with five-year graded vesting. The period used to calculate historical volatility of the Company's common stock has also been revised to 6.5 years. The impact of these revisions is expected to increase the amount of compensation expense recognized by the Company as compared to the amount that would have been recognized using the previous estimates.

The following table summarizes the pro forma operating results and compensation costs for the Company's incentive stock option and stock purchase plans, which have been determined in accordance with the fair value-based method of accounting for stock-based compensation as prescribed by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). Since option grants and restricted stock awarded during 2005 and 2004 vest over several years and additional awards are expected to be issued in the future, the pro forma results shown below are not likely to be representative of the effects on future years of the application of the fair value-based method.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net loss, as reported	$ (12,795)	$ (10,876)	$ (25,989)	$ (21,101)
Add: Stock-based employee compensation expense included in reported net loss	235		440	
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(1,904)	(1,716)	(3,717)	(4,146)
Pro forma net loss	$ (14,464)	$ (12,592)	$ (29,266)	$ (25,247)
Net loss per share amounts, basic and diluted:				
As reported	$ (0.65)	$ (0.64)	$ (1.40)	$ (1.26)
Pro forma	$ (0.73)	$ (0.75)	$ (1.58)	$ (1.50)

For the purpose of the above pro forma calculations, the fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model. The following assumptions were used in computing the fair value of options granted: expected volatility of 97% in 2005 and 92% in 2004 (44% for the employee stock

(amounts in thousands, except per share amounts or unless otherwise noted)

purchase plan), expected lives of 6.5 years in 2005 and 5 years in 2004 (six months for the employee stock purchase plan), zero dividend yield, and weighted-average risk-free interest rates of 3.68% in 2005 and 3.17% in 2004.

The fair value of options and warrants granted to non-employees for services, determined using the Black-Scholes option pricing model with the foregoing assumptions, is included in the financial statements and expensed as they vest. Net loss and pro forma net loss include $21 and $156 of non-employee compensation expense in the three month periods ended June 30, 2005 and 2004, respectively, and $161 and $243 of employee and non-employee compensation expense in the six month periods ended June 30, 2005 and 2004, respectively.

3. Revised Classification of Certain Securities

At December 31, 2004, the Company had reclassified its auction rate securities as marketable securities in current assets. Prior to that reclassification, such investments had been classified as cash and cash equivalents. Accordingly, the Company has reflected these securities as marketable securities in the current assets section of its balance sheets as of June 30, 2005 and December 31, 2004 and 2003. The Company has also made corresponding adjustments to its statements of cash flows for the six month periods ended June 30, 2005 and 2004 to reflect the gross purchases and sales of these securities as investing activities rather than as a component of cash and cash equivalents since the effect of such reclassifications would have been reflected in the Company's June 30, 2004 balance sheet. This reclassification does not affect previously reported cash flows from operations or from financing activities in the Company's previously reported statements of cash flows or its previously reported statements of operations for any period.

At December 31, 2003 and June 30, 2004, $35.9 and $21.7 million, respectively, of these current investments had originally been classified as cash equivalents on the Company's balance sheet. These investments have been reclassified to short-term investments from cash and cash equivalents as previously reported.

For the six month period ended June 30, 2004, $14.2 million of net cash provided by investing activities resulted from the reclassification of these short-term auction rate securities.

4. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses as of June 30, 2005 and December 31, 2004 consist of the following:

	June 30, 2005	December 31, 2004
Accounts payable	$ 620	$ 1,438
Accrued consulting and clinical trial costs	5,339	3,832
Accrued payroll and related costs	667	734
Legal and professional fees payable	918	1,256
Total	$ 7,544	$ 7,260

5. Net Loss Per Share

The Company's basic net loss per share amounts have been computed by dividing net loss by the weighted average number of common shares outstanding during the respective periods. For the three and six months ended June 30, 2005 and 2004, the Company reported a net loss and, therefore, no common stock equivalents were included in the computation of diluted net loss per share since such inclusion would have been antidilutive. The calculations of net loss per share, basic and diluted, are as follows:

PROGENICS PHARMACEUTICALS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)
(amounts in thousands, except per share amounts or unless otherwise noted)

	Net Loss (Numerator)	Shares (Denominator)	Per Share Amount
Three months ended June 30, 2005			
Basic and Diluted	$ (12,795)	19,716	$ (0.65)
Six months ended June 30, 2005			
Basic and Diluted	$ (25,989)	18,575	$ (1.40)
Three months ended June 30, 2004			
Basic and Diluted	$ (10,876)	16,894	$ (0.64)
Six months ended June 30, 2004			
Basic and Diluted	$ (21,101)	16,801	$ (1.26)

Common stock equivalents, which have been excluded from the diluted per share amounts because their effect would have been antidilutive, consist of the following:

	Three Months Ended June 30,			
	2005		2004	
	Wtd. Avg. Number	Wtd. Avg. Exercise Price	Wtd. Avg. Number	Wtd. Avg. Exercise Price
Stock options	4,549	$ 12.80	4,948	$ 10.30
Restricted stock	157			
Total	4,706		4,948	

	Six Months Ended June 30,			
	2005		2004	
	Wtd. Avg. Number	Wtd. Avg. Exercise Price	Wtd. Avg. Number	Wtd. Avg. Exercise Price
Stock options	4,677	$ 12.78	5,015	$ 10.20
Restricted stock	166			
Total	4,843		5,015	

6. PSMA Development Company LLC

a. Introduction

PSMA Development Company LLC (the “JV”) was formed on June 15, 1999 as a joint venture between the Company and Cytogen Corporation (each a “Member” and collectively, the “Members”) for the purposes of conducting research, development, manufacturing and marketing of products related to prostate-specific membrane antigen (“PSMA”). Each Member has equal ownership and equal representation on the JV’s management committee and equal voting rights and rights to profits and losses of the JV. In connection with the formation of the JV, the Members entered into a series of agreements, including an LLC Agreement and a Licensing Agreement (collectively, the “Agreements”), which generally define the rights and obligations of each Member, including the obligations of the Members with respect to capital contributions and funding of research and development of the JV for each coming year. The Agreements generally terminate upon the

last to expire of the patents granted by the Members to the JV or upon breach by either party, which is not cured within 60 days of written notice or upon dissolution of the JV in accordance with the LLC Agreement.

The Company provides research and development services to the JV and is compensated for its services based on agreed-upon terms. Until January 2004, such services were provided to the JV pursuant to a Services Agreement and extensions thereof. The Services Agreement, as extended, expired effective January 31, 2004, and the Members have not yet agreed upon the terms of a replacement services agreement. The Services Agreement provided that all inventions made by the Company in connection with its research and development services for the JV are to be assigned to the JV for its use and benefit.

b. Funding of Research and Development by the Members

The level of commitment by the Members to fund the JV is based on an annual budget and work plan that is developed by the Members. The budget is intended to provide for sufficient funds to conduct the research and development projects specified in the work plan for the then-current year.

Under the Agreements, the Company was required to fund the initial cost of research up to $3.0 million. As of December 31, 2001, the Company had met its obligation to provide this amount. Since that time, each Member has made equal capital contributions to fund research and other costs.

The contributions of the Members to the JV, one half of which was committed by each Member, were $4.4 million and $1.9 million, respectively, in the three month periods ended June 30, 2005 and 2004 and $5.4 million and $1.9 million, respectively, in the six month periods ended June 30, 2005 and 2004. Each Member made a capital contribution to the JV of $0.5 million in January 2005, which was used to fund obligations for work performed under the approved 2004 work plan, and which amounts are included in the total contributions for the 2005 periods set forth above.

In June 2005, the Members approved a work plan and budget for the year ending December 31, 2005 totaling $10.6 million. In each of June and July 2005, the Members made cash payments of $2.2 million ($4.4 million in aggregate), for work performed under that approved budget through June 30, 2005. The July 2005 contributions of $2.2 million are recorded as a receivable by the JV at June 30, 2005 and are part of the $4.4 million capital contribution noted above. The Members have committed to make further capital contributions in 2005 as are necessary to fund the 2005 work plan under the approved budget.

c. Contract Research and Development Revenue from the JV

Amounts received by the Company from the JV as payment for research and development services and reimbursement of related costs in excess of the initial $3.0 million provided by the Company (see above) are recognized as contract research and development revenue. For the three months ended June 30, 2005 and 2004, such amounts totaled approximately $129 and $587, respectively and for the six months ended June 30, 2005 and 2004, such amounts totaled approximately $569 and $1,143, respectively. According to the Agreements, the Company may directly pursue and obtain government grants directed to the conduct of research utilizing PSMA related technologies. In consideration of the Company's initial incremental capital contribution of $3.0 million of joint venture research expenditures, the Company may retain $3.0 million of such government grant funding. To the extent that the Company retains grant revenue in respect of work for which it has also been compensated by the joint venture ("JV Compensation Work"), the remainder of the $3.0 million to be retained by the Company is reduced and the Company records an adjustment in its financial statements to reduce both joint venture losses and contract revenue from the joint venture. Such adjustments were $365 and $119 for the three months ended June 30, 2005 and 2004, respectively, $658 and $253 for the six months ended June 30, 2005 and 2004, respectively, and $2.3 million cumulatively through June 30, 2005. Subsequent to retention in full by the Company of $3.0 million in grant funding related to JV Compensation Work, grant funding from PSMA programs will reduce the funding obligations of the Members equally.

(amounts in thousands, except per share amounts or unless otherwise noted)

Contract research and development revenue recognized by the Company related to services provided to the JV may vary in the future due to potential future funding limitations on the part of the Members, disagreements between the Members regarding JV funding or operations, the extent to which the JV requests Progenics to perform research and development under the terms of a new Services Agreement or other form of agreement between the Members with respect to such services.

d. Collaboration Agreement with Seattle Genetics, Inc.

In June 2005, the JV entered into a collaboration agreement (the "SGI Agreement") with Seattle Genetics, Inc. ("SGI"). Under the SGI Agreement, SGI provided an exclusive worldwide license to its proprietary antibody-drug conjugate technology (the "ADC Technology") to the JV. Under the license, the JV has the right to use the ADC Technology to link cell-killing drugs to the JV's monoclonal antibodies that target prostate-specific membrane antigen. During the initial research term of the Agreement, SGI also is required to provide technical information to the JV related to implementation of the licensed technology, which period may be extended for an additional period upon payment of an additional fee. The JV may replace prostate-specific membrane antigen with another antigen, subject to certain restrictions, upon payment of an antigen replacement fee. The ADC Technology is based, in part, on technology licensed by SGI from third parties (the "Licensors"). The JV is responsible for research, product development, manufacturing and commercialization of all products under the SGI Agreement. The JV may sub-license the ADC Technology to a third-party to manufacture the ADC's for both research and commercial use. The JV made a $2.0 million technology access payment to SGI upon execution of the SGI Agreement and will make additional maintenance payments during the term of the SGI Agreement. In addition, the JV will make payments, aggregating $15.0 million, upon the achievement of certain defined milestones and will pay royalties to SGI and its Licensors, as applicable, on a percentage of net sales, as defined. In the event that SGI provides materials or services to the JV under the SGI Agreement, SGI will receive supply and/or labor cost payments from the JV at agreed-upon rates. T he JV's monoclonal antibody project is currently in the pre-clinical phase of research and development. All costs incurred by the JV under the SGI Agreement during the research and development phase of the project will be expensed in the period incurred. The SGI Agreement terminates at the later of (a) the tenth anniversary of the first commercial sale of each licensed product in each country or (b) the latest date of expiration of patents underlying the licensed products. The JV may terminate the SGI Agreement upon advance written notice to SGI. SGI may terminate the SGI Agreement if the JV breaches an SGI in-license that is not cured within a specified time period after written notice. In addition, either party may terminate the SGI Agreement upon breach by the other party that is not cured within a specified time period after written notice or in the event of bankruptcy of the other party. The ability of the JV to comply with the terms of the SGI Agreement will depend on agreement by the Members regarding work plans and budgets of the JV in future years.

e. Selected Financial Statement Data

The Company accounts for its investment in the JV in accordance with the equity method of accounting. Selected financial statement data of the JV are as follows:

Balance Sheet Data	**June 30, 2005**	**December 31, 2004**
Cash	$ 161	
Prepaid expenses	28	$ 12
Total assets	$ 189	$ 12
Accounts payable to Progenics, a related party	$ 1,257	$ 189
Accounts payable to Cytogen, a related party	131	4
Accounts payable and accrued expenses	814	629
Total liabilities	2,202	822
Stockholders' (deficit)	(2,013)	(810)
Total liabilities and stockholders' (deficit)	$ 189	$ 12

(amounts in thousands, except per share amounts or unless otherwise noted)

Statement of Operations Data:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Interest income	$ 2	$ 2	$ 3	$ 5
Total expenses (1)	3,410	1,086	4,406	2,708
Net loss	$ (3,408)	$ (1,084)	$ (4,403)	$ (2,703)

(1) Includes research and development services performed by the Company during the three months and six months ended June 30, 2005 and 2004.

7. Comprehensive Loss

Comprehensive loss represents the change in net assets of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive loss of the Company includes net loss adjusted for the change in net unrealized gain or loss on marketable securities. The net effect of income taxes on comprehensive loss is immaterial. For the three months and six months ended June 30, 2005 and 2004, the components of comprehensive loss are:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net loss	$ (12,795)	$ (10,876)	$ (25,989)	$ (21,101)
Change in net unrealized gain (loss) on marketable securities	48	(152)	48	(143)
Comprehensive loss	$ (12,747)	$ (11,028)	$ (25,941)	$ (21,244)

8. Commitments and Contingencies

In the ordinary course of its business, the Company enters into agreements with third parties that include indemnification provisions which, in its judgment, are normal and customary for companies in its industry sector. These agreements are typically with business partners, clinical sites and suppliers. Pursuant to these agreements, the Company generally agrees to indemnify, hold harmless and reimburse the indemnified parties for losses suffered or incurred by the indemnified parties with respect to the Company's products or product candidates, use of such products or other actions taken or omitted by the Company. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions is not limited. The Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification provisions. As a result, the estimated fair value of liabilities relating to these provisions is minimal. Accordingly, the Company has no liabilities recorded for these provisions as of June 30, 2005.

9. Impact of Recently Issued Accounting Standards

In December 2004, the Financial Accounting Standards Board (the "FASB") issued Statement No. 123 (revised 2004) "Share-Based Payment"("SFAS 123R"), which is a revision of FASB Statement No.123, "Accounting for Stock Based Compensation" ("SFAS 123"). SFAS 123R supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and amends FASB Statement No. 95, "Statement of Cash Flows". SFAS 123R requires all share-based payments to employees, including grants of employee stock options and restricted stock, and purchases of common stock under the Company's Employee Stock Purchase Plans, if compensatory, as defined, to be recognized in the financial statements based on their grant-date fair values. The standard allows three alternative transition methods for public companies: modified prospective method; modified retrospective method with restatement of prior interim periods in the year of adoption; and modified retroactive method with restatement of all prior financial

statements to include the same amounts that were previously included in pro forma disclosures. Historically, in accordance with SFAS 123 and Statement of Financial Accounting Standards No.148 “Accounting for Stock-Based Compensation-Transition and Disclosure” (“SFAS 148”), the Company had elected to follow the disclosure-only provisions of Statement No.123 and, accordingly, accounted for share-based compensation under the recognition and measurement principles of APB 25 and related interpretations. Under APB 25, when stock options are issued to employees with an exercise price equal to or greater than the market price of the underlying stock price on the date of grant, no compensation expense is recognized in the financial statements and pro forma compensation expense in accordance with FAS 123 is only disclosed in the footnotes to the financial statements. The Company intends to adopt SFAS 123R on January 1, 2006 using the modified prospective application and the Black-Scholes option pricing model to calculate the fair value of option awards. The Company has not yet determined the impact that SFAS 123R will have on its results of operations, financial position and cash flows.

On March 29, 2005, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin No. 107 (“SAB 107”), which expresses views of the SEC staff regarding the interaction between SFAS 123R and certain SEC rules and regulations and provide the SEC staff’s views regarding the valuation of share-based payment arrangements for public companies. In particular, SAB 107 provides guidance related to share-based payment transactions with nonemployees, the transition from nonpublic to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of SFAS 123R in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS 123R, the modification of employee share options prior to adoption of SFAS 123R and disclosures in Management’s Discussion and Analysis subsequent to adoption of SFAS 123R. As noted above, the Company will adopt SFAS 123R on January 1, 2006 and has changed its estimates of expected term and the related period over which expected volatility is calculated, in accordance with SAB 107, effective January 1, 2005. Those revised assumptions will be used by the Company in the Black-Scholes option pricing model, to value share-based awards granted to employees, for the calculation of pro forma net loss and pro forma net loss per share amounts during 2005, in accordance with SFAS 123. The Company will continue to use those revised assumptions upon adoption of SFAS 123R and will implement other aspects of SAB 107 related to presentation and disclosure requirements under SFAS 123R beginning on January 1, 2006.

On June 1, 2005, the FASB issued Statement No. 154, *Accounting Changes and Error Corrections* (“SFAS 154”), which will require entities that voluntarily make a change in accounting principle to apply that change retrospectively to prior periods' financial statements, unless this would be impracticable. SFAS 154 supersedes Accounting Principles Board Opinion No. 20, *Accounting Changes* (“APB 20”), which previously required that most voluntary changes in accounting principle be recognized by including in the current period's net income the cumulative effect of changing to the new accounting principle. SFAS 154 also makes a distinction between "retrospective application" of an accounting principle and the "restatement" of financial statements to reflect the correction of an error. Another significant change in practice under SFAS 154 will be that if an entity changes its method of depreciation, amortization, or depletion for long-lived, nonfinancial assets, the change must be accounted for as a change in accounting estimate. Under APB 20, such a change would have been reported as a change in accounting principle. SFAS 154 applies to accounting changes and error corrections that are made in fiscal years beginning after December 15, 2005.

Item 2. Management ’s Discussion and Analysis of Financial Condition and Results of Operations

Special Note Regarding Forward-Looking Statements

Certain statements in this Quarterly Report on Form 10-Q constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Included in these forward-looking statements are statements regarding our expectations for beginning or completing clinical trails, submitting applications to regulatory authorities for marketing approvals for our product candidates, and raising additional capital and reducing our operating costs if we cannot raise additional funds. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements, or industry results, to be materially different from any expected future results, performance or achievements expressed or implied by such forward-looking statements. These factors include, among others, the risk that we will not be able to obtain funding necessary to conduct our operations, the uncertainties associated with product development, the risk that clinical trials will not commence, proceed or be completed as planned, the risk that our products will not receive marketing approval from regulators, the risks and uncertainties associated with the dependence upon the actions of our corporate, academic and other collaborators and of government regulatory agencies, the risk that our licenses to intellectual property may be terminated because of our failure to have satisfied performance milestones, the risk that products that appear promising in early clinical trials do not demonstrate efficacy in larger scale clinical trials, the risk that we may not be able to manufacture commercial quantities of our products, the risk that our products, if approved for marketing, do not gain market acceptance sufficient to justify development and commercialization costs, the uncertainty of future profitability and other factors set forth more fully in this Form 10-Q, including those described under the caption “Risk Factors,” and other periodic filings with the Securities and Exchange Commission, to which investors are referred for further information.

We do not have a policy of updating or revising forward-looking statements, and we assume no obligation to update any forward-looking statements contained in this Form 10-Q as a result of new information or future events or developments. Thus, you should not assume that our silence over time means that actual events are bearing out as expressed or implied in such forward-looking statements.

Overview

General . We are a biopharmaceutical company focusing on the development and commercialization of innovative therapeutic products to treat the unmet medical needs of patients with debilitating conditions and life-threatening diseases. We commenced principal operations in late 1988, and since that time we have been engaged primarily in research and development efforts, development of our manufacturing capabilities, establishment of corporate collaborations and raising capital. We do not currently have any commercial products. In order to commercialize the principal products that we have under development, we will need to address a number of technological and clinical challenges and comply with comprehensive regulatory requirements. Accordingly, we cannot predict the amount of funds that we will require, or the length of time that will pass, before we receive significant revenues from sales of any of our products. We may never achieve significant product sales.

Our most advanced product candidate and likeliest source of product revenue is methylnaltrexone (“MNTX”). We are conducting a broad clinical development program for MNTX in several settings involving symptom management and supportive care. We will need to complete successfully both of our two phase 3 clinical trials of MNTX, in which we are evaluating MNTX as a treatment for opioid-induced constipation in patients with advanced medical illness, in order to obtain regulatory approval to market MNTX. We completed patient enrollment in the first of these trials, which we call the 301 trial, in the fourth quarter of 2004 and subsequently announced positive top-line results. In the second trial, which we call the 302 trial, we have completed the enrollment as of August 9, 2005 of 108 of the 130 patients called for under the trial protocol. Our enrollment rate for patients in the 302 trial has recently been approximately 11 patients per month. Assuming that patient enrollment continues at this rate, and that the data are positive, we could submit with the U.S. Food and Drug Administration (“FDA”) a New Drug Application (“NDA”) for marketing approval for MNTX for the treatment of opioid-induced constipation in patients with advanced medical illness in the first quarter of 2006.

We are also developing MNTX for the management of post-operative bowel dysfunction, a serious paralysis of the gastrointestinal tract. We have completed a phase 2 clinical trial of MNTX for this indication. We completed enrollment for the trial, which we call the 203 trial, in the fourth quarter of 2004 and announced positive top-line results in January 2005. We plan to complete a more in-depth analysis of the data and meet with the FDA in 2005 to discuss designing a phase 3 clinical program. We are also developing oral MNTX for the treatment of opioid-induced constipation in patients with chronic pain and have completed phase 1 clinical trials of oral MNTX in healthy volunteers. We plan to initiate, in 2005, phase 2 clinical studies of oral MNTX in chronic pain patients who experience opioid-induced constipation.

In the area of HIV infection, we are developing viral entry inhibitors, which are molecules designed to inhibit the virus' ability to enter certain types of immune system cells. HIV is the virus that causes AIDS. We are conducting a phase 1 study in healthy volunteers of PRO 140, a monoclonal antibody designed to target the HIV co-receptor CCR5. Receptors and co-receptors are structures on the surface of a cell to which a virus must bind in order to infect the cell. We completed enrollment of phase 1 clinical testing of PRO 140 in July 2005. A phase 1b trial of PRO 140 in HIV-infected patients is scheduled to begin later in 2005 **.** We have open for enrollment a multi-dose phase 2 clinical trial of PRO 542, a genetically engineered molecule designed to neutralize HIV. We plan to make a decision in the second half of 2005 regarding the feasibility of continuing our PRO 542 HIV program after reviewing the then-available data from the ongoing phase 2 clinical trial in the context of data regarding PRO 140, which targets the same disease.

In addition, we are developing immunotherapies for prostate cancer, including monoclonal antibodies directed against prostate-specific membrane antigen ("PSMA"), a protein found on the surface of prostate cancer cells. We are also developing vaccines designed to stimulate an immune response to PSMA. Our PSMA programs are conducted through PSMA Development Company LLC, our joint venture with Cytogen Corporation (the "JV"). We are also studying a cancer vaccine, GMK, in phase 3 clinical trials for the treatment of malignant melanoma.

The statements above as to our expectations for achieving various milestones are forward-looking statements. There are a variety of factors that may prevent us from achieving these milestones within the timeframes suggested, or at all, including a continuation in delays we have experienced in the past in enrolling patients, the inherent uncertainties associated with seeking marketing approvals from the FDA and the other factors described herein under the caption "Risk Factors."

Our sources of revenues through June 30, 2005 have been payments under our former collaboration agreements, from the JV, from research grants and contracts related to our cancer and HIV programs and from interest income. To date, our product sales have consisted solely of limited revenues from the sale of research reagents. We expect that sales of research reagents in the future will not significantly increase over current levels.

A majority of our expenditures to date have been for research and development activities. We expect that our research and development expenses will increase significantly as our programs progress and we make filings with regulators for approval to market our product candidates.

With the exception of the years ended December 31, 1997 and 1998, we have had recurring losses and had, at June 30, 2005, an accumulated deficit of approximately $145.3 million. During the quarter ended June 30, 2005, we received net proceeds of $57.8 million from two public offering, totaling 3,532,467 shares of our common stock. At June 30, 2005, we had cash, cash equivalents and marketable securities totaling $68.6 million. We expect that cash, cash equivalents and marketable securities on hand at June 30, 2005 will be sufficient to fund operations at current levels through the fourth quarter of 2006 **.** During the three-month and six-month periods ended June 30, 2005, we had a net loss of $12.8 million and $26.0 million, respectively, and used cash in operating activities of $15.0 million and $25.1 million, respectively. Other than potential revenues from MNTX, we do not anticipate generating significant recurring revenues, from product sales or otherwise, in the near term, and we expect our expenses to increase. Consequently, we will require significant additional external funding to continue our operations at their current levels in the future. Such funding may be derived from one or more collaboration or licensing agreements with pharmaceutical or other companies or from the sale of our common stock or other securities to investors. However, such additional funding may not be available to us on acceptable terms or at all.

We have the ability to make cost-saving changes in our operations in the event that we are unable to secure additional funding. Such changes would likely include curtailing significantly one or more of our product development programs and engaging in other cost containment initiatives.

Joint Venture with Cytogen Corporation . We have a 50% interest in our JV with Cytogen Corporation. The JV's research and development programs and other operations are conducted on its behalf by us, Cytogen and third party providers. We and Cytogen are compensated by the JV for our services provided to the JV and are reimbursed for costs we pay on its behalf. We were required to fund the first $3.0 million of the JV's research and development costs. Prior to reaching $3.0 million of such costs, we recognized reimbursements on a net basis and did not recognize any revenue from the joint venture. During the fourth quarter of 2001, we surpassed the $3.0 million threshold, at which time we began recognizing revenue for services and costs being provided to and paid by the JV. Our revenues from the JV do not result in significant net cash flows to us, since they are relatively minor in comparison to our expenses and, because they are offset in part by capital contributions that we must make to the JV.

From June 1999 through January 2004, our services to the JV were provided pursuant to the terms of a services agreement. This services agreement, as extended, expired effective January 31, 2004. Although both parties have continued to provide services to the JV subsequent to January 2004 (and have been compensated for these services), we and Cytogen have not yet agreed upon the terms of a replacement services agreement. The level of future revenues we derive from the JV will depend on the nature and amount of research and development services requested of us by the JV as well as the future financial position of the JV, which depends on the ability of the Members to reach agreement as to a work plan and budget for each annual period.

Our and Cytogen's respective levels of commitment to fund the JV is based on an annual budget and work plan that are developed by the parties. The budget is intended to provide for sufficient funds to conduct the research and development projects specified in the work plan for the then-current year. We have in the past experienced delays in reaching agreement with Cytogen regarding budget issues and strategic and operational matters relating to the JV. During June 2005, the Members approved a work plan and a corresponding budget of $10.6 million for the year ending December 31, 2005. Capital contributions, totaling $4.4 million, were made by the Members during the quarter ended June 30, 2005, of which $2.2 million was recorded as a receivable by the JV at June 30, 2005. In July 2005, the Members made cash payments to relieve the receivable, totaling $2.2 million, for activities through June 30, 2005 under the approved 2005 work plan, and have committed to make further capital contributions during 2005, as deemed necessary to complete the work plan.

The work plan and budget for 2005 includes funding to be made by the JV in accordance with a collaboration agreement (the "SGI Agreement") with Seattle Genetics, Inc. ("SGI"), entered into in June 2005. Under the SGI Agreement, SGI provided an exclusive worldwide license to its proprietary antibody-drug conjugate technology (the "ADC Technology") to the JV. Under the license, the JV has the right to use the ADC Technology to link cell-killing drugs to the JV's monoclonal antibodies that targets prostate-specific membrane antigen. During the initial research term of the Agreement, SGI also is required to provide technical information to the JV related to implementation of the licensed technology, which period may be extended upon payment of an additional fee. The JV may replace prostate-specific membrane antigen with another antigen, subject to certain restrictions, upon payment of an antigen replacement fee. The ADC Technology is based, in part, on technology licensed by SGI from third parties (the "Licensors"). The JV is responsible for research, product development, manufacturing and commercialization of all products under the SGI Agreement. The JV may sub-license the ADC Technology to a third-party to manufacture the ADC's for both research and commercial use. The JV made a $2.0 million technology access payment to SGI, upon execution of the SGI Agreement during June 2005, following a capital contribution by the Members (see above). The SGI Agreement requires the JV to make maintenance payments during the term of the SGI Agreement, payments, aggregating $15.0 million, upon the achievement of certain defined milestones, and royalties, on a percentage of net sales, as defined, to SGI and its Licensors. In the event that SGI provides materials or services to the JV under the SGI Agreement, SGI will receive supply and/or labor cost payments from the JV at agreed upon rates. Unless terminated earlier, t he SGI Agreement terminates at the later of (a) the tenth anniversary of the first commercial sale of each licensed product in each country or (b) the latest date of expiration of patents underlying the licensed products. The ability of the JV to comply with the terms of the SGI Agreement will depend on agreement by the Members regarding work plans and budgets of the JV in future years.

According to the Agreements, we may directly pursue and obtain government grants directed to the conduct of research utilizing PSMA related technologies. In consideration of our initial incremental capital contribution of $3.0 million of JV research expenditures, we may retain $3.0 million of such government grant funding. To the extent that we retain grant revenue in respect of work for which the we have also been compensated by the joint venture ("JV Compensation Work"), the remainder of the $3.0 million to be retained by us is reduced and we record an adjustment in our financial statements to reduce both JV losses and contract revenue from the JV. Such adjustments were $365,000 and $119,000 for the three months ended June 30, 2005 and 2004, respectively, and $658,000 and $253,000 for the six months ended June 30, 2005 and 2004, respectively, and $2.3 million cumulatively through June 30, 2005. Subsequent to our retention in full of $3.0 million in grant funding related to JV Compensation Work, grant funding from PSMA programs will reduce the funding obligations of the Members equally.

Results of Operations **(amounts in thousands)**

Three Months Ended June 30, 2004 and 2005

Revenues:

We recognized $587 and $129 of revenue for research and development services performed for the joint venture during the three months ended June 30, 2004 and 2005, respectively. Proceeds received from grants related to the joint venture and for which we have also been compensated by the joint venture for services provided were $119 in the 2004 period and $365 in the 2005 period. As described above, we have reflected in the accompanying financial statements adjustments to decrease both joint venture losses and contract revenue from the joint venture in respect of such amounts.

Revenues from research grants and contracts increased from $1,544 in the three month period ended June 30, 2004 to $1,925 in the corresponding period in 2005. The increase resulted from the funding of a greater number of grants in the 2005 period, some of which allowed greater spending limits, and from increased activity under the contract awarded to us by the National Institutes of Health in September 2003 (the "NIH Contract"). The NIH Contract provides for up to $28,600 in funding to us over five years for preclinical research, development and early clinical testing of a vaccine designed to prevent HIV from infecting individuals exposed to the virus. Our scientists are the principal investigators under the contract and head the vaccine development effort. Existing academic collaborators of ours head the vaccine design and animal testing core groups under a subcontract. A total of approximately $3,700 is earmarked under the NIH Contract to fund such subcontracts. Funding under the NIH Contract is subject to compliance with its terms, and the payment of an aggregate of $1,600 in fees (of which $90 had been recognized as revenue as of June 30, 2005) is subject to achievement of specified milestones.

Revenues from product sales decreased from $44 for the three months ended June 30, 2004 to $21 for the three months ended June 30, 2005. We received fewer orders for research reagents during the 2005 period.

Expenses:

Research and development expenses include scientific labor, supplies, facility costs, clinical trial costs, and product manufacturing costs. A major portion of our spending has been, and we expect will continue to be, associated with MNTX. Research and development expenses increased $1,090 from $9,376 in the three months ended June 30, 2004 to $10,466 in the corresponding period in 2005, as follows:

Category	Three Months Ended June 30, 2004	2005	Dollar Variance	Percentage Variance	Explanation
Salaries and benefits	$ 3,037	$ 3,089	$ 52	2%	Company-wide compensation increases, partially offset by a decrease in headcount from 114 at June 30, 2004 to 112 at June 30, 2005 in the research and development, manufacturing and medical departments
Clinical trial costs	1,187	2,557	1,370	115	Increases primarily for MNTX ($968) and GMK ($499), as phase 3 trials expanded; offset by a net decrease for HIV ($98), as phase 2 PRO 542 trial activity declined and phase 1 PRO 140 trial increased activity
Laboratory supplies	2,974	791	(2,183)	(73)	Decrease due primarily to MNTX ($1,608) and HIV ($560) as research and development activity focused on clinical trials in these areas rather than on basic research
Contract manufacturing and subcontractors	748	1,078	330	44	Increase due to MNTX ($147) and HIV ($332), offset by decreases for GMK and other projects ($149). These expenses related to preparation of materials for, and the conduct of, clinical trials
Consultants	553	857	304	55	Increase due to MNTX ($279) and HIV ($158), offset by decrease in GMK and other projects, ($133). These expenses related to monitoring and conduct of clinical trials
License fees	327	1,076	749	229	Increase primarily related to payments to licensors upon achievement of defined milestones in our HIV programs ($844), offset by decrease for other programs ($101)
Operating expenses	550	1,018	468	85	Increase primarily due to increased facilities costs in the 2005 period over those in the 2004 period
Total	$ 9,376	$ 10,466	$ 1,090	12%	

We expect significant increases in research and development expenses related to MNTX as the clinical programs expand and progress. These expenses would be reduced if we enter into a collaboration for MNTX in which the collaborator assumes financial responsibility for some or all of the future development of MNTX, or if we choose not to advance all of our MNTX programs. Spending in other programs is expected to remain relatively stable.

General and administrative expenses decreased from $3,038 in the three months ended June 30, 2004 to $2,900 in the corresponding 2005 period, as follows:

	Three Months Ended June 30,				
Category	2004	2005	Dollar Variance	Percentage Variance	Explanation
Salaries and benefits	$1,227	$ 985	$ (242)	(20)%	Decrease due to departure of one senior executive in April 2004 and one in April 2005 partially offset by the hiring of in-house General Counsel in June 2005 and salary increases for remaining employees
Consulting and professional fees	1,115	1,028	(87)	(8)	Decrease due to a decrease in recruiting ($28) and audit fees, including audit fees for internal control over financial reporting ($111) offset by additional legal and patent fees ($52)
Operating expenses	605	717	112	19	Increase in rent expense and insurance costs
Other	91	170	79	87	Increase primarily due to increased investor relations costs
Total	$3,038	$ 2,900	$ (138)	(5)%	

We expect general and administrative expenses to remain relatively stable during the remainder of 2005 due to the expected decrease in professional fees related to compliance with requirements concerning internal controls over financial reporting offset by an increase in operating expenses related to an increase in headcount.

Loss in joint venture increased from $423 in the three months ended June 30, 2004 to $1,339 in the corresponding period in 2005 due primarily to higher research and development expenses and license fees to collaborators of the JV in the 2005 period than in the 2004 period. A $2.0 million license fee was paid by the JV in the 2005 period to Seattle Genetics, Inc. (see “Overview” above). As further described above, we recognized $119 and $365 in the three months ended June 30, 2004 and 2005, respectively, of payments received from the NIH as a reduction to joint venture losses and contract revenue from the joint venture. For the year ending December 31, 2005, the magnitude of the loss in joint venture will depend on the extent of completion of the work plan agreed to by the Members for the remainder of 2005.

Depreciation and amortization increased from $374 in the three months ended June 30, 2004 to $470 in the corresponding period in 2005 as we purchased capital assets and made leasehold improvements in the 2005 period to increase our manufacturing capacity.

Other income:

Interest income increased from $191 in the three months ended June 30, 2004 to $305 in the corresponding period in 2005. The balance of interest income is the result of investment income from our marketable securities, offset by the amortization of premiums we paid for those marketable securities. For the three months ended June 30, 2004, and June 30, 2005, investment income decreased from $371 to $357, respectively, due to a higher average balance of cash equivalents and marketable securities in the 2004 period than in the 2005 period, partially offset by higher interest rates in the 2005 period. Amortization of premiums, which is included in interest income, decreased from $180 to $52 for the three months ended June 30, 2004 and 2005, respectively.

Net loss:

Our net loss was $10,876 for the three months ended June 30, 2004 compared to a net loss of $12,795 in the corresponding period in 2005.

Six Months Ended June 30, 2004 and 2005

Revenues:

We recognized $1,143 and $569 of revenue for research and development services performed for the joint venture during the six months ended June 30, 2004 and 2005, respectively. Proceeds received from grants related to the joint venture and for which we have also been compensated by the joint venture for services provided were $253 in the 2004 period and $658 in the 2005 period. As described above, we have reflected in the accompanying financial statements adjustments to decrease both joint venture losses and contract revenue from the joint venture in respect of such amounts.

Revenues from research grants and contracts increased from $2,730 in the six month period ended June 30, 2004 to $4,070 in the corresponding period in 2005. The increase resulted from the funding of a greater number of grants in the 2005 period, some of which allowed greater spending limits, and from increased activity under the contract awarded to us by the National Institutes of Health in September 2003 (the “NIH Contract”). The NIH Contract provides for up to $28,600 in funding to us over five years for preclinical research, development and early clinical testing of a vaccine designed to prevent HIV from infecting individuals exposed to the virus. Our scientists are the principal investigators under the contract and head the vaccine development effort. Existing academic collaborators of ours head the vaccine design and animal testing core groups under a subcontract. A total of approximately $3,700 is earmarked under the NIH Contract to fund such subcontracts. Funding under the NIH Contract is subject to compliance with its terms, and the payment of an aggregate of $1,600 in fees (of which $90 had been recognized as revenue as of June 30, 2005) is subject to achievement of specified milestones.

Revenues from product sales decreased to $25 for the six months ended June 30, 2005 from $50 for the six months ended June 30, 2004. We received fewer orders for research reagents during the 2005 period.

Expenses:

Research and development expenses include scientific labor, supplies, facility costs, clinical trial costs, and product manufacturing costs. A major portion of our spending has been, and we expect will continue to be, associated with MNTX. Research and development expenses increased $4,815 from $17,750 in the six months ended June 30, 2004 to $22,565 in the corresponding period in 2005, as follows:

Category	Six Months Ended June 30, 2004	2005	Dollar Variance	Percentage Variance	Explanation
Salaries and benefits	$ 6,120	$ 6,596	$ 476	8%	Company-wide compensation increases, partially offset by an decrease in headcount from 114 at June 30, 2004 to 112 at June 30, 2005 in the research and development, manufacturing and medical departments
Clinical trial costs	2,899	6,057	3,158	109	Increase due to MNTX ($2,940) and GMK ($392) as Phase 3 trials expanded, offset by a net decrease in HIV and other programs ($174) as Phase 2 PRO 542 trial activity declined and Phase 1 PRO 140 trial activity increased
Laboratory supplies	4,782	3,417	(1,365)	(29)	Decrease due to MNTX ($492), HIV ($559), and GMK and other programs ($314), as research and development activity focused on clinical trials in these areas rather than on basic research
Contract manufacturing and subcontractors	963	1,982	1,019	106	Increase due to MNTX ($719) and HIV ($400) offset by a decrease in other programs ($100). Related to preparation of materials for, and the conduct of, clinical trials
Consultants	889	1,298	409	46	Increase due to MNTX ($363) and HIV ($158), offset by decreases in GMK and other programs ($112). Related to monitoring and conduct of clinical trials
License fees	359	1,185	826	230	Increase related to payments to licensors upon achievement of defined milestones in our HIV programs ($431) and GMK and other programs ($395)
Operating expenses	1,738	2,030	292	17	Increase primarily due to increased facility costs in the 2005 period over those in the 2004 period
Total	$17,750	$22,565	$ 4,815	27%	

We expect significant increases in research and development expenses related to MNTX as the clinical programs expand and progress. These expenses would be reduced if we enter into a collaboration for MNTX in which the collaborator assumes financial responsibility for some or all of the future development of MNTX, or if we choose not to advance all of our MNTX programs. Spending in other programs is expected to remain relatively stable.

General and administrative expenses increased from $5,853 in the six months ended June 30, 2004 to $6,042 in the corresponding 2005 period, as follows:

	Six Months Ended June 30,				
Category	2004	2005	Dollar Variance	Percentage Variance	Explanation
Salaries and benefits	$ 2,280	$2,309	$ 29	1%	Increase due to departure of one senior executive in April 2004 and one in April 2005 partially offset by the hiring of in-house General Counsel in June 2005 and salary increases for remaining employees
Consulting and professional fees	2,131	2,130	(1)	0	Decrease due to a decrease in recruiting ($30) and audit fees, including audit fees for internal control over financial reporting ($111), offset by additional legal and patent costs ($140), in the 2005 period
Operating expenses	1,241	1,351	110	9	Increase in rent expense and insurance costs
Other	201	252	51	25	Increase primarily related to increased investor relation costs
Total	$5,853	$6,042	$189	3%	

We expect general and administrative expenses to remain relatively stable during the remainder of 2005 due to the expected decrease in professional fees related to compliance with requirements concerning internal controls over financial reporting offset by an increase in operating expenses related to an increase in headcount.

Loss in joint venture increased from $1,098 in the six months ended June 30, 2004 to $1,544 in the corresponding period in 2005 due primarily to higher research and development expenses and license fee expenses in the 2005 period than in the 2004 period. A license fee of $2.0 million was paid by the JV to Seattle Genetics in June 2005 (see “Overview”, above). As further described above, we recognized $253 and $658 in the six months ended June 30, 2004 and 2005, respectively, of payments received from the NIH as a reduction to joint venture losses and contract revenue from the joint venture. For the year ending December 31, 2005, the magnitude of the loss in joint venture will depend on the extent of completion of the work plan agreed to by the Members for the remainder of 2005.

Depreciation and amortization increased from $700 in the six months ended June 30, 2004 to $953 in the corresponding period in 2005 as we purchased capital assets and made leasehold improvements in the 2005 period to increase our manufacturing capacity.

Other income:

Interest income increased from $409 in the six months ended June 30, 2004 to $451 in the corresponding period in 2005. The balance of interest income is the result of investment income from our marketable securities, offset by the amortization of premiums we paid for those marketable securities. For the six months ended June 30, 2004, and June 30, 2005, investment income decreased from $791 to $581, respectively due to a higher average balance of cash equivalents and marketable securities in the 2004 period than in the 2005 period, partially offset by higher interest rates in the 2005 period. Amortization of premiums, which is included in interest income, decreased from $382 to $130 for the six months ended June 30, 2004 and 2005, respectively.

Net loss:

Our net loss was $21,101 for the six months ended June 30,2004 compared to a net loss of $25,989 in the corresponding period in 2005.

Liquidity and Capital Resources

We have to date generated no meaningful amounts of recurring revenue, and consequently we have relied principally on external funding to finance our operations. We have funded our operations since inception primarily through private placements of equity securities, payments received under collaboration agreements, public offerings of common stock, funding under government research grants and contracts, interest on investments, the proceeds from the exercise of outstanding options and warrants and the sale of our common stock under our employee stock purchase plans.

In 2004, we filed a Form S-3 shelf registration with the SEC which permitted us, from time to time, to offer and sell up to an aggregate of $60 million of our common stock. During the quarter ended June 30, 2005, pursuant to our shelf registration, we completed two additional public offerings of common stock which provided us with $57.8 million in net proceeds from the sale of 3,532,467 shares. In June 2005, we filed a new shelf registration statement, which will allow us to sell up to an additional $70 million of shares of our common stock. However, there can be no assurance that we will be able to complete any further securities transactions.

At June 30, 2005, we had cash, cash equivalents and marketable securities, including non-current portion, totaling $68.6 million compared with $31.2 million at December 31, 2004. Net cash used in operating activities for the six months ended June 30, 2005 was $25.1 million compared with $19.0 million for the same period in 2004. The increase of $6.1 million resulted primarily from an increase in our net loss of $4.9 million to $26.0 million for the six months ended June 30, 2005, mostly due to increased research and development activity in 2005, impacted primarily by:

- an increase of $253,000 in non-cash depreciation and amortization resulting from the purchase of fixed assets and leasehold improvements for our expanded manufacturing capacity;
- a decrease of $252,000 in non-cash amortization of premiums on marketable securities due to changes in the composition of our portfolio;
- an increase of $428,000 of non-cash amortization of unearned compensation resulting from the issuance to employees of restricted stock on July 1, 2004 and January 10, 2005, net of reversal of compensation expense upon forfeitures of restricted stock by terminated employees in the 2005 period;
- a decrease of $82,000 in non-cash expense incurred in connection with (1) the issuance of stock options to non-employee consultants in both periods and (2) the vesting of performance-based options held by our former President during the 2005 period Fewer options were granted to non-employee consultants in the 2005 period than in the 2004 period. The amount of compensation expense that we recognize varies with changes in our stock price;
- an increase in loss in JV of $851,000 resulting primarily from a material license payment that was due in the first half of 2005. In addition, expenses incurred by the JV for research and development were greater in the 2005 period than in the 2004 period;

- a decrease of $1,750,000 due to additional capital contributions to the JV upon approval of a work plan and a budget by the Members, in June 2005, for the year ending December 31, 2005. The 2005 work plan and budget required greater capital contributions during the 2005 period than did the corresponding 2004 work plan and budget; and

- a decrease in our changes in assets and liabilities of $494,000 of cash used in operating activities, primarily due to:

  - an increase in trade accounts receivable of $884,000, mostly for reimbursement of our second quarter 2005 expenses under our grants and contract with the NIH;

  - an increase of $1,053,000 in amount due from the JV for labor costs for the first half of 2005;

  - a decrease of $208,000 in other current assets, primarily related to prepaid expenses;

  - an increase in accounts payable and accrued expenses of $442,000, as the pace of our research and development activities, especially for MNTX, increased in the 2005 period over that in the 2004 period; and

  - an increase of $1,209,000 in amount due to the JV for our capital contributions.

Net cash used in investing activities was $16.7 million for the six months ended June 30, 2005 compared with net cash provided by investing activities of $9.5 million for the same period in 2004. Net cash used in investing activities for the six month period ended June 30, 2005 resulted primarily from the sale of $26.9 million of marketable securities offset by the purchase of $43.2 million of marketable securities. We purchase and sell marketable securities in order to provide funding for our operations and to achieve appreciation of our unused cash in a low risk environment. We also purchased $0.4 million of fixed assets including capital equipment and leasehold improvements as we acquired and built out additional manufacturing space.

Net cash provided by financing activities was $62.9 million for the six months ended June 30, 2005 as compared with $3.8 million for the same period in 2004. The net cash provided by financing activities for the 2005 period includes $57.8 million in net proceeds that we received from the sale of approximately 3.5 million shares of our common stock in the second quarter of 2005. In addition, both periods reflect the exercise of stock options under our Stock Incentive Plans and the sale of common stock under our Employee Stock Purchase Plans. During the remainder of 2005, we expect that cash received from exercises under such plans will remain relatively stable.

Under the terms of our joint venture with Cytogen, we are required to make capital contributions to fund 50% of the spending on the PSMA projects. Our and Cytogen's level of commitment to fund the JV is based on an annual budget that is developed by the parties. During the quarter ended June 2005, the Members approved a work plan and budget, totaling $10.6 million, for the year ending December 31, 2005. We and Cytogen each contributed $0.5 million during the three months ended March 31, 2005, which was used to fund the obligations outstanding related to work performed in 2004 under the approved 2004 budget and work plan. In each of June and July 2005, we and Cytogen made cash payments of $2.2 million ($4.4 million in aggregate), for work performed under the 2005 approved budget through June 30, 2005. The July 2005 contributions of $2.2 million are recorded as a receivable by the JV at June 30, 2005 and are part of the $4.4 million capital contribution noted above. We and Cytogen have committed to make further capital contributions during 2005, as deemed necessary to complete the work plan.

During June 2005, the JV entered into a collaboration agreement with SGI (see "Overview"), to license certain technology, which required the JV to make a $2.0 million technology access fee payment. The SGI Agreement also requires the payment of maintenance fees, payments, aggregating $15.0 million, upon achievement of defined milestone events and royalties on net sales of any products approved by the FDA. The PSMA monoclonal antibody research and development project, for which the SGI licensed technology will be used, is currently in the preclinical stage. Therefore, milestone and royalty payments, if any, other than a preclinical milestone payment, which is expected to occur during 2005, will not be due for at least three years. The budget agreed to by the Members for 2005 includes this milestone payment. The ability of the JV to comply with the terms of the SGI Agreement will depend on agreement by the Members regarding work plans and budgets of the JV in future years.

For the six months ended June 30, 2005, we recognized approximately $569,000 of contract research and development revenue for services performed on behalf of the joint venture. Our revenues from the JV do not result in significant net cash flows to us, since they are relatively minor in comparison to our expenses and because they are offset in part by capital contributions that we must make to the JV.

Our total expenses for research and development from inception through June 30, 2005 have been approximately $180.7 million. We currently have major research and development programs investigating symptom management and supportive care, HIV-related diseases and cancer. In addition, we are conducting several smaller research projects in the areas of virology and cancer. For various reasons, many of which are outside of our control, including the early stage of certain of our programs, the timing and results of our clinical trials and our dependence in certain instances on third parties, we cannot estimate the total remaining costs to be incurred and timing to complete our research and development programs. If we do not enter into a collaboration agreement with respect to MNTX pursuant to which our partner assumes some or all of the financial responsibility for further development, and we proceed with each of our MNTX programs, we expect that our spending on MNTX will increase significantly during the remainder of 2005. We expect that spending on other programs will remain relatively stable in 2005.

For the six month periods ended June 30, 2004 and 2005, research and development costs incurred were as follows (see "—Results of Operations—Expenses"):

	2004	2005
	(in millions)	
MNTX	$ 9.8	$ 13.3
HIV	4.5	5.2
Cancer	2.5	3.3
Other programs	1.0	0.8
Total	$ 17.8	$ 22.6

In September 2003, we were awarded a contract by the National Institutes of Health (the "NIH Contract"). The NIH Contract provides for up to $28.6 million in funding, subject to annual funding approvals, to us over five years for preclinical research, development and early clinical testing of a prophylactic vaccine designed to prevent HIV from becoming established in uninfected individuals exposed to the virus. We anticipate that these funds will be used principally in connection with our ProVax HIV vaccine program. Our scientists are the principal investigators under the contract and head the vaccine development effort. Existing academic collaborators of ours head the vaccine design and animal testing core groups under a subcontract. A total of approximately $3.7 million is earmarked under the NIH Contract to fund such subcontracts. Funding under the NIH Contract is subject to compliance with its terms, and the payment of an aggregate of $1.6 million in fees is subject to achievement of specified milestones. Through June 30, 2005, we had recognized revenue of $4.3 million from this contract, including $90,000 for the achievement of a milestone.

Other than currently approved grants and contracts, we have no committed external sources of capital, and other than potential revenues from MNTX, we expect no significant product revenues for a number of years as it will take at least that much time, if ever, to bring our products to the commercial marketing stage.

We anticipate significant increases in expenditures as we continue to expand our research and development activities, particularly in our MNTX programs. Consequently, we will require additional funding to continue our research and product development programs, to conduct preclinical studies and clinical trials, for operating expenses, to pursue regulatory approvals for our product candidates, for the costs involved in filing and prosecuting patent applications and enforcing or defending patent claims, if any, for the cost of product in-licensing and for any possible acquisitions. If we commercialize MNTX or any other product candidate other than with a corporate collaborator, we would also require additional funding to establish manufacturing and marketing capabilities.

Our existing cash, cash equivalents and marketable securities are sufficient to fund current operations through the fourth quarter of 2006. We are currently in negotiations with potential collaborators for the MNTX programs. We expect that such a collaboration arrangement would include up-front license fees or other payments as well as milestone payments. We also expect that a collaborator would assume some or all of the financial responsibility for further clinical development and commercialization of a majority of the MNTX programs. We may also enter into a collaboration agreement with respect to other of our product candidates. We cannot forecast with any degree of certainty, however, which products or indications, if any, will be subject to future collaborative arrangements, or how such arrangements would affect our capital requirements. The consummation of a collaboration agreement would allow us to allocate our current funds to advance other projects.

We may also seek to raise additional capital through the sale of common stock or other securities. In order to facilitate doing so, in June 2005, we filed a new shelf registration statement on Form S-3 with the Securities and Exchange Commission, which will allow us to sell up to an additional $70 million of shares of our common stock. There can be no assurance that we will be able to complete any further securities transactions. We may also seek to fund aspects of our operations through government grants and contracts.

In order to fund our operations for periods beyond 12 months, we will be required to seek additional financing through future offerings of equity or debt securities or agreements with corporate collaborators with respect to the development of our technologies and funding from additional grants and government contracts. Adequate additional funding may not be available to us on acceptable terms or at all. We have the ability to make cost-saving changes in our operations in the event that we are unable to secure additional funding. Such changes would likely include focusing our resources on our late-stage MNTX program, which we believe has the greatest likelihood of generating near-term cash flows, and reducing or eliminating funding to some or all of our other product development programs. We believe that these measures would significantly reduce our operating expenses. The extent to which these changes will be implemented, if at all, will depend upon a variety of factors, including cash in-flows from collaborations, financings or other sources, the extent to which negative cash flows from operations continue and the perceived likelihood of success, and expected costs to completion, of our various product development programs. These steps would likely adversely impact our prospects for product commercialization and, consequently, our prospects for product sales and profitability. Our inability to raise additional capital on terms reasonably acceptable to us would seriously jeopardize the future success of our business.

Our funding requirements, both for the next 12 months and beyond, will include required payments under operating leases, licensing and collaboration agreements and funding of our joint venture. The following table summarizes our contractual obligations as of June 30, 2005 for future payments under these agreements:

	Payments due by June 30,				
	Total	**2006**	**2007-2008**	**2009-2010**	**Thereafter**
			(in millions)		
Operating leases	$ 5.5	$ 1.7	$ 2.5	$ 1.3	
License and collaboration agreements (1)	20.1	1.2	7.0	2.5	$ 9.4
Funding commitment to the JV for 2005 (2)	4.1	4.1			
Total	$ 29.7	$ 7.0	$ 9.5	$ 3.8	$ 9.4

(1) Assumes attainment of milestones covered under each agreement. The timing of the achievement of the related milestones is highly uncertain, and accordingly the actual timing of payments, if any, is likely to vary, perhaps significantly, relative to the timing contemplated by this table.

(2) The budget for the JV is intended to fund its work plan for each calendar year period, through December 31. This table does not reflect the payment obligations of the JV.

For each of our programs, we periodically assess the scientific progress and merits of the programs to determine if continued research and development is economically viable. For example, we have open for enrollment a multi-dose phase 2 clinical trial of PRO 542, a genetically engineered molecule designed to neutralize HIV. We plan to make a decision in the second half of 2005 regarding the feasibility of continuing our PRO 542 program after reviewing the then-available data from the ongoing phase 2 clinical trial in the context of data regarding PRO 140, which targets the same disease. Certain of our programs have been terminated due to the lack of scientific progress and lack of prospects for ultimate commercialization. Because of the uncertainties associated with research and development of these programs, the duration and completion costs of our research and development projects are difficult to estimate and are subject to considerable variation. Our inability to complete our research and development projects in a timely manner or our failure to enter into collaborative agreements could significantly increase our capital requirements and adversely impact our liquidity.

Our cash requirements may vary materially from those now planned because of results of research and development and product testing, changes in existing relationships with, or new relationships with, licensees, licensors or other collaborators, changes in the focus and direction of our research and development programs, competitive and technological advances, the cost of filing, prosecuting, defending and enforcing patent claims, the regulatory approval process, manufacturing and marketing and other costs associated with the commercialization of products following receipt of regulatory approvals and other factors.

The above discussion contains forward-looking statements based on our current operating plan and the assumptions on which it relies. There could be changes that would consume our assets earlier than planned.

Off-Balance Sheet Arrangements and Guarantees

We have no off-balance sheet arrangements and do not guarantee the obligations of any other entity.

Critical Accounting Policies

We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are disclosed in Note 2 to our financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2004. The selection and application of these accounting principles and methods requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as certain financial statement disclosures. On an ongoing basis, we evaluate our estimates. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The results of our evaluation form the basis for making judgments about the carrying values of assets and liabilities that are not otherwise readily apparent. While we believe that the estimates and assumptions we use in preparing the finanicial statements are appropriate, these estimates and assumptions are subject to a number of factors and uncertainties regarding their ultimate outcome and, therefore, actual results could differ from these estimates.

We have identified our critical accounting policies and estimates below. These are policies and estimates that we believe are the most important in portraying our financial condition and results of operations, and that require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We have discussed the development, selection and disclosure of these critical accounting policies and estimates with the Audit Committee of our Board of Directors.

Revenue Recognition

During the quarters ended June 30, 2005 and 2004, we recognized revenue from the JV for contract research and development; from government research grants and contracts from the National Institutes of Health (the “NIH”), which are used to subsidize certain of the our research projects (“Projects”); and from the sale of research reagents.

Effective January 1, 2005, we elected to change the method we use to recognize revenue under SAB 104 for payments received under research and development collaboration agreements that contain substantive at-risk milestone payments. There was no cumulative effect of this change in accounting principle because we do not currently have any of these contracts. Under the new method, non-refundable up-front license payments received from collaborators, not tied to achieving a specific performance milestone, are recognized as revenue ratably over the period during which we expect to perform services, because no separate earnings process has been completed. Payments for research and development activities are recognized as revenue as we earn the related services. Substantive at-risk milestone payments, which are based on our achieving a specific performance milestone, are recognized as revenue when the milestone is achieved and the related payment is due, provided there is no future service obligation on our part associated with that milestone (the "Substantive Milestone Method"). The change in accounting method was made because we believe that it will enhance the comparability of our financial results with those of our peer group companies in the biotechnology industry and because it is expected to better reflect the substance of our collaborative arrangements.

Previously, we had recognized non-refundable fees, including payments for services, up-front licensing fees and milestone payments, as revenue based on the percentage of efforts incurred to date, estimated total efforts to complete, and total expected contract revenue in accordance with EITF Issue No. 91-6, "Revenue Recognition of Long-Term Power Sales Contracts," with revenue recognized limited to the amount of non-refundable fees received. Depending on the magnitude and timing of milestone payments, revenue may be recognized sooner under the Substantive Milestone Method than it would have been under the EITF 91-6 model.

The accounting change will not affect revenue from NIH grants and contracts, services performed on behalf of the JV, or from product sales.

NIH grant and contract revenue is recognized as efforts are expended and as related subsidized Project costs are incurred. We perform work under the NIH grants and contract on a best-effort basis. The NIH reimburses us for costs associated with the preclinical research, development and early clinical testing of a prophylactic vaccine designed to prevent HIV from becoming established in uninfected individuals exposed to the virus, as requested by the NIH. Substantive at-risk milestone payments are uncommon in these arrangements, but would be recognized as revenue on the same basis as the Substantive Milestone Method.

Both we and Cytogen are required to fund the JV equally to support ongoing research and development efforts conducted by us on behalf of the JV. We recognize payments for research and development as revenue as services are performed

For the six months ended June 30, 2005 and 2004, our research grant and contract revenue and contract research and development revenue came exclusively from the NIH and the JV, respectively.

Clinical Trial Expenses

Clinical trial expenses, which are included in research and development expenses, represent obligations resulting from our contracts with various clinical investigators and clinical research organizations in connection with conducting clinical trials for our product candidates. Such costs are expensed based on the expected total number of patients in the trial, the rate at which the patients enter the trial and the period over which the clinical investigators and clinical research organizations are expected to provide services. We believe that this method best approximates the efforts expended on a clinical trial with the expenses we record. We adjust our rate of clinical expense recognition if actual results differ from our estimates. We expect that clinical trial expenses will increase significantly during the remainder of 2005 as clinical trials progress or are initiated in the MNTX and HIV programs. A collaboration agreement regarding MNTX in which the collaborator assumes some or all of the financial responsibility for further development would mitigate these costs.

Stock-Based Compensation

We have historically prepared our financial statements in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). In accordance with APB No. 25, generally, we have not recognized compensation expense in connection with the awarding of common stock option grants to employees provided that, as of the grant date, all terms associated with the award are fixed and the fair value of our common stock, as of the grant date, is equal to or less than the exercise price. We recognize compensation expense if the terms of an option grant are not fixed or the quoted market price of our common stock on the grant date is greater than the exercise price. We also recognize compensation expense for performance-based vesting of stock options upon achievement of defined milestones and for restricted stock awards as the restrictions lapse ratably over the related vesting periods. The fair value of options and warrants granted to non-employees for services are included in the financial statements and expensed as they vest.

We intend to adopt Statement of Financial Accounting Standards No. 123 (revised 2004) "Share-Based Payment" ("SFAS 123R") on January 1, 2006, using the modified prospective application. In anticipation of the adoption of SFAS 123R, we have revised certain assumptions used in the Black-Scholes option pricing model used to value equity-based awards. The estimate of expected term has been increased from 5 years to 6.5 years for all awards granted on or after January 1, 2005, in accordance with the simplified method described in Staff Accounting Bulletin No. 107 for options with five-year graded vesting. The period used to calculate historical volatility of our common stock has also been revised to 6.5 years. The impact of these revisions is expected to increase the amount of compensation expense we recognize as compared to the amount that would have been recognized using the previous estimates.

Impact of Recently Issued Accounting Standards

In December 2004, the Financial Accounting Standards Board (the "FASB") issued SFAS 123R, which is a revision of FASB Statement No.123, "Accounting for Stock Based Compensation" (SFAS 123"). SFAS 123R supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and amends FASB Statement No. 95, "Statement of Cash Flows". SFAS 123R requires all share-based payments to employees, including grants of employee stock options and restricted stock and purchases of common stock under the Company's Employee Stock Purchase Plans, if compensatory, as defined, to be recognized in the financial statements based on their grant-date fair values. The standard allows three alternative transition methods for public companies: modified prospective application; modified retrospective method with restatement of prior interim periods in the year of adoption; and modified retroactive application with restatement of all prior financial statements to include the same amounts that were previously included in pro forma disclosures. Historically, in accordance with SFAS 123 and Statement of Financial Accounting Standards No.148 "Accounting for Stock-Based Compensation-Transition and Disclosure" ("SFAS 148"), the Company had elected to follow the disclosure-only provisions of Statement No. 123 and, accordingly accounted for share-based compensation under the recognition and measurement principles of APB Opinion No. 25 and related interpretations. Under APB 25, when stock options are issued to employees with an exercise price equal to or greater than the market price of the underlying stock price on the date of grant, no compensation expense is recognized in the financial statements; pro forma compensation expense in accordance with FAS 123 is only disclosed in the footnotes to the financial statements. We intend to adopt SFAS 123R on January 1, 2006 using the modified prospective application and the Black-Scholes option pricing model to calculate the fair value of option awards. We have not yet determined the impact that SFAS 123R will have on our results of operations, financial position and cash flows.

On March 29, 2005, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 107 ("SAB 107"), which expresses views of the SEC staff regarding the interaction between SFAS 123R and certain SEC rules and regulations and provide the SEC staff's views regarding the valuation of share-based payment arrangements for public companies. In particular, SAB 107 provides guidance related to share-based payment transactions with nonemployees, the transition from nonpublic to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of SFAS 123R in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS 123R, the modification of employee share options prior to adoption of SFAS 123R and disclosures in Management's Discussion and Analysis subsequent to adoption of SFAS 123R. As noted

above, we will adopt SFAS 123R on January 1, 2006 and have changed our estimates of expected term and the related period over which expected volatility is calculated, in accordance with SAB 107, effective January 1, 2005. We will use those revised assumptions in the Black-Scholes option pricing model, to value share-based awards granted to employees, for the calculation of pro forma net loss and pro forma net loss per share amounts during 2005, in accordance with Statement of Financial Accounting Standards No. 123 “Accounting for Stock-Based Compensation”. We will continue to use those revised assumptions upon adoption of SFAS 123R and will implement other aspects of SAB 107 related to presentation and disclosure requirements under SFAS 123R beginning on January 1, 2006.

On June 1, 2005, the FASB issued Statement No. 154, *Accounting Changes and Error Corrections* (“SFAS 154”), which will require entities that voluntarily make a change in accounting principle to apply that change retrospectively to prior periods' financial statements, unless this would be impracticable. SFAS No.154 supersedes Accounting Principles Board Opinion No. 20, *Accounting Changes* (“APB 20”), which previously required that most voluntary changes in accounting principle be recognized by including in the current period's net income the cumulative effect of changing to the new accounting principle. SFAS 154 also makes a distinction between "retrospective application" of an accounting principle and the "restatement" of financial statements to reflect the correction of an error. Another significant change in practice under SFAS 154 will be that if an entity changes its method of depreciation, amortization, or depletion for long-lived, nonfinancial assets, the change must be accounted for as a change in accounting estimate. Under APB 20, such a change would have been reported as a change in accounting principle. SFAS 154 applies to accounting changes and error corrections that are made in fiscal years beginning after December 15, 2005.

RISK FACTORS

Our business and operations entail a variety of risks and uncertainties, including those described below.

Our product development programs are inherently risky.

We are subject to the risks of failure inherent in the development of product candidates based on new technologies. Our MNTX product candidate, which is designed to reverse certain side effects induced by opioids, is based on a novel method of action that has not yet been proven to be safe or effective. No drug with MNTX's method of action has ever received marketing approval. Additionally, some of our HIV product candidates are designed to be effective by blocking viral entry, and our GMK product candidate is designed to be a therapeutic cancer vaccine. To our knowledge, no drug designed to treat HIV infection by blocking viral entry (with one exception) and no cancer therapeutic vaccine has been approved for marketing in the U.S. Our other research and development programs, and those conducted through our joint venture with Cytogen, involve similarly novel approaches to human therapeutics. Consequently, there is little precedent for the successful commercialization of products based on our technologies. There are a number of technological challenges that we must overcome to complete most of our development efforts. We may not be able to develop successfully any of our products.

If testing does not yield successful results, our products will not be approved.

We will need to obtain regulatory approval before we can market our product candidates. To obtain marketing approval from regulatory authorities, we or our collaborators must demonstrate a product's safety and efficacy through extensive preclinical and clinical testing. Numerous adverse events may arise during, or as a result of, the testing process, including the following:

- the results of preclinical studies may be inconclusive, or they may not be indicative of results that will be obtained in human clinical trials;
- potential products may not have the desired efficacy or may have undesirable side effects or other characteristics that preclude marketing approval or limit their commercial use if approved;
- after reviewing test results, we or our collaborators may abandon projects, which we previously believed to be promising; and
- we, our collaborators or regulators may suspend or terminate clinical trials if we or they believe that the participating subjects or patients are being exposed to unacceptable health risks.

Clinical testing is very expensive and can take many years. Results attained in early human clinical trials may not be indicative of results that are obtained in later clinical trials. In addition, many of our products, such as PRO 140 and the PSMA product candidates, are at an early stage of development. The successful commercialization of early stage products will require significant further research, development, testing, approvals by regulators and additional investment. Our products in the research or preclinical development stage may not yield results that would permit or justify clinical testing. Our failure to adequately demonstrate the safety and efficacy of a product under development would delay or prevent marketing approval of the product, which could adversely affect our operating results and credibility.

A setback in our clinical development programs could adversely affect us.

We have several ongoing late-stage clinical trials. We have completed a pivotal phase 3 clinical trial of MNTX for the treatment of opioid-induced constipation in patients with advanced medical illness, and another pivotal study of MNTX for this indication is ongoing. We will need to successfully complete both of these trials in order to obtain approval of the FDA to market MNTX. We also have completed a phase 2 clinical trial of intravenous MNTX in patients at risk for post-operative bowel dysfunction and intend to conduct additional clinical trials of oral MNTX in chronic pain patients who experience opioid-induced constipation. If the results of any of these ongoing trials are not satisfactory, or if we encounter problems enrolling patients, clinical trial supply issues or other difficulties, our entire MNTX development program could be adversely affected, resulting in delays in commencing or completing clinical trials or in making our regulatory filing for marketing approval. The need to conduct additional clinical trials or significant revisions to our clinical development plan would lead to delays in our filing for the regulatory approvals necessary to market MNTX. Since MNTX is our most clinically advanced product, a setback of this nature would have a material adverse effect on our stock price and business.

We also have two ongoing pivotal phase 3 clinical trials for GMK. In May 2000, our collaborating research cooperative group in one of these trials, ECOG, recommended to clinical investigators participating in the trial that they discontinue administering GMK, and as a result that trial did not complete patient dosing as contemplated by the initial trial protocol. A second pivotal phase 3 trial for GMK was initiated in May 2001, and at present, we have enrolled 1,186 patients out of the full enrollment of 1,300 patients, and expect to assess the recurrence of cancer and overall survival of the study patients over the next several years. If the results of either of the GMK trials are not satisfactory, we may need to conduct additional clinical trials or abandon our GMK program.

We have open for enrollment a multi-dose phase 2 clinical trial of PRO 542, a genetically engineered molecule designed to neutralize HIV. We plan to make a decision in the second half of 2005 regarding the feasibility of continuing our PRO 542 program after reviewing the then-available data from the ongoing phase 2 clinical trial in the context of data regarding PRO 140, which targets the same disease.

Additionally, if the results of our phase 1 study with PRO 140 or the preclinical and clinical studies involving the PSMA vaccine and antibody candidates are not satisfactory, we would need to reconfigure our clinical trial programs to conduct additional trials or abandon the program involved.

We have a history of operating losses, and we may never be profitable.

We have incurred substantial losses since our inception. As of June 30, 2005, we had an accumulated deficit of approximately $145.3 million. We have derived no significant revenues from product sales or royalties. We do not expect to achieve significant product sales or royalty revenue for a number of years, if ever, other than potential revenues from MNTX **.** We expect to incur additional operating losses in the future, which could increase significantly as we expand our clinical trial programs and other product development efforts.

Our ability to achieve and sustain profitability is dependent in part on obtaining regulatory approval to market our products and then commercializing, either alone or with others, our products. We may not be able to develop and commercialize products. Moreover, our operations may not be profitable even if any of our products under development are commercialized.

We are likely to need additional financing, but our access to capital funding is uncertain.

As of June 30, 2005, we had cash, cash equivalents and marketable securities, including non-current portion, totaling $68.6 million. During the quarter ended June 30, 2005, we received net proceeds of $57.8 million from the sale of 3,532,467 shares of our common stock. During the three months and six months then ended, we had a net loss of $12.8 million and $26.0 million, respectively and used cash in operating activities of $25.1 million during the six months ended June 30, 2005. We anticipate significant increases in expenditures as we continue to expand our research and development activities, particularly in our MNTX programs. Consequently, we will need substantial additional funds to conduct product development activities. We intend to seek additional external funding, most likely through collaborative agreements, or other license or sale transactions, with one or more pharmaceutical companies regarding MNTX or other products, through the issuance and sale of securities or through additional government grants or contracts. We cannot predict with any certainty when we will need additional funds or how much we will need or if additional funds will be available to us. Our need for future funding will depend on numerous factors, many of which are outside our control.

Our access to capital funding is uncertain. We do not have committed external sources of funding for most of our drug development projects, and we may not be able to obtain additional funds on acceptable terms, or at all. We have the ability to make cost-saving changes in our operations in the event that we are unable to secure additional funding in the near term. Such changes would include focusing our resources on our late-stage MNTX program, which we believe has the greatest likelihood of generating near-term cash flows, and reducing or eliminating funding to some or all of our other product development programs. There are other cost-containment initiatives that we could implement. These steps would likely adversely impact our prospects for product commercialization and, consequently, our prospects for product sales and profitability. We might also need to sell or license our product candidates or other technologies on terms that are not favorable to us, which could also adversely affect our prospects for profitability. Our inability to raise additional capital on terms reasonably acceptable to us would seriously jeopardize the future success of our business.

If we raise funds by issuing and selling securities, it may be on terms that are not favorable to our existing stockholders. If we raise additional funds by selling equity securities, our current stockholders will be diluted, and new investors could have rights superior to our existing stockholders. If we raise funds by selling debt securities, we could be subject to restrictive covenants and significant repayment obligations.

Our clinical trials could take longer than we expect.

Although for planning purposes we forecast the commencement and completion of clinical trials, and have included or incorporated by reference many of those forecasts in this report and in other public disclosures, the actual timing of these events can vary dramatically. For example, we have experienced delays in our MNTX clinical development program as a result of slower than anticipated patient enrollment. These delays may recur. Our second pivotal phase 3 clinical trial of MNTX is being conducted in the hospice setting, where historically there have been limited resources, infrastructure and experienced personnel available to conduct such studies, which can lead to delays. Delays can also be caused by, among other things,

- deaths or other adverse medical events involving patients or subjects in our clinical trials;
- regulatory or patent issues;
- interim or final results of ongoing clinical trials;
- failure to enroll clinical sites as expected;
- scheduling conflicts with participating clinicians and clinical institutions; and
- manufacturing problems.

In addition, we may need to delay or suspend our clinical trials if we are unable to obtain additional funding when needed. Also, our clinical programs involving our joint venture with Cytogen could be delayed by disagreements between Cytogen and us concerning funding development programs or other matters. For example, until recently, the joint venture had no approved 2005 budget or work plan because we and Cytogen had not yet reached agreement with respect to a number of matters relating to the joint venture. In June 2005, we and Cytogen approved a work plan and budget for 2005. Clinical trials involving our product candidates may not commence or be completed as forecasted.

Moreover, we have limited experience in conducting clinical trials, and we rely on others to conduct, supervise or monitor some or all aspects of some of our clinical trials. In addition, certain clinical trials for our products may be conducted by government-sponsored agencies, and consequently will be dependent on governmental participation and funding. We will have less control over the timing and other aspects of these clinical trials than if we conducted them entirely on our own.

As a result of these and other factors, our clinical trials may not commence or be completed as we expect or may not be conducted successfully, in which event investors' confidence in our ability to develop products may be impaired and our stock price may decline.

We are subject to extensive regulation, which can be costly and time consuming and can subject us to unanticipated fines and delays.

We and our products are subject to comprehensive regulation by the FDA in the U.S. and by comparable authorities in other countries. These national agencies and other federal, state and local entities regulate, among other things, the preclinical and clinical testing, safety, approval, manufacture, labeling, marketing, export, storage, record keeping, advertising and promotion of pharmaceutical products. If we violate regulatory requirements at any stage, whether before or after marketing approval is obtained, we may be subject to forced removal of a product from the market, product seizure, civil and criminal penalties and other adverse consequences.

We do not yet have, and may never obtain, the regulatory approvals we need to market our products .

None of our products has been approved by applicable regulatory authorities for marketing. The process of obtaining FDA and foreign regulatory approvals often takes many years and can vary substantially based upon the type, complexity and novelty of the products involved. We have had only limited experience in filing and pursuing applications and other submissions necessary to gain marketing approvals. We may not obtain marketing approval from the FDA or any other regulatory authority for any of our products under development.

Even if we obtain regulatory approval to market a product:

- we might not obtain labeling claims necessary to make the product commercially viable (in general, labeling claims define the medical conditions for which a drug product may be marketed, and are therefore very important to the commercial success of a product);
- we may be required to undertake post-marketing trials to verify the product's efficacy or safety;
- we or others may identify side effects after the product is on the market, or we may experience manufacturing problems, either of which could result in subsequent withdrawal of marketing approval, reformulation of the product, additional preclinical testing or clinical trials, changes in labeling of the product or the need for additional marketing applications; and
- we will be subject to ongoing FDA obligations and continuous regulatory review.

If we fail to receive marketing approval for our products or lose previously received approvals, our financial results would be adversely affected.

Even if we obtain marketing approval for our products, they might not be accepted in the marketplace.

The commercial success of our products will depend upon their acceptance by the medical community and third party payors as clinically useful, cost effective and safe. If healthcare providers believe that patients can be managed adequately with alternative, currently available therapies, they may not prescribe our products, especially if the alternative therapies are viewed as more effective, as having a better safety or tolerability profile, as being more convenient to the patient or healthcare providers or as being less expensive. For pharmaceuticals administered in an institutional setting, the ability of the institution to be adequately reimbursed could also play a significant role in demand for our products. Even if our products obtain marketing approval, they may not achieve market acceptance. If any of our products do not achieve market acceptance, we will likely lose our entire investment in that product.

Marketplace acceptance will depend in part on competition in our industry, which is intense.

The extent to which any of our products achieves market acceptance will depend on competitive factors. Competition in our industry is intense, and it is accentuated by the rapid pace of technological development. There are products currently in the market that will compete with the products that we are developing, including chemotherapy drugs for treating cancer and AIDS drugs. As described below, Adolor Corporation is developing a drug that would compete with MNTX. Many of our competitors have substantially greater research and development capabilities and experience and greater manufacturing, marketing, financial and managerial resources than we do. These competitors may develop products that are superior to those we are developing and render our products or technologies non-competitive or obsolete. If our product candidates receive marketing approval but cannot compete effectively in the marketplace, our operating results and financial position would suffer.

One or more competitors developing an opioid antagonist may reach the market ahead of us and adversely affect the market potential for MNTX .

We are aware that Adolor Corporation, in collaboration with Glaxo Group Limited, or Glaxo, a subsidiary of GlaxoSmithKline plc, is developing an opioid antagonist, Entereg™ (alvimopan), for post-operative ileus, which has completed phase 3 clinical trials, and for opioid bowel dysfunction and chronic constipation, which have completed phase 2 trials. Post-operative ileus is a condition similar to post-operative bowel dysfunction, a condition for which we are developing MNTX. Entereg is further along in the clinical development process than MNTX and Adolor Corporation has received an approvable letter from the U.S. Food and Drug Administration for Entereg regarding the treatment of post-operative ileus **.** Additionally, it has been reported that a European specialty pharmaceutical company is in clinical development of an oral formulation of methylnaltrexone for use in opioid-induced constipation. If either of these products reaches the market before our MNTX product, it could achieve a significant competitive advantage relative to our product. In any event, the considerable marketing and sales capabilities of Glaxo may impair our ability to penetrate the market.

Disputes with Cytogen could delay or halt our PSMA programs.

Our research and development programs relating to vaccine and antibody immunotherapeutics based on PSMA are conducted through a joint venture between Cytogen Corporation and us. The JV is a 50/50 joint venture, meaning that our ownership rights in the programs, funding obligations and governance rights are equal. As a result, for the joint venture to operate efficiently, and for the research and development programs to be adequately funded and staffed and productive, we and Cytogen must be in agreement on strategic and operational matters. There is a significant risk that, as a result of differing views and priorities, there will be occasions when we do not agree on various matters.

Cytogen's and our level of commitment to fund the PSMA joint venture is based upon an annual budget and work plan that are developed and approved by the parties. We have in the past experienced delays in reaching agreement with Cytogen regarding annual budget issues and strategic and operational matters relating to the joint venture. For example, until recently, the joint venture had no approved 2005 budget or work plan because we and Cytogen had not yet reached agreement with respect to a number of matters relating to the joint venture. In June 2005, the Members reached agreement on a work plan and budget for 2005. If we do not reach an agreement regarding the budget and work plan for future years, we would likely experience delays in advancing the PSMA programs and may need to dissolve the joint venture and abandon the PSMA programs being conducted by the joint venture. We may not reach an agreement with Cytogen on these matters.

If we are unable to negotiate collaborative agreements, our cash burn rate could increase and our rate of product development could decrease.

We intend to pursue new collaborative agreements. For instance, we are currently in discussions with potential strategic collaborators for MNTX. However, we may not be successful in negotiating additional collaborative arrangements. If we do not enter into new collaborative arrangements, we would have to devote more of our resources to clinical product development and product-launch activities, and our cash burn rate would increase or we would need to take steps to reduce our rate of product development.

If we do not remedy our failure to achieve milestones or satisfy conditions regarding some of our product candidates, we may not maintain our rights under our licenses relating to these product candidates.

We are required to make substantial cash payments, achieve specified milestones and satisfy other conditions, including filing for and obtaining marketing approvals and introducing products, to maintain our rights under our licenses, including our licenses from UR Labs, Inc. (relating to MNTX), Sloan-Kettering Institute for Cancer Research (relating to GMK) and Columbia University (relating to PRO 542). We may not be able to maintain our rights under these licenses.

Under our license agreements relating to GMK and PRO 542, we are required, among other things, to have filed for marketing approval for a drug by 2000 and to have commenced commercialization of the drug by 2002 (for GMK) and to have filed for marketing approval by 2001 (for PRO 542). We have not achieved these and other milestones and are unlikely to achieve them soon. We are in a similar position with respect to our license agreement with Antigenics Inc. concerning QS-21, a component of GMK. If we can establish that our failure to achieve these milestones resulted from technical issues beyond our control or delays in clinical studies that could not have been reasonably avoided, we may be entitled to a revision of these milestone dates. Although we believe that we satisfy one or more of these conditions, we may become involved in disputes with our licensors as to our continued right to a license. In addition, at June 1, 2004 we became obligated under our license agreement with Columbia to pay Columbia $225,000. We have accrued this amount but, pending the outcome of discussions with Columbia regarding this payment and other matters relating to the license, we have not yet paid it.

If we do not comply with our obligations under our license agreements, the licensors may terminate them. Termination of any of our licenses could result in our losing our rights to, and therefore being unable to commercialize, any related product. We have had discussions with Sloan-Kettering and Columbia to reach agreement on the revision of applicable milestone dates. We may not, however, reach agreement with these licensors in a manner favorable to us.

We have limited manufacturing capabilities, which could adversely impact our ability to commercialize products.

We have limited manufacturing capabilities, which may result in increased costs of production or delay product development or commercialization. In order to commercialize our product candidates successfully, we or our collaborators must be able to manufacture products in commercial quantities, in compliance with regulatory requirements, at acceptable costs and in a timely manner. The manufacture of our product candidates can be complex, difficult to accomplish even in small quantities, difficult to scale-up for large-scale production and subject to delays, inefficiencies and low yields of quality products. The cost of manufacturing some of our products may make them prohibitively expensive. If adequate supplies of any of our product candidates or related materials are not available to us on a timely basis or at all, our clinical trials could be seriously delayed, since these materials are time-consuming to manufacture and cannot be readily obtained from third-party sources.

We operate pilot-scale manufacturing facilities for the production of vaccines and recombinant proteins. We believe that, for these types of product candidates, these facilities will be sufficient to meet our initial needs for clinical trials. However, these facilities may be insufficient for late-stage clinical trials for these types of product candidates, and would be insufficient for commercial-scale manufacturing requirements. We may be required to expand further our manufacturing staff and facilities, obtain new facilities or contract with corporate collaborators or other third parties to assist with production.

In the event that we decide to establish a commercial-scale manufacturing facility, we will require substantial additional funds and will be required to hire and train significant numbers of employees and comply with applicable regulations, which are extensive. We may not be able to build a manufacturing facility that both meets regulatory requirements and is sufficient for our clinical trials or commercial-scale manufacturing.

We have entered into arrangements with third parties for the manufacture of some of our products. Our third-party sourcing strategy may not result in a cost-effective means for manufacturing products. In employing third-party manufacturers, we will not control many aspects of the manufacturing process, including compliance by these third parties with the FDA’s current Good Manufacturing Practices and other regulatory requirements. We may not be able to obtain adequate supplies from third-party manufacturers in a timely fashion for development or commercialization purposes, and commercial quantities of products may not be available from contract manufacturers at acceptable costs.

PRO 542 is a recombinant protein, which generally involves more complex production methods than small-molecule drugs. Manufacturing PRO 542 is highly challenging, and these challenges could increase the cost of production, delay product development or commercialization or otherwise adversely impact our ability to commercialize PRO 542, should we choose to continue this program.

We are dependent on our patents and other intellectual property rights. The validity, enforceability and commercial value of these rights are highly uncertain.

Our success is dependent in part on obtaining, maintaining and enforcing patent and other intellectual property rights. The patent position of biotechnology and pharmaceutical firms is highly uncertain and involves many complex legal and technical issues. There is no clear policy involving the breadth of claims allowed, or the degree of protection afforded, under patents in this area. Accordingly, the patent applications owned by or licensed to us may not result in patents being issued. We are aware of other groups that have patent applications or patents containing claims similar to or overlapping those in our patents and patent applications. We do not expect to know for several years the relative strength or scope of our patent position as compared to these other groups. Furthermore, patents that we own or license may not enable us to preclude competitors from commercializing drugs, and consequently may not provide us with any meaningful competitive advantage.

We own or have licenses to several issued patents. However, the issuance of a patent is not conclusive as to its validity or enforceability. The validity or enforceability of a patent after its issuance by the patent office can be challenged in litigation. Our patents may be successfully challenged. Moreover, we may incur substantial costs in litigation to uphold the validity of patents or to prevent infringement. If the outcome of litigation is adverse to us, third parties may be able to use our patented invention without payment to us. Moreover, third parties may avoid our patents through design innovation.

Also, we can lose the right to patents and other intellectual property licensed to us if the related license agreement is terminated due to a breach by us or otherwise. Some of our patent rights relating to MNTX are derived from a license we have from UR Labs,and some of those rights are derived in turn through license rights UR Labs has acquired. Moreover, some of the patent rights of our joint venture with Cytogen are derived from a license from Cytogen, and some of those rights are derived in turn through license rights Cytogen has acquired. Our and the joint venture’s patent rights are dependent on each of these licenses.

Generally, we have the right to defend and enforce patents licensed by us, either in the first instance or if the licensor chooses not to do so. In addition, our license agreement with UR Labs regarding MNTX gives us the right to prosecute and maintain the licensed patents. We bear the cost of engaging in some or all of these activities with respect to our license agreements with Sloan-Kettering for GMK, Columbia for PRO 542 and UR Labs for MNTX. With most of our other license agreements, the licensor bears the cost of engaging in all of these activities, although we may share in those costs under specified circumstances. Historically, our costs of defending patent rights, both our own and those we license, have not been material.

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

If we infringe third-party patent or other intellectual property rights, we may need to alter or terminate a product development program.

There may be patent or other intellectual property rights belonging to others that require us to alter our products, pay licensing fees or cease certain activities. If our products infringe patent or other intellectual property rights of others, the owners of those rights could bring legal actions against us claiming damages and seeking to enjoin manufacturing and marketing of the affected products. If these legal actions are successful, in addition to any potential liability for damages, we could be required to obtain a license in order to continue to manufacture or market the affected products. We may not prevail in any action brought against us, and any license required under any rights that we infringe may not be available on acceptable terms or at all. We are aware of intellectual property rights held by third parties that relate to products or technologies we are developing. For example, we are aware of other groups investigating methylnaltrexone and other peripheral opioid antagonists, PSMA or related compounds and CCR5 monoclonal antibodies and of patents held, and patent applications filed, by these groups in those areas. While the validity of these issued patents, patentability of these pending patent applications and applicability of any of them to our programs are uncertain, if asserted against us, any related patent or other intellectual property rights could adversely affect our ability to commercialize our products.

The research, development and commercialization of a biopharmaceutical often involve alternative development and optimization routes, which are presented at various stages in the development process. The preferred routes cannot be predicted at the outset of a research and development program because they will depend on subsequent discoveries and test results. There are numerous third-party patents in our field, and we may need to obtain a license to a patent in order to pursue the preferred development route of one or more of our products. The need to obtain a license would decrease the ultimate profitability of the applicable product. If we cannot negotiate a license, we might have to pursue a less desirable development route or terminate the program altogether.

We are dependent upon third parties for a variety of functions. These arrangements may not provide us with the benefits we expect.

We rely in part on third parties to perform a variety of functions. We are party to numerous agreements which place substantial responsibility on clinical research organizations, consultants and other service providers for the development of our products. We also rely on medical and academic institutions to perform aspects of our clinical trials of product candidates. In addition, an element of our research and development strategy is to in-license technology and product candidates from academic and government institutions in order to minimize investments in early research. We may not be able to maintain any of these relationships or establish new ones on beneficial terms. Furthermore, we may not be able to enter new arrangements without undue delays or expenditures, and these arrangements may not allow us to compete successfully.

We lack sales and marketing experience, which will make us dependent on third parties for their expertise in this area.

We have no experience in sales, marketing or distribution. If we receive marketing approval, we expect to market and sell our products, including MNTX, principally through distribution, co-marketing, co-promotion or licensing arrangements with third parties. We may also consider contracting with a third party professional pharmaceutical detailing and sales organization to perform the marketing function for our products. We currently do not have a marketing partner for MNTX. To the extent that we enter into distribution, co-marketing, co-promotion, detailing or licensing arrangements for the marketing and sale of our products, any revenues we receive will depend primarily on the efforts of third parties. We will not control the amount and timing of marketing resources these third parties devote to our products. In addition, if we market products directly, significant additional expenditures and management resources would be required to develop an internal sales force. We may not be able to establish a successful sales force should we choose to do so.

If we lose key management and scientific personnel on whom we depend, our business could suffer.

We are dependent upon our key management and scientific personnel. In particular, the loss of Dr. Paul J. Maddon, our Chief Executive Officer and Chief Science Officer, could cause our management and operations to suffer. We have an employment agreement with Dr. Maddon, the initial term of which runs through June 30, 2005, subject to an automatic renewal for an additional period of two years unless either party provides ninety days prior notice of non-renewal. See “Item 11. Executive Compensation - Employment Agreements” in our Annual Report on Form 10-K for the year ended December 31, 2004. Neither we nor Dr. Maddon gave notice of non-renewal. We are currently in discussions with Dr. Maddon regarding the renewal of his employment agreement and expect that the agreement will be renewed. Employment agreements do not, however, assure the continued employment of an employee. We maintain key-man life insurance on Dr. Maddon in the amount of $2.5 million.

In October 2004, our board of directors elected Paul F. Jacobson and Kurt W. Briner as Co-chairmen of the Board in substitution of Dr. Paul J. Maddon, our Chief Executive Officer, Chief Science Officer and a director. Dr. Maddon’s employment agreement contains provisions relating to the Chairmanship position. In connection with the renewal of Dr. Maddon’s employment agreement, we intend to clarify that the change in the Chairman position is not inconsistent with Dr. Maddon’s employment agreement.

Competition for qualified employees among companies in the biopharmaceutical industry is intense. Our future success depends upon our ability to attract, retain and motivate highly skilled employees. In order to commercialize our products successfully, we may be required to expand substantially our personnel, particularly in the areas of manufacturing, clinical trials management, regulatory affairs, business development and marketing. We may not be successful in hiring or retaining qualified personnel.

If we are unable to obtain sufficient quantities of the raw and bulk materials needed to make our products, our product development and commercialization could be slowed or stopped.

We currently obtain supplies of critical raw materials used in production of MNTX, GMK and other of our product candidates from single sources. In particular, we rely on single-source third-party manufacturers for the supply of both bulk and finished form MNTX. We have a supply agreement with Mallinckrodt Inc., our current supplier of bulk-form MNTX, which has an initial term that expires on January 1, 2008. We do not have long-term contracts with any of our other suppliers. In addition, commercialization of GMK requires an adjuvant, QS-21, available only from Antigenics Inc. Our existing arrangements may not result in the supply of sufficient quantities of our product candidates needed to accomplish our clinical development programs, and we may not have the right or capability to manufacture sufficient quantities of these products to meet our needs if our suppliers are unable or unwilling to do so. Any delay or disruption in the availability of raw materials would slow or stop product development and commercialization of the relevant product.

A substantial portion of our funding comes from federal government grants and research contracts. We cannot rely on these grants or contracts as a continuing source of funds.

A substantial portion of our revenues to date has been derived from federal government grants and research contracts. Although no new grants or contracts were awarded in the first half of 2005, in 2004 we were awarded, in the aggregate, approximately $9.2 million in NIH grants and research contracts in addition to previous years' awards. We cannot rely on grants or additional contracts as a continuing source of funds. Moreover, funds available under these grants and contracts must be applied by us toward the research and development programs specified by the government rather than for all our programs generally. For example, the $28.6 million contract awarded to us by the NIH in September 2003 must be used by us in furtherance of our efforts to develop an HIV vaccine. The government's obligation to make payments under these grants and contracts is subject to appropriation by the U.S. Congress for funding in each year. Moreover, it is possible that Congress or the government agencies that administer these government research programs will decide to scale back these programs or terminate them due to their own budgetary constraints. Additionally, these grants and research contracts are subject to adjustment based upon the results of periodic audits performed on behalf of the granting authority. Consequently, the government may not award grants or research contracts to us in the future, and any amounts that we derive from existing grants or contracts may be less than those received to date.

If health care reform measures are enacted, our operating results and our ability to commercialize products could be adversely affected.

In recent years, there have been numerous proposals to change the health care system in the U.S. and in foreign jurisdictions. Some of these proposals have included measures that would limit or eliminate payments for medical procedures and treatments or subject the pricing of pharmaceuticals to government control. In some foreign countries, particularly countries of the European Union, the pricing of prescription pharmaceuticals is subject to governmental control. In addition, as a result of the trend towards managed health care in the U.S., as well as legislative proposals to reduce government insurance programs, third-party payors are increasingly attempting to contain health care costs by limiting both coverage and the level of reimbursement of new drug products. Consequently, significant uncertainty exists as to the reimbursement status of newly approved health care products.

If we or any of our collaborators succeed in bringing one or more of our products to market, third-party payors may establish and maintain price levels insufficient for us to realize an appropriate return on our investment in product development. Significant changes in the health care system in the U.S. or elsewhere, including changes resulting from adverse trends in third-party reimbursement programs, could have a material adverse effect on our operating results and our ability to raise capital and commercialize products.

We are exposed to product liability claims, and in the future we may not be able to obtain insurance against these claims at a reasonable cost or at all.

Our business exposes us to product liability risks, which are inherent in the testing, manufacturing, marketing and sale of pharmaceutical products. We may not be able to avoid product liability exposure. If a product liability claim is successfully brought against us, our financial position may be adversely affected.

Product liability insurance for the biopharmaceutical industry is generally expensive, when available at all. We have obtained product liability insurance in the amount of $5.0 million per occurrence, subject to a deductible and a $5.0 million annual aggregate limitation. In addition, where local statutory requirements exceed the limits of our existing insurance or where local policies of insurance are required, we maintain additional clinical trial liability insurance to meet these requirements. Our present insurance coverage may not be adequate to cover claims brought against us. In addition, some of our license and other agreements require us to obtain product liability insurance. Adequate insurance coverage may not be available to us at a reasonable cost in the future.

We handle hazardous materials and must comply with environmental laws and regulations, which can be expensive and restrict how we do business. If we are involved in a hazardous waste spill or other accident, we could be liable for damages, penalties or other forms of censure.

Our research and development work and manufacturing processes involve the use of hazardous, controlled and radioactive materials. We are subject to federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of these materials. Despite procedures that we implement for handling and disposing of these materials, we cannot eliminate the risk of accidental contamination or injury. In the event of a hazardous waste spill or other accident, we could be liable for damages, penalties or other forms of censure. In addition, we may be required to incur significant costs to comply with environmental laws and regulations in the future.

Our stock price has a history of volatility. You should consider an investment in our stock as risky and invest only if you can withstand a significant loss.

Our stock price has a history of significant volatility. Between January 1, 2002 and June 30, 2005, our stock price has ranged from $3.82 to $24.40 per share. At times, our stock price has been volatile even in the absence of significant news or developments relating to us. Moreover, the stocks of biotechnology companies and the stock market generally have been subject to dramatic price swings in recent years. Factors that may have a significant impact on the market price of our common stock include:

- the results of clinical trials and preclinical studies involving our products or those of our competitors;
- changes in the status of any of our drug development programs, including delays in clinical trials or program terminations;
- developments regarding our efforts to achieve marketing approval for our products;
- announcements of technological innovations or new commercial products by us, our collaborators or our competitors;
- developments in our relationships with collaborative partners;
- developments in patent or other proprietary rights;
- governmental regulation;
- changes in reimbursement policies or health care legislation;
- public concern as to the safety and efficacy of products developed by us, our collaborators or our competitors;
- our ability to fund on-going operations;
- fluctuations in our operating results; and
- general market conditions.

Our principal stockholders are able to exert significant influence over matters submitted to stockholders for approval.

At June 30, 2005, Dr. Maddon and stockholders affiliated with Tudor Investment Corporation together beneficially own or control approximately 21% of our outstanding shares of common stock. These persons, should they choose to act together, could exert significant influence in determining the outcome of corporate actions requiring stockholder approval and otherwise control our business. This control could have the effect of delaying or preventing a change in control of us and, consequently, could adversely affect the market price of our common stock.

Anti-takeover provisions may make the removal of our Board of Directors or management more difficult and discourage hostile bids for control of our company that may be beneficial to our stockholders.

Our Board of Directors is authorized, without further stockholder action, to issue from time to time shares of preferred stock in one or more designated series or classes. The issuance of preferred stock, as well as provisions in certain of our stock options that provide for acceleration of exercisability upon a change of control, and Section 203 and other provisions of the Delaware General Corporation Law could:

- make the takeover of Progenics or the removal of our Board of Directors or management more difficult;
- discourage hostile bids for control of Progenics in which stockholders may receive a premium for their shares of common stock; and
- otherwise dilute the rights of holders of our common stock and depress the market price of our common stock.

If there are substantial sales of our common stock, the market price of our common stock could decline.

Sales of substantial numbers of shares of common stock could cause a decline in the market price of our stock. We require substantial external funding to finance our research and development programs and may seek such funding through the issuance and sale of our common stock. In June 2005, we filed a new shelf registration statement providing for the sale from time to time of up to $70 million of additional shares of our common stock. In addition, some of our stockholders are entitled to require us to register their shares of common stock for offer or sale to the public. Also, we have filed Form S-8 registration statements registering shares issuable pursuant to our equity compensation plans. Any sales by existing stockholders or holders of options may have an adverse effect on our ability to raise capital and may adversely affect the market price of our common stock.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our primary investment objective is to preserve principal while maximizing yield without significantly increasing our risk. Our investments consist of taxable auction securities and corporate notes. Our investments totaled $62.7 million at June 30, 2005. Approximately $14.4 million of these investments had fixed interest rates, and $48.3 million had interest rates that were variable.

Due to the conservative nature of our short-term fixed interest rate investments, we do not believe that we have a material exposure to interest rate risk for those investments. Our fixed-interest-rate long-term investments are sensitive to changes in interest rates. Interest rate changes would result in a change in the fair values of these investments due to differences between the market interest rate and the rate at the date of purchase of the investment. A 100 basis point increase in the June 30, 2005 market interest rates would result in a decrease of approximately $0.076 million in the market values of these investments.

Item 4. Controls and Procedures

The Company maintains “disclosure controls and procedures,” as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, that are designed to ensure that information required to be disclosed in the Company’s Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Principal Financial and Accounting Officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, the Company’s management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and the Company’s management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. We also established a Disclosure Committee that consists of certain members of the Company’s senior management.

The Disclosure Committee, under the supervision and with the participation of the Company’s senior management, including the Company’s Chief Executive Officer and Principal Financial and Accounting Officer, carried out an evaluation of the effectiveness of the design and operation of the Company’s disclosure controls and procedures as of the end of the period covered by this report. Based upon their evaluation and subject to the foregoing, the Chief Executive Officer and Principal Financial and Accounting Officer concluded that the Company’s disclosure controls and procedures were effective.

There have been no changes in the Company’s internal control over financial reporting that occurred during the Company’s last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II — OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

The Company’s Annual Meeting of Stockholders was held on May 10, 2005. The matters voted upon at the meeting were (i) the election of seven directors of the Company; (ii) the approval of the 2005 Stock Incentive Plan; and (iii) the ratification of the Board of Directors’ selection of PricewaterhouseCoopers LLP to serve as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2005. The number of votes cast for and against or withheld with respect to each matter voted upon at the meeting and the number of abstentions and broker non-votes are as follows:

	Votes For	Votes Against	Withheld	Abstentions/ Broker Non - Votes
(i) **Election of Directors**				
Nominee				
Paul J. Maddon, M.D., Ph.D.	15,056,436	0	715,146	0
Charles A. Baker	14,840,374	0	931,207	0
Kurt W. Briner	15,059,777	0	711,804	0
Mark F. Dalton	14,840,047	0	931,534	0
Stephen P. Goff, Ph.D.	14,922,444	0	849,137	0
Paul F. Jacobson	14,840,374	0	931,207	0
David A. Scheinberg, M.D., Ph.D.	14,922,446	0	849,136	0
(ii) **Approval of 2005 Stock Incentive Plan**	5,622,780	0	3,642,744	348,325
(iii) **Ratification of PricewaterhouseCoopers LLP**	15,397,812	0	39,620	334,150

Item 6. E xhibit s

(a) Exhibits

31.1 Certification of Paul J. Maddon, M.D., Ph.D., Chairman and Chief Executive Officer of the Registrant, pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended

31.2 Certification of Robert A. McKinney, Chief Financial Officer and Vice President, Finance and Operations (Principal Financial and Accounting Officer) of the Registrant, pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended

32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNAT URES

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

PROGENICS PHARMACEUTICALS, INC.

Date: August 9, 2005

By: **/s/ Robert A. McKinney**

Robert A. McKinney
Chief Financial Officer
(Duly authorized officer of the Registrant and Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATION

PURSUANT TO RULE 13a-14(a) AND RULE 15d-14(a) UNDER THE

SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Paul J. Maddon, M.D., Ph.D., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Progenics Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within the registrant, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2005

/s/ Paul J. Maddon, M.D., Ph.D.
Paul J. Maddon, M.D., Ph.D.
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

PURSUANT TO RULE 13a-14(a) AND RULE 15d-14(a) UNDER THE

SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Robert A. McKinney, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Progenics Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within the registrant, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2005

/s/ Robert A. McKinney

Robert A. McKinney
Chief Financial Officer

Exhibit 32

CERTIFICATION PURSUANT

TO 18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Each of the undersigned hereby certifies, in his capacity as an officer of Progenics Pharmaceuticals, Inc. (the "Company"), for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

(1) The Quarterly Report of the Company on Form 10-Q for the period ended June 30, 2005 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial conditions and results of operations of the Company.

Date: August 9, 2005

/s/ Paul J. Maddon, M.D., Ph.D.
Paul J. Maddon, M.D., Ph.D.
Chief Executive Officer

/s/ Robert A. McKinney
Robert A. McKinney
Chief Financial Officer
(Principal Finance and Accounting Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Progenics Pharmaceuticals, Inc. and will be retained by Progenics Pharmaceuticals, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.