

APPLIED OPTOELECTRONICS, INC.

Form 10-Q

August 08, 2017

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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, 2017

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: 001-36083

Applied Optoelectronics, Inc.

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(Exact name of registrant as specified in its charter)

Delaware 76-0533927
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

13139 Jess Pirtle Blvd.

Sugar Land, TX 77478

(Address of principal executive offices)

(281) 295-1800

(Registrant's telephone number)

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 ("Exchange Act") 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: as of August 2, 2017 there were 19,303,210 shares of the registrant's Common Stock outstanding.

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Part I. Financial Information

Item 1. Condensed Consolidated Financial Statements

Applied Optoelectronics, Inc. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	June 30, 2017	December 31, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 74,825	\$ 50,224
Restricted cash	1,054	1,732
Short-term investments	42	44
Accounts receivable - trade, net of allowance of \$31 at June 30, 2017 and December 31, 2016, respectively	73,759	49,766
Inventories	59,701	51,817
Notes receivable	—	—
Prepaid expenses and other current assets	9,131	3,969
Total current assets	218,512	157,552
Cash restricted for construction in progress	—	8
Property, plant and equipment, net of accumulated depreciation of \$58,596 and \$49,175 at June 30, 2017 and December 31, 2016, respectively	165,154	144,098
Land use rights, net	786	778
Intangible assets, net	4,007	3,993
Deferred income tax assets	10,026	11,421
Other assets, net	8,501	4,468
TOTAL ASSETS	\$ 406,986	\$ 322,318
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of notes payable and long-term debt	\$ 4,552	\$ 7,865
Accounts payable	53,321	36,375
Bank acceptance payable	—	307
Accrued income taxes	4,947	974
Accrued liabilities	13,850	14,452
Total current liabilities	76,670	59,973
Notes payable and long-term debt, less current portion	22,814	34,961
TOTAL LIABILITIES	99,484	94,934
Stockholders' equity:		

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Preferred Stock; 5,000 shares authorized at \$0.001 par value; no shares issued and outstanding at June 30, 2017 or December 31, 2016, respectively	—	—
Common Stock; 45,000 shares authorized at \$0.001 par value; 19,192 and 18,400 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	19	18
Additional paid-in capital	290,067	265,264
Accumulated other comprehensive gain (loss)	4,369	(885)
Retained earnings (accumulated deficit)	13,047	(37,013)
TOTAL STOCKHOLDERS' EQUITY	307,502	227,384
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 406,986	\$ 322,318

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

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Applied Optoelectronics, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except share and per share data)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Revenue, net	\$ 117,371	\$ 55,254	\$ 213,595	\$ 105,676
Cost of goods sold	64,089	37,952	118,841	74,121
Gross profit	53,282	17,302	94,754	31,555
Operating expenses				
Research and development	8,073	7,814	15,505	16,210
Sales and marketing	2,158	1,610	4,061	3,290
General and administrative	8,786	5,906	16,608	11,639
Total operating expenses	19,017	15,330	36,174	31,139
Income from operations	34,265	1,972	58,580	416
Other income (expense)				
Interest income	70	65	105	166
Interest expense	(245)	(450)	(544)	(851)
Other income (expense), net	64	(932)	(544)	(598)
Total other income (expense)	(111)	(1,317)	(983)	(1,283)
Income (loss) before income taxes	34,154	655	57,597	(867)
Income tax (expense) benefit	(5,083)	(52)	(8,737)	140
Net income (loss)	\$ 29,071	\$ 603	\$ 48,860	\$ (727)
Net income (loss) per share				
Basic	\$ 1.52	\$ 0.04	\$ 2.59	\$ (0.04)
Diluted	\$ 1.43	\$ 0.03	\$ 2.45	\$ (0.04)
Weighted average shares used to compute net income (loss) per share:				
Basic	19,081,034	17,090,750	18,840,656	17,010,506
Diluted	20,367,127	17,454,552	19,956,097	17,010,506

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

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Applied Optoelectronics, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited, in thousands)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net income (loss)	\$ 29,071	\$ 603	\$ 48,860	\$ (727)
(Loss) gain on foreign currency translation adjustment	797	(956)	5,254	(38)
Comprehensive income (loss)	\$ 29,868	\$ (353)	\$ 54,114	\$ (765)

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

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Applied Optoelectronics, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Six months ended June 30, 2017

(Unaudited, in thousands)

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Accumulated Retained

For the three and six months ended June 30, 2012 and 2011, anti-dilutive common shares excluded from diluted per share amounts consist of the following:

	Three Months Ended June 30, 2012		2011	
	Weighted Average Number	Weighted Average Exercise Price	Weighted Average Number	Weighted Average Exercise Price
Options	6,227	\$ 12.26	3,703	\$ 16.91
Restricted stock	74		-	
Total	6,301		3,703	

	Six Months Ended June 30, 2012		2011	
	Weighted Average Number	Weighted Average Exercise Price	Weighted Average Number	Weighted Average Exercise Price
Options	6,011	\$ 12.35	3,762	\$ 16.72
Restricted stock	85		-	
Total	6,096		3,762	

4. Fair Value Measurements

Our auction rate securities are recorded at fair value in the accompanying Consolidated Balance Sheets in accordance with ASC 320 Investments – Debt and Equity Securities. The change in the fair value of these investments is recorded as a component of other comprehensive (loss) income (see Note 2. Summary of Significant Accounting Policies - Fair Value Measurements in the notes to consolidated financial statements included in our 2011 Annual Report on Form 10-K).

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PROGENICS PHARMACEUTICALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (unaudited)
(amounts in thousands, except per share amounts or as otherwise noted)

The following tables present our money market funds and auction rate securities measured at fair value on a recurring basis as of June 30, 2012 and December 31, 2011, classified by valuation hierarchy:

Investment Type	Balance at June 30, 2012	Fair Value Measurements at June 30, 2012		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 43,194	\$ 43,194	\$ -	\$ -
Auction rate securities	3,240	-	-	3,240
Total	\$ 46,434	\$ 43,194	\$ -	\$ 3,240

Investment Type	Balance at December 31, 2011	Fair Value Measurements at December 31, 2011		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 64,068	\$ 64,068	\$ -	\$ -
Auction rate securities	3,332	-	-	3,332
Total	\$ 67,400	\$ 64,068	\$ -	\$ 3,332

At June 30, 2012, we hold \$3,240 in auction rate securities which are classified as Level 3. The fair value of these securities includes \$2,300 of U.S. government subsidized securities collateralized by student loan obligations, with maturities greater than 10 years, and \$940 of investment company perpetual preferred stock, without a stated maturity. We will not realize cash in respect of the principal amount of these securities until the issuer calls or restructures the security, the security reaches any scheduled maturity and is paid, or a buyer outside the auction process emerges. As of June 30, 2012, we have received all scheduled interest payments on these securities, which, in the event of auction failure, are reset according to contractual terms in the governing instruments.

The valuation of auction rate securities we hold is based on Level 3 unobservable inputs which consist of our internal analysis of (i) timing of expected future successful auctions or issuer calls of the securities, (ii) collateralization of underlying assets of the security and (iii) credit quality of the security. We use a discounted cash flow model to estimate the value of these auction rate securities and the unobservable inputs consist of a redemption period ranging from four to 17 years (weighted-average: 6.6 years) and discount rates ranging from 0.25% to 2.39%

(weighted-average: 1.1%). Significant increases (decreases) in the redemption period or discount rates would result in a significantly lower (higher) fair value measurement. In re-evaluating the valuation of these securities as of June 30, 2012, the temporary impairment amount, the duration of which is greater than 12 months, decreased \$8 from \$268 at December 31, 2011, to \$260, which is reflected as part of accumulated other comprehensive loss on our accompanying Consolidated Balance Sheets and based on such re-evaluation, we believe that we have the ability to hold these securities until recovery of fair value. Due to the uncertainty related to the liquidity in the auction rate security market and therefore when individual positions may be liquidated, we have classified these auction rate securities as long-term assets on our accompanying Consolidated Balance Sheets. We continue to monitor markets for our investments and consider the impact, if any, of market conditions on the fair market value of our investments. We do not believe the carrying values of our investments are other than temporarily impaired and therefore expect the positions will eventually be liquidated without significant loss.

For those of our financial instruments with significant Level 3 inputs (all of which are auction rate securities), the following table summarizes the activities for the three and six months ended June 30, 2012 and 2011:

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PROGENICS PHARMACEUTICALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (unaudited)
(amounts in thousands, except per share amounts or as otherwise noted)

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) For the Three Months Ended June 30,	
	2012	2011
Balance at beginning of period	\$ 3,240	\$ 3,608
Transfers into Level 3	-	-
Transfers out of Level 3	-	-
Total gains (losses)		
Included in net loss	-	-
Included in other comprehensive loss	-	8
Settlements at par	-	(100)
Balance at end of period	\$ 3,240	\$ 3,516
Changes in unrealized gains or losses for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period	\$ -	\$ -

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) For the Six Months Ended June 30,	
	2012	2011
Balance at beginning of period	\$ 3,332	\$ 3,608
Transfers into Level 3	-	-
Transfers out of Level 3	-	-
Total gains (losses)		
Included in net loss	-	-
Included in other comprehensive loss	8	8
Settlements at par	(100)	(100)
Balance at end of period	\$ 3,240	\$ 3,516
Changes in unrealized gains or losses for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period	\$ -	\$ -

5. Accounts Receivable

	June 30, 2012	December 31, 2011
Royalties	\$ 1,619	\$ 1,279
Collaborators	386	77
Research grants	77	100
Other	14	60
Total	\$ 2,096	\$ 1,516

The increase in accounts receivable as of June 30, 2012 as compared to December 31, 2011, is primarily due to higher Relistor royalties from increased net sales by Salix during the second quarter of 2012. Since December 31, 2011, we have collected all accounts receivable outstanding on that date.

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PROGENICS PHARMACEUTICALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (unaudited)
(amounts in thousands, except per share amounts or as otherwise noted)

6. Accounts Payable and Accrued Expenses

	June 30, 2012	December 31, 2011
Accrued payroll and related costs	\$ 1,779	\$ 3,149
Accrued consulting and clinical trial costs	1,335	1,637
Restructuring accrual	22	731
Legal and professional fees	485	371
Accounts payable	197	309
Other	165	134
Total	\$ 3,983	\$ 6,331

Accounts payable and accrued expenses decreased as of June 30, 2012, compared to year end, primarily due to the payment of 2011 accrued bonuses in the first quarter of 2012.

7. Restructuring

In the third and fourth quarters of 2011, we reduced headcount resulting in a restructuring accrual of \$1.3 million of severance and related benefits, which are being paid during the period from October 2011 through August 2012. We incurred other exit and contract termination costs, including expenses related to a lease amendment and consolidation of employees within reduced facility space.

Activity in the restructuring accrual, which is included in accounts payable and accrued expenses in our Consolidated Balance Sheets, and in research and development and general and administrative expenses in the Consolidated Statements of Operations, is specified below.

	Severance and Related Benefits	Other Exit Costs	Contract Termination Costs	Total Restructuring Accrual
Balance at December 31, 2011	\$ 571	\$ 6	\$ 154	\$ 731
Additions, net	-	122	3	125
Payments	(456)	(123)	(147)	(726)
Balance at March 31, 2012	115	5	10	130
Additions, net	-	62	-	62
Payments	(93)	(67)	(10)	(170)
Balance at June 30, 2012	\$ 22	\$ -	\$ -	\$ 22

8. Commitments and Contingencies

In the ordinary course of our business, we enter into agreements with third parties, such as business partners, clinical sites and suppliers, that include indemnification provisions which in our judgment are normal and customary for

companies in our industry sector. We generally agree to indemnify, hold harmless and reimburse the indemnified parties for losses suffered or incurred by them with respect to our products or product candidates, use of such products or other actions taken or omitted by us. The maximum potential amount of future payments we could be required to make under these indemnification provisions is not limited. We have not incurred material costs to defend lawsuits or settle claims related to these provisions. As a result, the estimated fair value of liabilities relating to indemnification provisions is minimal. We have no liabilities recorded for these provisions as of June 30, 2012.

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

Note Regarding Forward-Looking Statements

This document and other public statements we make may contain statements that do not relate strictly to historical fact, any of which may be forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. When we use the words "anticipates," "plans," "expects" and similar expressions, we are identifying forward-looking statements. Forward-looking statements involve known and unknown risks and uncertainties which may cause our actual results, performance or achievements to be materially different from those expressed or implied by forward-looking statements. While it is impossible to identify or predict all such matters, these differences may result from, among other things, the inherent uncertainty of the timing and success of, and expense associated with, research, development, regulatory approval and commercialization of our products and product candidates, including the risks that clinical trials will not commence or proceed as planned; products appearing promising in early trials will not demonstrate efficacy or safety in larger-scale trials; clinical trial data on our products and product candidates will be unfavorable; our products will not receive marketing approval from regulators or, if approved, do not gain sufficient market acceptance to justify development and commercialization costs; competing products currently on the market or in development might reduce the commercial potential of our products; we, our collaborators or others might identify side effects after the product is on the market; or efficacy or safety concerns regarding marketed products, whether or not originating from subsequent testing or other activities by us, governmental regulators, other entities or organizations or otherwise, and whether or not scientifically justified, may lead to product recalls, withdrawals of marketing approval, reformulation of the product, additional pre-clinical testing or clinical trials, changes in labeling of the product, the need for additional marketing applications, declining sales or other adverse events.

We are also subject to risks and uncertainties associated with the actions of our corporate, academic and other collaborators and government regulatory agencies, including risks from market forces and trends; potential product liability; intellectual property, litigation, environmental and other risks; the risk that we may not be able to enter into favorable collaboration or other relationships or that existing or future relationships may not proceed as planned; the risk that current and pending patent protection for our products may be invalid, unenforceable or challenged, or fail to provide adequate market exclusivity, or that our rights to in-licensed intellectual property may be terminated for our failure to satisfy performance milestones; the risk of difficulties in, and regulatory compliance relating to, manufacturing products; and the uncertainty of our future profitability.

Risks and uncertainties also include general economic conditions, including interest and currency exchange-rate fluctuations and the availability of capital; changes in generally accepted accounting principles; the impact of legislation and regulatory compliance; the highly regulated nature of our business, including government cost-containment initiatives and restrictions on third-party payments for our products; trade buying patterns; the competitive climate of our industry; and other factors set forth in this document and other reports filed with the U.S. Securities and Exchange Commission (SEC). In particular, we cannot assure you that Relistor® will be commercially successful or be approved in the future in other formulations, indications or jurisdictions, or that any of our other programs will result in a commercial product.

We do not have a policy of updating or revising forward-looking statements and we assume no obligation to update any statements as a result of new information or future events or developments. It should not be assumed that our silence over time means that actual events are bearing out as expressed or implied in forward-looking statements.

Overview

General. Progenics Pharmaceuticals is dedicated to the development of innovative medicines to treat disease. Our focus is on the treatment of cancer.

Our first commercial drug is Relistor, for the treatment of opioid induced constipation (OIC) in patients with advanced illnesses, such as cancer. OIC is the constipation that often arises when patients take opioids for pain relief. Relistor is the only prescription medicine approved in the United States to treat this form of constipation. Relistor subcutaneous injection is now approved in the U.S., the European Union and over 50 other countries around the world. In the U.S. Relistor is marketed by our commercial partner Salix Pharmaceuticals, a leading specialty pharmaceutical company focusing on gastrointestinal diseases and outside the U.S. by Salix sublicensees and distributors. Our partner Ono Pharmaceutical is currently developing subcutaneous Relistor for Japan.

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As part of our efforts to develop and commercialize Relistor and its active ingredient, methylnaltrexone, we and Salix have sought to expand the availability of subcutaneous Relistor to patients taking opioids for non-cancer pain, and who suffer from OIC as a result (a population which includes patients taking opioids for conditions such as back pain or joint pain), and to develop an oral formulation of methylnaltrexone for use by such patients. With respect to the former, on July 27, we received a Complete Response Letter from the U.S. Food and Drug Administration requesting additional clinical data following its review of a supplemental New Drug Application for subcutaneous Relistor in non-cancer pain patients. Salix has requested an End-of-Review meeting with the FDA to better understand the contents of the CRL. With respect to our ongoing development of oral methylnaltrexone, we and Salix announced in December 2011 successful top-line data from a phase 3 trial of that formulation.

Our lead oncology product candidate is PSMA ADC, a fully human monoclonal antibody-drug conjugate (ADC) directed against prostate specific membrane antigen (PSMA), a protein found at high levels on the surface of prostate cancer cells and also on the neovasculature of a number of other types of solid tumors. We have substantially completed our phase 1 clinical trial of PSMA ADC and based on its preliminary results are planning to commence a phase 2 trial in advanced prostate cancer later this year. We are considering as appropriate strategic collaborations with biopharmaceutical companies for PSMA ADC.

As a part of our work in oncology, we are also conducting preclinical development of novel multiplex phosphoinositide 3-kinase (PI3K) inhibitors, which we believe may be effective in blocking signaling pathways critical in the growth of aggressive cancers, particularly RAS-mutated tumors, and are seeking opportunities to expand our oncology pipeline through in-licensing and acquisitions. With our focus on the development of medicines to treat cancer, we have discontinued development work on programs outside of this focus and expect to divest or out-license others, including our C. difficile and PRO 140 programs. As part of that effort, the Company in July entered into an agreement to divest PRO 140, subject to a 90-day financing for the buyer to obtain funds for the acquisition.

Our sources of revenues for the three and six months ended June 30, 2012 and 2011 have been payments under our collaboration agreements, including Relistor royalties, and funds from NIH research grants for expenses incurred in respect of programs we expect to divest or out-license. To date, our product sales have consisted solely of limited revenues from the sale of research reagents and we expect that those sales will not significantly increase over current levels in the near future.

A majority of our expenditures to date have been for research and development activities. During the six months ended June 30, 2012, expenses for Oncology, primarily related to PSMA ADC, were \$15.7 million compared to \$8.9 million in 2011. Expenses for Relistor and Other research programs were \$1.2 million and \$2.5 million, respectively, during the six months ended June 30, 2012 compared to \$18.7 million and \$5.5 million, respectively, for the same period in 2011. We expect to incur significant development expenses for our PSMA ADC product candidate as clinical trials progress, while expenses, including reimbursement revenue, related to Relistor depend on the amount of research and development work we perform upon request by Salix or Ono.

At June 30, 2012, we held \$47.8 million in cash and cash equivalents, a decrease of \$8.3 million from first quarter-end, and a \$22.3 decrease from year-end 2011. We expect that this amount will be sufficient to fund operations as currently anticipated beyond one year. We expect to incur operating losses during the near term. At June 30, 2012, cash, cash equivalents and auction rate securities decreased \$22.3 million to \$51.1 million from \$73.4 million at December 31, 2011.

Relistor. Relistor has been approved by regulatory authorities in the U.S., countries in the European Union, Canada and Australia since 2008 for treatment of OIC in advanced-illness patients receiving palliative care when laxative

therapy has not been sufficient.

Under our 2011 License Agreement, Salix is responsible for further developing and commercializing Relistor, including completing clinical development necessary to support regulatory marketing approvals for potential new indications (such as chronic pain) and formulations of the drug, such as oral methylnaltrexone. In 2011, we received under this Agreement a \$60.0 million upfront cash payment and are eligible to receive (i) a development milestone of up to \$40.0 million upon U.S. marketing approval for subcutaneous Relistor in non-cancer pain patients (the proposed indication as to which we received the CRL mentioned above), (ii) a development milestone of up to \$50.0 million upon U.S. marketing approval of an oral formulation of Relistor, (iii) up to \$200.0 million of commercialization milestone payments upon achievement of specified U.S. sales targets, (iv) royalties ranging from 15 to 19 percent of net sales by Salix and its affiliates, and (v) 60% of any upfront, milestone, reimbursement or other revenue (net of costs of goods sold, as defined, and territory-specific research and development expense reimbursement) Salix receives from sublicensees outside the U.S. (for which we have received \$0.2 million to date). In the event that either marketing approval is subject to a Black Box Warning or Risk Evaluation and Mitigation Strategy (REMS), payment of a substantial portion of the milestone amount would be deferred, and subject, to achievement of the first commercialization milestone (payable upon annual U.S. sales first exceeding \$100.0 million).

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Salix, Progenics, and Progenics' former collaborator Wyeth have transitioned U.S., European and other marketing authorizations and are transitioning additional commercialization outside the U.S. and Japan. Salix has secured distribution and marketing partners for Relistor in the European territory and has licensed Link Medical Products Pty Limited for distribution in Australia, New Zealand, South Africa and certain other markets in Asia. Salix is continuing efforts to secure additional distribution partners and/or sublicensees in Europe and Latin America.

Royalty and milestone payments from Relistor depend on success in development and commercialization, which is dependent on many factors, such as the actions of Salix and Ono, decisions by the FDA and other regulatory bodies, such as the recent CRL mentioned above, the outcome of clinical and other testing of Relistor, and, to the extent requested by our collaboration partners, our own efforts.

Oncology. In June, we presented a summary of current interim results from our phase 1 clinical trial of PSMA ADC at the Plenary Session of the 2012 General Meeting of the American Society of Clinical Oncology (ASCO) held in Chicago.

Results of Operations (amounts in thousands unless otherwise noted)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Percent Change	2012	2011	Percent Change
Revenues	\$ 1,820	\$ 74,407	(98%)	\$ 4,046	\$ 76,795	(95%)
Expenses	(12,554)	(18,937)	(34%)	(27,881)	(44,270)	(37%)
Operating (loss) income	(10,734)	55,470	(119%)	(23,835)	32,525	(173%)
Other income	14	16	(13%)	29	34	(15%)
Net (loss) income	\$ (10,720)	\$ 55,486	(119%)	\$ (23,806)	\$ 32,559	(173%)

Revenues:

Our sources of revenue during the three and six months ended June 30, 2012 and 2011 included our License Agreement with Salix, Transition Agreement with Wyeth, our License Agreement with Ono, our research grants from the NIH and, to a small extent, our sale of research reagents.

Sources of Revenue	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Percent Change	2012	2011	Percent Change
Royalty income	\$1,619	\$527	207%	\$3,453	\$527	555%
Collaboration revenue	94	72,460	(100%)	385	73,543	(99%)
Research grants	88	1,401	(94%)	174	2,665	(93%)
Other revenues	19	19	0%	34	60	(43%)
Total	\$1,820	\$74,407	(98%)	\$4,046	\$76,795	(95%)

Royalty income. During the three and six months ended June 30, 2012 and during the three and six months ended June 30, 2011, we recognized \$1,619, \$3,453, \$527 and \$527, respectively, of royalty income based on net sales of Relistor

reported by Salix or its sublicensees. No royalties were payable to us during the first quarter of 2011.

	Relistor Net Sales Reported by Collaborators			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
U.S.	\$ 10,000	\$ 3,500	\$ 21,300	\$ 5,300
Ex-U.S.	800	1,700	1,800	3,200
Global	\$ 10,800	\$ 5,200	\$ 23,100	\$ 8,500

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Collaboration revenue:

Salix Collaboration. During the three and six months ended June 30, 2012, we recognized \$86 and \$375, respectively, of revenue from Salix, which includes \$51 and \$102, respectively, from the \$60,000 upfront cash payment under the License Agreement and \$35 and \$273, respectively, as reimbursement of our expenses, in accordance with the License Agreement. As of June 30, 2012, \$204 and \$60 are recorded in deferred revenue – current and long-term, respectively. During the three and six months ended June 30, 2011, we recognized \$71,884 and \$71,884, respectively, of upfront and reimbursement revenue from Salix and we recognized \$572 and \$1,630, respectively, of revenue from Wyeth, our collaborator before Salix, as reimbursement of our expenses under the 2009 Transition Agreement. We received no such reimbursement in 2012.

Ono Collaboration. During the three months ended June 30, 2012 and 2011, we recognized \$8 and \$4, respectively and during the six months ended June 30, 2012 and 2011, we recognized \$10 and \$29, respectively, of reimbursement revenue for activities requested by Ono under the 2008 Ono Agreement.

Research grants. During the three months ended June 30, 2012 and 2011, we recognized \$88 and \$1,401, respectively, and during the six months ended June 30, 2012 and 2011, we recognized \$174 and \$2,665, respectively, as revenue from federal government grants by the NIH to partially offset costs related to our research and development programs. The decrease in grant revenue resulted from lower reimbursable expenses in 2012 than in 2011. We expect NIH reimbursable expenses to continue to decline.

Other revenues, primarily from orders for research reagents, remained unchanged at \$19 for the three months ended June 30, 2012 compared to the prior year period and decreased to \$34 for the six months ended June 30, 2012, from \$60 for the same period in 2011.

Expenses:

Research and Development Expenses include scientific labor, clinical trial costs, supplies, product manufacturing costs, consulting, license fees, royalty payments and other operating expenses. Research and development expenses decreased to \$8,229 for the three months ended June 30, 2012 from \$13,460 for the same period of 2011 and decreased to \$19,363 for the six months ended June 30, 2012 from \$33,060 for the same period of 2011, as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Percent Change	2012	2011	Percent Change
Salaries and benefits	\$3,532	\$4,797	(26%)	\$9,295	\$9,652	(4%)

Three Months: Salaries and benefits decreased from the 2011 period due to a decline in average headcount to 79 from 117 in the research and development departments.

Six Months: Salaries and benefits decreased due to a decline in average headcount to 78 from 119 in the research and development departments, partially offset by an increase in expenses of \$1,804 incurred in the first quarter of 2012 in connection with a former senior executive retirement.

	Three Months Ended June 30,	Six Months Ended June 30,
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	2012	2011	Percent Change	2012	2011	Percent Change
Share-based compensation	\$1,290	\$1,179	9%	\$3,578	\$2,180	64%

Three Months: Share-based compensation increased from the 2011 period primarily due to higher stock option plan expenses, partially offset by lower restricted stock expenses and lower employee stock purchase plan expenses as a result of the 2011 termination of those stock plans.

Six Months: Share-based compensation increased primarily due to the acceleration of options and restricted stock expenses of \$1,638 resulting from a former senior executive retirement, partially offset by lower restricted stock expenses and lower employee stock purchase plan expenses resulting from termination of the stock plans.

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For both corresponding 2011 periods, research and development share-based compensation included restricted stock and option plan expenses resulting from (i) accelerated vesting of outstanding awards to non-management employees in connection with a change in program eligibility and termination of the Company's employee stock purchase plans (the latter of which resulted in a decline in share-based compensation), and (ii) a shift in headcount from general and administrative departments to research and development.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Percent Change	2012	2011	Percent Change
Clinical trial costs	\$489	\$2,518	(81%)	\$1,079	\$9,272	(88%)

Three Months: Clinical trial costs decreased from the 2011 period primarily due to lower expenses for Relistor (\$2,359), resulting from lower clinical trial activities expense related to the oral methylnaltrexone phase 3 study assumed by Salix in 2011, and Other (\$21), partially offset by increased expenses in Oncology (\$351), primarily related to PSMA ADC.

Six Months: Clinical trial costs decreased primarily due to Relistor (\$8,922), resulting from lower clinical trial activities expense related to the oral methylnaltrexone study, and Other (\$58), partially offset by increased expenses in Oncology (\$787), primarily related to PSMA ADC.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Percent Change	2012	2011	Percent Change
Laboratory and manufacturing supplies	\$181	\$505	(64%)	\$377	\$1,376	(73%)

Three Months: Laboratory and manufacturing supplies decreased from the 2011 period due to lower expenses in (i) Oncology (\$12), resulting from a decline in manufacturing supplies for PSMA ADC, (ii) Other (\$298), and (iii) Relistor (\$14).

Six Months: Laboratory and manufacturing supplies decreased due to lower expenses in (i) Oncology (\$323), resulting from a decline in manufacturing supplies for PSMA ADC, (ii) Other (\$599), and (iii) Relistor (\$77).

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Percent Change	2012	2011	Percent Change
Contract manufacturing and subcontractors	\$780	\$1,933	(60%)	\$1,624	\$4,863	(67%)

Three Months: Contract manufacturing and subcontractors decreased from the 2011 period due to lower expenses for Relistor (\$311), resulting from a decrease in purchases of subcutaneous Relistor related products, Other (\$784), and Oncology (\$58).

Six Months: Contract manufacturing and subcontractors decreased due to lower expenses for Relistor (\$2,205), resulting from a decrease in purchases of subcutaneous Relistor related products, and Other (\$1,096), partially offset by an increase in Oncology (\$62).

Expenses in this category relate to the conduct of clinical trials, including manufacture by third parties of drug materials, testing, analysis, formulation and toxicology services, and vary as the timing and level of such services are required.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Percent Change	2012	2011	Percent Change
Consultants	\$113	\$132	(14%)	\$223	\$979	(77%)

Three Months: Consultants expense decreased from the 2011 period due to lower expenses for Other programs (\$44), partially offset by higher expenses for Oncology (\$12) and Relistor (\$13).

Six Months: Consultants expense decreased due to lower expenses for Relistor (\$754), primarily related to the sNDA submission for subcutaneous Relistor in non-cancer pain patients, and Other programs (\$31), partially offset by higher expenses for Oncology (\$29).

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Expenses in this category relate to monitoring ongoing clinical trials and reviewing data from completed trials including the preparation of filings and vary as the timing and level of such services are required.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Percent Change	2012	2011	Percent Change
License fees	\$110	\$88	25%	\$150	\$452	(67%)

Three Months: License fees increased from the 2011 period due to Relistor (\$22).

Six Months: License fees decreased due to lower expenses for Relistor (\$152) and Other (\$151).

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Percent Change	2012	2011	Percent Change
Royalty expense	\$162	\$70	131%	\$347	\$127	173%

Three Months: We recognized \$162 and \$70, respectively, of royalty expenses during the three months ended June 30, 2012 and 2011, and the increase in expenses is due to higher net sales of Relistor in 2012.

Six Months: We recognized \$347 and \$127, respectively, of royalty expenses during the six months ended June 30, 2012 and 2011, and the increase in expenses is due to higher net sales of Relistor in 2012.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Percent Change	2012	2011	Percent Change
Other operating expenses	\$1,572	\$2,238	(30%)	\$2,690	\$4,159	(35%)

Three Months: Other operating expenses decreased from the 2011 period primarily due to decreases in rent (\$454), travel (\$51), insurance (\$24) and other operating expenses (\$180), partially offset by increases in expenses for facilities (\$43).

Six Months: Other operating expenses decreased primarily due to decreases in rent (\$1,191), travel (\$92) and other operating expenses (\$364), partially offset by increases in expenses for facilities (\$178).

General and Administrative Expenses decreased to \$4,025 for the three months ended June 30, 2012 from \$4,952 for the same period of 2011 and decreased to \$7,746 for the six months ended June 30, 2012, from \$10,149 for the same period of 2011, as follows:

	Three Months Ended June 30,	Six Months Ended June 30,
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	2012	2011	Percent Change	2012	2011	Percent Change
Salaries and benefits	\$1,656	\$1,673	(1%)	\$3,455	\$3,830	(10%)

Three Months: Salaries and benefits decreased from the 2011 period due to a decline in average headcount to 28 from 34, partially offset by higher accrued bonus expenses, in the general and administrative departments.

Six Months: Salaries and benefits decreased due to a decline in average headcount to 28 from 35, in the general and administrative departments.

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	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Percent Change	2012	2011	Percent Change
Share-based compensation	\$897	\$599	50%	\$1,218	\$1,093	11%

Three Months: Share-based compensation increased from the 2011 period due to higher stock option expenses, partially offset by lower restricted stock expenses and lower employee stock purchase plan expenses, as a result of the 2011 termination of those stock plans in 2011.

Six Months: Share-based compensation increased due to higher stock option expenses, partially offset by lower restricted stock expenses and lower employee stock purchase plan expenses, resulting from termination of the stock plans.

For both corresponding 2011 periods, share-based compensation reflected accelerated vesting in connection with termination of our employee stock purchase plans, as described under research and development expenses, above.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Percent Change	2012	2011	Percent Change
Consulting and professional fees	\$476	\$1,450	(67%)	\$1,104	\$2,820	(61%)

Three Months: Consulting and professional fees decreased from the 2011 period due to lower consulting (\$708), patent (\$145), audit (\$79) and other fees (\$42).

Six Months: Consulting and professional fees decreased due to lower consulting (\$1,023), patent (\$480), audit (\$135) and other fees (\$78).

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Percent Change	2012	2011	Percent Change
Other operating expenses	\$996	\$1,230	(19%)	\$1,969	\$2,406	(18%)

Three Months: Other operating expenses decreased from the 2011 period due to lower expenses for rent (\$149), investor relations (\$18) and recruiting (\$70), partially offset by an increase in other operating expenses (\$3).

Six Months: Other operating expenses decreased due to lower expenses for rent (\$393), investor relations (\$34) and other operating expenses (\$78), partially offset by an increase in recruiting (\$68).

Three Months Ended June 30,

	2012	2011	Percent Change	Six Months Ended June 30,		Percent Change
				2012	2011	
Depreciation and amortization	\$300	\$525	(43%)	\$772	\$1,061	(27%)

Three Months: Depreciation and amortization expense decreased to \$300 from \$525 for the 2011 period, primarily due to lower machinery and equipment fixed assets balances.

Six Months: Depreciation and amortization expense decreased to \$772 from \$1,061 for the 2011 period, primarily due to lower machinery and equipment fixed assets balances.

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Other income:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Percent Change	2012	2011	Percent Change
Interest income	\$14	\$16	(13%)	\$29	\$34	(15%)

Three Months: Interest income decreased to \$14 from \$16 for the 2011 period, due to lower average balance of cash equivalents in 2012 than in 2011.

Six Months: Interest income decreased to \$29 from \$34 for the 2011 period, due to lower average balance of cash equivalents in 2012 than in 2011.

Income Taxes:

For the three and six months ended June 30, 2012, our pre-tax losses were \$10,720 and \$23,806, respectively. As a result of the \$60,000 Salix upfront cash payment received in 2011, our pre-tax income was \$55,486 and \$32,559 for the corresponding 2011 periods, respectively, and we had taxable income in 2011, which has been offset fully with net operating loss carry-forwards.

Net (Loss) Income:

Our net loss was \$10,720 and \$23,806 for the three and six months ended June 30, 2012, respectively, compared to net income of \$55,486 and \$32,559 for the corresponding 2011 periods, respectively.

Liquidity and Capital Resources

We currently use cash on hand and royalty payments from Relistor to fund our ongoing operations. We expect to continue to use cash on hand and future Relistor royalties and other revenues, including any future development and/or commercialization milestones, as well as payments we may receive for licenses or other transactions involving other proprietary assets and programs, to fund our operations in the future. In the past, and to a limited extent currently, we have also funded operations through payments received from private placements of equity securities, public offerings of common stock, other collaborations, grants and contracts, royalties, interest on investments, and proceeds from the exercise of outstanding options and warrants.

Under the Salix License Agreement, we received in 2011 a \$60,000 upfront cash payment and \$225 in respect of Salix ex-U.S. sublicensee revenue and are eligible to receive development and commercialization milestone payments plus royalties on net sales and 60% of any upfront, milestone, reimbursement or other revenue (net of costs of goods sold, as defined, and territory-specific research and development expense reimbursement) Salix receives from ex-U.S. sublicensees.

Our expenses and reimbursement revenue related to Relistor have declined substantially since Salix assumed direct responsibility for expenses under third-party contracts we have assigned to it. Under the Salix License Agreement, we are reimbursed for Salix approved full-time equivalents (FTE) and third-party development expenses incurred and paid by us after February 3, 2011.

At June 30, 2012, we held \$47,820 in cash and cash equivalents, a decrease of \$8,279 from \$56,099 at March 31, 2012, and a decrease of \$22,285 from \$70,105 at December 31, 2011. We expect that this amount will be sufficient to fund operations as currently anticipated beyond one year. In addition, at June 30, 2012, our investment in auction rate securities classified as long-term assets on the Consolidated Balance Sheets amounted to \$3,240.

If we do not realize sufficient royalty or other revenue from Relistor, or are unable to enter into favorable collaboration, license, asset sale, capital raising or other financing transactions, we will have to reduce, delay or eliminate spending on certain programs, and/or reduce salary and other overhead expenses.

Our cash flow from operating activities was negative for the six months ended June 30, 2012, due primarily to the excess of expenditures on our research and development programs and general and administrative costs over cash received from collaborators and government grants to fund such programs, as described below. Our cash flow from operating activities was positive for the six months ended June 30, 2011, due to the receipt in 2011 of a \$60,000 Salix upfront payment from Salix, partially offset by expenditures on our research and development programs and general and administrative costs.

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Sources of Cash

Operating Activities. During the six months ended June 30, 2012 we received \$3,207 under our collaborations, consisting of (i) \$79 in reimbursement payments under the Salix License Agreement, (ii) \$3,113 in royalties from Salix and (iii) \$15 under the License Agreement with Ono. During the six months ended June 30, 2011, we received \$71,029 under our collaborations, consisting of (i) \$60,000 Salix upfront cash payment, (ii) \$7,703 in reimbursement payments under the Salix License Agreement, (iii) \$3,301 under the Transition Agreement with Wyeth, and (iv) \$25 under the License Agreement with Ono.

We have partially funded research programs through awards from the NIH. For the six months ended June 30, 2012 and 2011, we received \$197 and \$2,576, respectively, of revenue from all of our NIH awards. We expect a further decline in NIH reimbursable expenses.

Changes in Accounts receivable and Accounts payable for the six months ended June 30, 2012 and 2011 resulted from the timing of receipts from Salix, the NIH, Wyeth and Ono, and payments made to trade vendors in the normal course of business.

Other than amounts to be received from Salix and Ono, we have no committed external sources of capital. Other than revenues from Relistor, 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 product candidates to the commercial marketing stage.

Investing Activities. Of \$47,820 in cash and cash equivalents at June 30, 2012, \$40,353 is guaranteed by the U.S. Treasury or Federal Deposit Insurance Corporation's guarantee program. Our auction rate securities of \$3,240 include \$2,300 of securities collateralized by student loan obligations subsidized by the U.S. government, \$100 of which was redeemed at par during the first quarter of 2012. These investments, while rated investment grade by the Standard & Poor's and Moody's rating agencies and predominantly having scheduled maturities greater than ten years, are heavily concentrated in the U.S. financial sector. During the six months ended June 30, 2012, proceeds from sales of fixed assets were \$263.

Financing Activities. During the six months ended June 30, 2012 and 2011, we received cash of \$172 and \$2,319, respectively, from the exercise of stock options and, in 2011, from the sale of our common stock under our employee stock purchase plan. The amount of cash we receive from these sources fluctuates commensurate with headcount levels and changes in the price of our common stock on the grant date for options exercised, and on the sale date for shares sold under now-terminated employee stock purchase plans.

Unless we obtain regulatory approval from the FDA for additional product candidates and/or enter into agreements with corporate collaborators with respect to our additional technologies, we will be required to fund our operations in the future through sales of common stock or other securities, royalty or other financing agreements and/or grants and government contracts. Adequate additional funding may not be available to us on acceptable terms or at all. Our inability to raise additional capital on terms reasonably acceptable to us may seriously jeopardize the future success of our business.

Uses of Cash

Operating Activities. The majority of our cash has been used to advance our research and development programs, including conducting pre-clinical studies and clinical trials, pursuing regulatory approvals for product candidates, filing and prosecuting patent applications and defending patent claims. Our expenses for research and development for

the six months ended June 30, 2012 and 2011 were \$19,363 and \$33,060, respectively. Included in the 2012 period is \$2,063 of cash disbursements incurred in connection with a former senior executive first quarter retirement. For various reasons, including the early stage of certain of our programs, the timing and results of our clinical trials, our dependence in certain instances on third parties, many of which are outside of our control, we cannot estimate the total remaining costs to be incurred and timing to complete all our research and development programs.

Investing Activities. During the six months ended June 30, 2012 and 2011, we have spent \$731 and \$92, respectively, on capital expenditures.

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Contractual Obligations

Our funding requirements, both for the next 12 months and beyond, will include required payments under operating leases and fixed and contingent payments under our licensing, collaboration and other agreements. The following table summarizes our contractual obligations as of June 30, 2012 for future payments under these agreements:

	Total	2013	Payments due by June 30,		Thereafter
			2014-2015	2016-2017	
			(in millions)		
Operating leases	\$ 21.8	\$ 2.4	\$ 4.8	\$ 5.1	\$ 9.5
License, collaboration and other agreements:					
Fixed payments	2.1	0.4	0.5	0.6	0.6
Contingent payments (1)	84.6	2.3	2.4	-	79.9
Total	\$ 108.5	\$ 5.1	\$ 7.7	\$ 5.7	\$ 90.0

(1) Based on assumed achievement of milestones covered under each agreement, the timing and payment of which is highly uncertain.

We periodically assess the scientific progress and merits of each of our programs to determine if continued research and development is commercially and economically viable. Certain of our programs have been terminated due to the lack of scientific progress and prospects for ultimate commercialization. Because of the uncertainties associated with research and development in 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 research and development projects in a timely manner or failure to enter into collaborative agreements could significantly increase capital requirements and adversely affect 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 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 deviations from that plan that would consume our assets earlier than planned.

Off-Balance Sheet Arrangements and Guarantees

We have no obligations under off-balance sheet arrangements and do not guarantee the obligations of any other unconsolidated 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 consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2011. 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 financial 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.

There have been no other changes to our critical accounting policies and estimates as of and for the six months ended June 30, 2012, which are disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2011 Annual Report on Form 10-K.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk (amounts in thousands unless otherwise noted)

Our primary investment objective is to preserve principal. Our money market funds and auction rate securities have interest rates that were variable and totaled \$46,434 at June 30, 2012. As a result, we do not believe that these investment balances have a material exposure to interest-rate risk.

At June 30, 2012, we continue to hold approximately \$3,240 (7.0% of assets measured at fair value) of auction rate securities, in respect of which we have received all scheduled interest payments. The principal amount of these remaining auction rate securities will not be accessible until the issuer calls or restructures the underlying security, the underlying security matures and is paid or a buyer outside the auction process emerges.

We continue to monitor the market for auction rate securities and consider the impact, if any, of market conditions on the fair market value of our investments. We believe that the failed auctions experienced to date are not a result of the deterioration of the underlying credit quality of these securities, although valuation of them is subject to uncertainties that are difficult to predict, such as changes to credit ratings of the securities and/or the underlying assets supporting them, default rates applicable to the underlying assets, underlying collateral value, discount rates, counterparty risk, ongoing strength and quality of market credit and liquidity, and general economic and market conditions. We do not believe the carrying values of these auction rate securities are other than temporarily impaired and therefore expect the positions will eventually be liquidated without significant loss.

The valuation of the auction rate securities we hold is based on an internal analysis of timing of expected future successful auctions, collateralization of underlying assets of the security and credit quality of the security. We re-evaluated the valuation of these securities as of June 30, 2012 and the temporary impairment amount decreased \$8 from \$268 at December 31, 2011 to \$260. A 100 basis point increase to our internal analysis would result in a \$35 increase in the temporary impairment of these securities as of the six months ended June 30, 2012.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the U.S. Securities Exchange Act of 1934, that are designed to ensure that information required to be disclosed in our 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 our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. We have a Disclosure Committee consisting of certain members of our senior management which monitors and implements our policy of disclosing material information concerning the Company in accordance with applicable law.

The Disclosure Committee, under the supervision and with the participation of our senior management, including our CEO and CFO, carried out an evaluation of the effectiveness of the design and operation of our 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 CEO and CFO concluded that our disclosure controls and procedures, as designed and implemented, were effective at the reasonable assurance level.

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

PART II — OTHER INFORMATION

Item 1A. Risk Factors

Our business and operations entail a variety of serious risks and uncertainties, including those described in Item 1A of our Form 10-K for the year ended December 31, 2011 and our other public reports.

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Item 6. Exhibits

(a) Exhibits

Exhibit

Number Description

- | | |
|---------|---|
| 12.1 | Statement re computation of ratio of earnings (loss) to combined fixed charges and preferred stock dividends. |
| 31.1 | Certification of Mark R. Baker, 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, Senior Vice President, Finance and Operations 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 of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | Interactive Data File |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase |
| 101.DEF | XBRL Taxonomy Extension Definition Document |

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SIGNATURES

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

Date: August 9, 2012

PROGENICS PHARMACEUTICALS, INC.

By: /s/ Robert A. McKinney
Robert A. McKinney
(Chief Financial Officer
Senior Vice President, Finance & Operations and
Principal Financial and Accounting Officer)