CYTRX CORP
Form 10-Q/A
April 02, 2007

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q/A
Amendment No. 1

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

For the quarterly period ended March 31, 2006

OR

o **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 0-15327

CYTRX CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware	**58-1642740**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
11726 San Vicente Blvd. Suite 650 Los Angeles, CA	**90049**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: **(310) 826-5648**

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 þ No o

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

Large accelerated filer o Accelerated filer o Non-accelerated filer þ

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12(b)-2 of the Exchange Act).
Yes o No þ

There were 76,788,694 shares of CytRx Corporation Common Stock, $.001 par value, issued and outstanding as of March 23, 2007, exclusive of treasury shares.

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EXPLANATORY NOTE

CytRx Corporation (the Company) is amending in certain respects its Quarterly Report on Form 10-Q for the quarter year ended March 31, 2006, which we sometimes refer to in this amendment as our original Form 10-Q. The purpose of this amendment is to restate our condensed consolidated financial statements for the quarter ended March 31, 2006 as described below.

The restatement of our condensed consolidated financial statements is related to a reclassification of certain expenses related to the operations of our Massachusetts laboratory. The restatement also includes a correction of the accounting for historical anti-dilution adjustments in certain of our outstanding warrants in the quarters ended March 31, 2006 and 2005, respectively.

On March 30, 2007, the Audit Committee of our Board of Directors approved management s recommendation to restate our condensed consolidated financial statements for the quarter ended March 31, 2006 to reflect the expense reclassification and the correction of the accounting for historical anti-dilution adjustments in certain of our outstanding warrants.

The following Items and Exhibits of our original Form 10-Q are amended by this amendment:

Part I Item 1. Financial Statements (unaudited)

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

Part I Item 4. Controls and Procedures

Part II Item 6. Exhibits

Exhibit 31.1 Certification of Chief Executive Officer

Exhibit 31.2 Certification of Chief Financial Officer

Except for the foregoing Items and Exhibits, this amendment does not modify any disclosures contained in our original Form 10-Q. Additionally, the text of this amendment, except for the restatement information, speaks as of the filing date of the original Form 10-Q and does not attempt to update the disclosures in our original Form 10-Q or to discuss any developments subsequent to the date of the original filing. In accordance with the rules and regulations of the Securities and Exchange Commission, the information contained in the original Form 10-Q and this amendment is subject to updated or supplemental information contained in reports filed by us with the Securities and Exchange Commission subsequent to the filing dates of the original Form 10-Q and this amendment.

CYTRX CORPORATION
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Part I FINANCIAL INFORMATION

Item 1. Financial Statements

CYTRX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and short-term investments	$ 17,086,030	$ 8,299,390
Accounts receivable	60,830	172,860
Prepaid compensation, current portion		27,813
Prepaid and other current assets	438,400	287,793
Total current assets	17,585,260	8,787,856
Equipment and furnishings, net	339,535	352,641
Molecular library, net	350,595	372,973
Prepaid insurance and other assets	413,490	425,440
Total assets	$ 18,688,880	$ 9,938,910
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 997,340	$ 815,626
Accrued expenses and other current liabilities	1,206,727	1,639,922
Total current liabilities	2,204,067	2,455,548
Deferred revenue	275,000	275,000
Total liabilities	2,479,067	2,730,548
Stockholders equity:		
Preferred Stock, $.01 par value, 5,000,000 shares authorized, including 5,000 shares of Series A Junior Participating Preferred Stock; no shares issued and outstanding		
Common stock, $.001 par value, 125,000,000 shares authorized; 70,577,000 and 59,284,000 shares issued at March 31, 2006 and December 31, 2005, respectively	70,577	59,284
Additional paid-in capital	145,435,876	131,790,932
Treasury stock, at cost (633,816 shares held at March 31, 2006 and December 31, 2005, respectively)	(2,279,238)	(2,279,238)
Accumulated deficit	(127,017,402)	(122,362,616)
Total stockholders equity	16,209,813	7,208,362
Total liabilities and stockholders equity.	$ 18,688,880	$ 9,938,910

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

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CYTRX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,	
	2006 (restated)	**2005** (restated)
Revenue:		
Service revenue	$ 60,830	$
License fees		1,500
	60,830	1,500
Expenses:		
Research and development (includes $44,000 and $52,000 of non-cash stock-based expense for the three month periods ended March 31, 2006 and March 31, 2005, respectively)	2,173,648	1,914,020
Depreciation and amortization	58,931	38,124
Expense related to employee stock options	345,169	
General and administrative (including $68,000 and $239,000 of non-cash stock-based expense for the three-month periods ended March 31, 2006 and 2005, respectively)	1,756,929	1,657,212
	4,334,677	3,609,356
Loss before other income (expense)	(4,273,847)	(3,607,856)
Other income (expense):		
Interest income	107,490	42,666
Minority interest in losses of subsidiary		38,698
Net loss	$ (4,166,357)	$ (3,526,492)
Deemed dividend for anti-dilution adjustments made to outstanding common stock warrants	(488,429)	(1,075,568)
Net loss applicable to common stockholders	$ (4,654,786)	$ (4,602,060)
Basic and diluted loss per share, as originally stated	$ (0.07)	$ (0.07)
Basic and diluted loss per share, as restated	$ (0.07)	$ (0.09)
Weighted average shares outstanding	62,343,290	53,325,092

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

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CYTRX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2006	**2005**
Cash flows from operating activities:		
Net loss	$ (4,166,357)	$ (3,526,492)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	58,931	38,124
Minority interest in losses of subsidiary		(38,698)
Common stock, stock options and warrants issued for services	457,003	291,275
Net change in operating assets and liabilities	(278,109)	(58,388)
Total adjustments	237,825	232,313
Net cash used in operating activities	(3,928,532)	(3,294,179)
Cash flows from investing activities:		
Purchases of property and equipment	(23,447)	(24,901)
Net cash used in investing activities	(23,447)	(24,901)
Cash flows from financing activities:		
Net proceeds from exercise of stock options and warrants	334,225	251,619
Net proceeds from issuances of common stock	12,404,394	19,590,446
Net cash provided by financing activities	12,738,619	19,842,065
Net increase in cash and cash equivalents	8,786,640	16,522,985
Cash and short-term investments at beginning of period	8,299,390	2,999,409
Cash and short-term investments at end of period	$ 17,086,030	$ 19,522,394

Non-Cash Financing Activities:

In connection with the Company s adjustment to terms of certain outstanding warrants on January 20, 2005 and March 2, 2006, the Company recorded deemed dividends of $1,075,568 million and $488,429, respectively, which were recorded as charges to retained earnings with a corresponding credit to additional paid-in capital.

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

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CYTRX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2006
(Unaudited)

1. Description of Company and Basis of Presentation

CytRx Corporation (CytRx or the Company) is a biopharmaceutical research and development company, based in Los Angeles, California, with an obesity and type 2 diabetes research laboratory in Worcester, Massachusetts (see Note 11 to our financial statements for the year ended December 31, 2005). On September 30, 2005, the Company completed the merger of CytRx Laboratories, Inc., previously a wholly owned subsidiary of the Company and the owner of its Massachusetts laboratory (the Subsidiary), with and into the Company. The Company s small molecule therapeutics efforts include the clinical development of three, oral drug candidates that it acquired in October 2004, as well as a drug discovery operation conducted by its laboratory in Worcester, Massachusetts. The Company owns the rights to a portfolio of technologies, including ribonueleic acid interference (RNAi or gene silencing) technology in the treatment of specified diseases, including those within the areas of amyotrophic lateral sclerosis (ALS or Lou Gehrig s disease), obesity and type 2 diabetes and human cytomegalovirus (CMV). In addition, the Company recently announced that a novel HIV DNA + protein boost vaccine exclusively licensed to the Company and developed by researchers at University of Massachusetts Medical School and Advanced BioScience Laboratories, and funded by the National Institutes of Health, demonstrated promising interim Phase I clinical trial results that indicate its potential to produce potent antibody responses with neutralizing activity against multiple HIV viral strains. The Company has entered into strategic alliances with third parties to develop several of the Company s other products.

In 2004, the Company began a development program based on molecular chaperone co-induction technology through the acquisition of novel small molecules with broad therapeutic applications in neurology, type 2 diabetes, cardiology and diabetic complications. The acquired assets included three oral, clinical stage drug candidates and a library of 500 small molecule drug candidates. The Company recently entered the clinical stage of drug development with the initiation of a Phase II clinical program with its lead small molecule product candidate arimoclomol for the treatment of ALS. Arimoclomol has received Orphan Drug and Fast Track designation from the U.S. Food and Drug Administration.

To date, the Company has relied primarily upon selling equity securities and, to a much lesser extent, upon payments from its strategic partners and licensees and upon proceeds received upon the exercise of options and warrants to generate the funds needed to finance its operations. Management believes the Company s cash and cash equivalents balances are sufficient to meet projected cash requirements into the third quarter of 2007. The Company will be required to obtain significant additional funding in order to execute its long-term business plans, although it does not currently have commitments from any third parties to provide it with capital. The Company cannot assure that additional funding will be available on favorable terms, or at all. If the Company fails to obtain significant additional funding when needed, it may not be able to execute its business plans and its business may suffer, which would have a material adverse effect on its financial position, results of operations and cash flows.

The accompanying condensed consolidated financial statements at March 31, 2006 and for the three month periods ended March 31, 2006 and 2005 are unaudited, but include all adjustments, consisting of normal recurring entries, which the Company s management believes to be necessary for a fair presentation of the periods presented. Interim results are not necessarily indicative of results for a full year. Balance sheet amounts as of December 31, 2005 have been derived from our audited financial statements as of that date.

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The financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S. have been condensed or omitted pursuant to such rules and regulations. The financial statements should be read in conjunction with the Company s audited financial statements in its Form 10-K for the year ended December 31, 2005. The Company s operating results will fluctuate for the foreseeable future. Therefore, period-to-period comparisons should not be relied upon as predictive of the results in future periods.

The accompanying condensed financial statements have been restated to reflect a reclassification of certain expenses related to the operations of the Company s Massachusetts laboratory and a correction of the accounting for the Company s historical anti-dilution adjustments in certain of its outstanding warrants. The statement of operations was restated to include deemed dividends of $1,075,568 and $488,429 in the first quarters of 2005 and 2006, respectively, in arriving at the net loss applicable to common stockholders of $4,602,060 and $4,654,786 for the three-month periods ended March 31, 2005 and 2006, respectively. The restated net loss applicable to common stockholders resulted in an increase in net loss per share from $0.07 to $0.09 for the three-month period ended March 31, 2005, but did not change the net loss per share of $0.07 for the same period in 2006. The statement of operations was also restated to reflect $473,529 of expenses that were reclassified from general and administrative expense to research and development expense for the first quarter of 2006.

2. Adoption of Recently Issued Accounting Standards

Stock-Based Compensation Expense

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, (SFAS 123(R)) which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including employee stock options, based on estimated fair values. SFAS 123(R) supersedes the Company s previous accounting under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), employed by the Company for periods prior to fiscal 2006. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 (SAB 107) relating to SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

The Company s Consolidated Financial Statements as of and for the three months ended March 31, 2006 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, the Company s Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). Stock-based compensation expense recognized under SFAS 123(R) as general and administrative expense for the three months ended March 31, 2006 was approximately $345,000. There was no stock-based compensation expense related to employee stock options and employee stock purchases recognized during the three months ended March 31, 2005.

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company s Consolidated Statement of Operations. Prior to the adoption of SFAS 123(R), the Company accounted for stock-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123). Under the intrinsic value method, no stock-based compensation expense had been recognized in the Company s Consolidated Statement of Operations, other than as related to acquisitions and investments, because the exercise price of the Company s stock options granted to employees and directors equaled the fair market value of the underlying stock at the date of grant.

Stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in the Company s Consolidated Statement of Operations for the first quarter of fiscal 2006 included compensation expense for share-based payment awards granted prior to, but not yet vested as of, January 1, 2006, based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS 123, and compensation expense for the share-based payment awards granted subsequent to January 1, 2006 based on the grant date fair value estimated in

accordance with the provisions of SFAS 123(R). In conjunction with the adoption of SFAS 123(R), the Company adopted the straight-line single option method. As stock-based compensation expense recognized in the Consolidated Statement of Operations for the first quarter of fiscal 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the Company s pro forma information required under SFAS 123 for the periods prior to fiscal 2006, the Company accounted for forfeitures as they occurred.

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Upon adoption of SFAS 123(R), the Company elected to continue to use the Black-Scholes option-pricing model (Black-Scholes model). The Company s determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by the Company s stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company s expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because the Company s employee stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management s opinion, the existing valuation models may not provide an accurate measure of the fair value of the Company s employee stock options. Although the fair value of employee stock options is determined in accordance with SFAS 123(R) and SAB 107 using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

3. Loss Per Share

Basic net loss per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net loss per share is computed using the weighted-average number of common shares and dilutive potential common shares outstanding during the period. Dilutive potential common shares primarily consist of employee stock options and restricted common stock. Common share equivalents which potentially could dilute basic loss per share in the future, and which were excluded from the computation of diluted loss per share, as the effect would be anti-dilutive, totaled approximately 29,017,510 and 24,286,431 shares at March 31, 2006 and 2005, respectively.

Statement of Financial Accounting Standards No. 128, Earnings per Share (SFAS 128) requires that employee equity share options, nonvested shares and similar equity instruments granted by the Company be treated as potential common shares outstanding in computing diluted loss per share. As the Company recorded losses for the three-month period ended March 31, 2006, all employee equity share options, nonvested shares and similar equity instruments would be anti-dilutive. In the event that the Company becomes profitable, diluted shares outstanding will include the dilutive effect of in-the-money options which are calculated based on the average share price for each fiscal period using the treasury stock method. Under the treasury stock method, the amount the employee must pay for exercising stock options, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of benefits that would be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares.

In connection with our adjustment to the exercise terms of certain outstanding warrants to purchase common stock on March 2, 2006 and January 20, 2005, we recorded deemed dividends of $488,000 and $1.1 million, respectively. These deemed dividends are reflected as an adjustment to net loss for the three-month periods ended March 31, 2006 and 2005, respectively, to arrive at net loss applicable to common stockholders on the condensed consolidated statement of operations and for purposes of calculating basic and diluted loss per share.

4. Stock Based Compensation

As of March 31, 2006, an aggregate of 10,000,000 shares of common stock were reserved for issuance under the Company s 2000 Stock Option Incentive Plan, including 6,120,667 shares subject to outstanding stock options and 3,879,333 shares available for future grant. Additionally, the Company has two other plans, the 1994 Stock Option Plan and the 1998 Long Term Incentive Plan, which include 30,834 and 100,041 shares subject to outstanding stock options and 70,850 and 39,517 shares available for future grant, respectively. Options granted under these plans generally vest and become exercisable as to 33% of the option grants on each anniversary of the grant date until fully vested. The options will expire, unless previously exercised, not later than ten years from the grant date.

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In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Accounting Standard (SFAS) No. 123R, Share-Based Payment, an amendment of FASB Statements Nos. 123 and 95 (SFAS 123R), that addresses the accounting for, among other things, transactions in which a company receives employee services in exchange for equity instruments of the company. The statement precludes accounting for employee share-based compensation transactions using the intrinsic method, and requires that such transactions be accounted for using a fair-value-based method and that the fair value of the transaction be recognized as expense on a straight-line basis over the vesting period. In March 2005, the SEC issued Staff Accounting Bulletin (SAB) No. 107 (SAB 107) regarding the Staff s interpretation of SFAS 123R. This interpretation provides the Staff s views regarding interactions between SFAS 123R and certain SEC rules and regulations and provides interpretations of the valuation of share-based payments for public companies.

Effective January 1, 2006, the Company adopted the fair value recognition provision of SFAS 123(R) using the modified- prospective method. Under this method, compensation for all share based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, Accounting for Stock-based Compensation (123), and compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R), is recognized as an expense in the first quarter of 2006. Such amounts have been reduced by the Company s estimate of forfeitures of all unvested awards. Results for prior periods have not been restated to retrospectively apply SFAS No. 123(R).

Prior to January 1, 2006, the Company accounted for its stock based compensation plans under the recognition and measurement provisions of Accounting Principles Board (APB 25), and related interpretations for all awards granted to employees. Under APB 25, when the exercise price of options granted to employees under these plans equals the market price of the common stock on the date of grant, no compensation expense is recorded. When the exercise price of options granted to employees under these plans is less than the market price of the common stock on the date of grant, compensation expense is recognized over the vesting period.

For stock options paid in consideration of services rendered by non-employees, the Company recognizes compensation expense in accordance with the requirements of SFAS No. 123, as amended, and Emerging Issues Task Force Issue No. 96-18, Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services. Under SFAS No. 123, the compensation associated with stock options paid to non-employees is generally recognized in the period during which services are rendered by such non-employees . Since our adoption of SFAS 123(R), there been no change to our equity plans or modifications of our outstanding stock-based awards.

Deferred compensation for non-employee option grants that do not vest immediately upon grant are recorded as an expense over the vesting period of the underlying stock options, using the method prescribed by FASB Interpretation 28. At the end of each financial reporting period prior to vesting, the value of these options, as calculated using the Black Sholes option pricing model, will be re-measured using the fair value of the Company s common stock and deferred compensation and the non-cash compensation recognized during the period will be adjusted accordingly. Since the fair market value of options granted to non-employees is subject to change in the future, the amount of the future compensation expense is subject to adjustment until the stock options are fully vested. The Company recognized $112,000 of stock based compensation expense related to non-employee stock options for the three months ended March 31, 2006.

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The following table illustrates the pro forma effect on net loss and net loss per share assuming the Company had applied the fair value recognition provisions of SFAS 123 to options granted under the Company s stock option plans for the three months ended March 31, 2005. For purposes of this presentation, the value of the options is estimated using a Black Sholes option-pricing model and recognized as an expense on a straight-line basis over the options vesting periods.

		Three Months Ended March 31, 2005 (Restated)
Net loss allocable to common stockholders	$	(4,602)
Total stock-based employee compensation expense determined under fair-value based method for all awards		(308)
Pro forma net loss	$	(4,910)
Loss per share, as originally reported (basic and diluted)	$	(0.07)
Loss per share, as restated (basic and diluted)	$	(0.09)
Loss per share, pro forma (basic and diluted)	$	(0.09)

The fair value of stock options at the date of grant was estimated using the Black-Sholes option-pricing model, based on the following assumptions: The Company s expected stock price volatility assumption is based upon the historical daily volatility of our publicly traded stock. For option grants issued during the three-month period ended March 31, 2006 the Company used a weighted-average volatility of 108.6%. The expected life assumptions is based upon the simplified method provided for under SAB 107, which averages the contractual term of the Company s options of ten years with the average vesting term of two years for an average of six years. The dividend yield assumption is based upon the fact the Company has never paid cash dividends and presently has no intention of paying cash dividends. The risk-free interest rate used for each grant is equal to the U.S. Treasury rates in effect at the time of the grant for instruments with a similar expected life. Based on historical experience, the Company has estimated an annualized forfeiture rate of 10% for options granted to its employees and 3% for its senior management and director stock options. The Company will record additional expense if the actual forfeitures are lower than estimated and will record a recovery of prior expense if the actual forfeiture rates are higher than estimated. Under provisions of SFAS 123(R), the Company recorded $345,000 of stock-based compensation for the three months ended March 31, 2006. No amounts relating to employee stock-based compensation have been capitalized.

	Three Months Ended	
	March 31, 2006	March 31, 2005 (Restated)
Risk-free interest rate	4.27% - 4.83%	3.58% - 4.48%
Expected volatility	117.3%	119.7%
Expected lives (years)	6	6
Expected dividend yield	0.00%	0.00%

At March 31, 2006, there remained approximately $3.5 million of unrecognized compensation expense related to unvested employee stock options to be recognized as expense over a weighted-average period of 6.78 years. Presented below is the Company s stock option activity:

	Stock Options

	Three Months Ended March 31, 2006	
	Number of Shares	Weighted Average Exercise Price per Share
Outstanding at beginning of year	6,205,542	$ 1.69
Granted	103,500	$ 1.22
Exercised	(57,500)	$ 0.96
Outstanding at end of year	6,251,542	$ 1.69
Shares exercisable at end of period	3,809,116	$ 1.86

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A summary of the activity for nonvested stock options as of March 31, 2006 and changes during the three month period is presented below:

	Number of Shares	Weighted Average Grant Date Fair Value per Share
Nonvested at January 1, 2006	2,767,385	$ 1.47
Granted	103,500	$ 1.22
Vested	(428,459)	$ 1.54
Nonvested at March 31, 2006	2,442,426	$ 1.44

The following table summarizes significant ranges of outstanding stock options under the three plans at March 31, 2006:

Range of Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Contractual Life	Weighted Average Exercise Price
$0.25 1.00	1,248,543	8.22	$ 0.82	410,265	6.31	$ 0.81
$1.01 1.50	1,007,500	6.82	1.25	540,992	5.13	1.27
$1.51 2.00	2,222,500	7.26	1.86	1,400,837	6.90	1.86
$2.01 3.00	1,772,999	7.32	2.36	1,457,022	7.26	2.37
	6,251,542	7.40	$ 1.69	3,809,116	6.73	$ 1.86

The aggregate intrinsic value of outstanding options as of March 31, 2006, was $10.6 million, of which $7.1 million related to exercisable options. The aggregate intrinsic value was calculated based on the positive difference between the closing fair market value of the Company s common stock on March 31, 2006 ($1.89) and the exercise price of the underlying options. The intrinsic value of options exercised was $54,000 for the three months ended March 31, 2006. The intrinsic value of options vested during the period was $149,000.

5. Liquidity and Capital Resources

Based on the Company s currently planned level of expenditures, it believes that it will have adequate working capital to allow it to operate at its currently planned levels into the third quarter of 2007. The Company will be required to obtain significant additional funding in order to execute its business plans. The Company is pursuing several potential sources of capital, including potential strategic alliances, although it does not currently have commitments from any third parties to provide it with capital.

6. Equity Transactions

On March 2, 2006, the Company completed a $13.4 million private equity financing in which it issued 10,650,794 shares of its common stock and warrants to purchase an additional 5,325,397 shares of its common stock at an exercise price of $1.54 per share. Net of investment banking commissions, legal, accounting and other expenses related to the transaction, we received proceeds of approximately $12.4 million.

In connection with the financing, the Company adjusted the price and number of underlying shares of warrants to purchase approximately 2.8 million shares that had been issued in prior equity financings in May and September 2003. The adjustment was made as a result of anti-dilution provisions in those warrants that were triggered by the Company s issuance of common stock in that financing at a price below the closing market price on the date of the transaction. The Company accounted for the anti-dilution adjustments as deemed dividends analgous with the guidance in Emerging Issues Task Force Issue (EITF) No. 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*, and EITF 00-27, *Application of 98-5 to Certain Convertible Instruments*, and was recorded as an approximate $488,000 charge to retained earnings and a corresponding credit to additional paid-in capital.

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In connection with March equity financing, the Company entered into a registration rights agreement with the purchasers of its stock and warrants, which provides, among other things, for cash penalties in the event that the Company were unable to initially register, or maintain the effective registration of, the securities. The Company evaluated the penalty provisions in light of EITF 00-19, *Accounting for Derivative Financial Instruments Indexed To, and Potentially Settled In a Company s Own Stock*, and determined that the maximum penalty does not exceed the difference between the fair value of a registered share of CytRx common stock and unregistered share of Cytrx common stock on the date of the transaction. Further, the Company s management evaluated the other terms of the March 2006 financing with the provisions of EITF 00-19 and related accounting literature. Management concluded based upon its analysis of EITF 00-19 and related accounting literature, the common stock and related warrants sold in the March 2006 financing should be recorded as permanent equity in its financial statements.

During the three-month period ended March 31, 2006, the Company issued 642,831 shares of its common stock, and received $334,225, upon the exercise of stock options and warrants. In addition to the warrants issued in the March 2006 financing described above, the Company issued 103,500 options and warrants in the three-month period ended March 31, 2006.

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

Forward Looking Statements

From time to time, we make oral and written statements that may constitute forward-looking statements (rather than historical facts) as defined in the Private Securities Litigation Reform Act of 1995 or by the Securities and Exchange Commission, or SEC, in its rules, regulations and releases, including Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. We desire to take advantage of the safe harbor provisions in the Private Securities Litigation Reform Act of 1995 for forward-looking statements made from time to time, including, but not limited to, the forward-looking statements made in this Quarterly Report on Form 10-K, as well as those made in other filings with the SEC.

All statements in this Quarterly Report, including in Management s Discussion and Analysis of Financial Condition and Results of Operations, other than statements of historical fact are forward-looking statements for purposes of these provisions, including any projections of financial items, any statements of the plans and objectives of management for future operations, any statements concerning proposed new products or services, any statements regarding future economic conditions or performance, and any statement of assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as may, will, expects, plans, anticipates, estimates, potential or could or the negative thereof or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained herein and in documents incorporated by this Quarterly Report are reasonable, there can be no assurance that such expectations or any of the forward-looking statements will prove to be correct, and actual results could differ materially from those projected or assumed in the forward-looking statements.

Our future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including but not limited to the risk factors set forth under the heading Risk Factors in this Quarterly Report. These risks and uncertainties include: the scope of the clinical testing that may be required by regulatory authorities for our molecular chaperone co-induction drug candidates, including with respect to arimoclomol for the treatment of amyotrophic lateral sclerosis (ALS or Lou Gehrig s disease), our HIV vaccine candidate and our other product candidates, and the outcomes of those tests; uncertainties related to the early stage of our diabetes, obesity, cytomegalovirus, or CMV, and ALS research; the need for future clinical testing of any small molecules and products based on ribonucleic acid interference, or RNAi, that may be developed by us; the significant time and expense that will be incurred in developing any of the potential commercial applications for our small molecules or RNAi technology; risks or uncertainties related to our ability to obtain capital to fund our ongoing working capital needs, including capital required to fund RNAi development activities that we plan to

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conduct through the creation of a new subsidiary; and risks relating to the enforceability of any patents covering our products and to the possible infringement of third party patents by those products.

All forward-looking statements and reasons why results may differ included in this Quarterly Report are made as of the date hereof, and we assume no obligation to update any such forward-looking statement or reason why actual results might differ.

Overview

We are a biopharmaceutical research and development company, based in Los Angeles, California, with an obesity and type 2 diabetes research laboratory in Worcester, Massachusetts. We are in the process of developing products, primarily in the areas of small molecule therapeutics and ribonucleic acid interference, or RNAi, for the human health care market. Our small molecule therapeutics efforts include clinical development of three oral drug candidates that we acquired in October 2004, including a Phase II trial initiated in September 2005, as well as drug discovery operations conducted at our laboratory in Worcester, Massachusetts. RNAi is a relatively recent technology for silencing genes in living cells and organisms, and we are aware of only four clinical tests of therapeutic applications using RNAi that have been initiated by any party. In addition to our work in RNAi and small molecule therapeutics, we recently announced that a novel HIV DNA + protein vaccine exclusively licensed to us and developed by researchers at the University of Massachusetts Medical School, or UMMS, and Advanced BioScience Laboratories, and funded by the National Institutes of Health, demonstrated promising interim Phase I clinical trial results that indicate its potential to produce potent antibody responses with neutralizing activity against multiple HIV viral strains. We have also entered into strategic alliances with respect to the development of several other products using our other technologies.

In 2004, we began a development program based on molecular chaperone co-induction technology through the acquisition of novel small molecules with broad therapeutic applications in neurology, type 2 diabetes, cardiology and diabetic complications. The acquired assets included three oral, clinical stage drug candidates and a library of 500 small molecule drug candidates. We recently entered the clinical stage of drug development with the initiation of a Phase II clinical program with our lead small molecule product candidate arimoclomol for the treatment of amyotrophic lateral sclerosis (ALS or Lou Gehrig s disease). Arimoclomol has received Orphan Drug and Fast Track designation from the U.S. Food and Drug Administration, or FDA.

The initial Phase II clinical trial that we have initiated for arimoclomol for ALS (which we refer to as the Phase IIa trial) is a multicenter, double-blind, placebo-controlled study of approximately 80 ALS patients enrolled at ten clinical centers across the U.S. Patients will receive either placebo (a capsule without drug), or one of three dose levels of arimoclomol capsules three times daily, for a period of 12 weeks. This treatment phase will be immediately followed by a one-month period without drug. The primary endpoints of this Phase IIa trial are safety and tolerability. Secondary endpoints include a preliminary evaluation of efficacy using two widely accepted surrogate markers, the revised ALS Functional Rating Scale (ALSFRS-R), which is used to determine patients capacity and independence in 13 functional activities, and Vital Capacity (VC), an assessment of lung capacity. The trial is powered to monitor only extreme responses in these two categories. We recently announced initiation of an open-label (*i.e.,* the medication is no longer blinded to the patients or their doctor) extension of this clinical trial. Patients who complete the Phase IIa study and who still meet the eligibility criteria may have the opportunity to take arimoclomol, at the highest investigative dose, for as long as an additional 6 months.

Depending upon the results of the Phase IIa trial, we plan to initiate a subsequent Phase II trial (which we refer to as the Phase IIb trial) that will be powered to detect more subtle efficacy responses. Although this second trial is still in the planning stages and will be subject to FDA approval, it is expected to include approximately 390 ALS patients recruited from approximately 30 clinical sites, and will take approximately 18 months after initiation to complete.

Our molecular chaperone co-induction technology represents a continuation of our business strategy, adopted subsequent to our merger with Global Genomics, in July 2002, to conduct further research and development efforts for our pre-merger adjuvant and co-polymer technologies, including Flocor and Tranzfect, through strategic

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relationships with other pharmaceutical companies, and to focus our efforts on acquiring and developing new technologies and products to serve as the foundation for the future of the company.

In April 2003, we acquired our first new technologies by entering into exclusive license agreements with UMMS covering potential applications for its proprietary RNAi technology in the treatment of specified diseases and in the identification and screening of novel protein targets. In May 2003, we broadened our strategic alliance with UMMS by acquiring an exclusive license from it covering a proprietary DNA-based HIV vaccine technology. In July 2004, we further expanded our strategic alliance with UMMS by entering into a collaboration and invention disclosure agreement with UMMS under which UMMS will disclose to us certain new technologies developed at UMMS over a three-year period pertaining to RNAi, diabetes, obesity, neurodegenerative diseases (including ALS) and CMV, and will give us an option, upon making a specified payment, to negotiate an exclusive worldwide license to the disclosed technologies on commercially reasonable terms. Approximately one year remains on the technology disclosure option. As part of our strategic alliance with UMMS, we agreed to fund certain discovery and pre-clinical research at UMMS relating to the use of our technologies, licensed from UMMS, for the development of therapeutic products within certain fields.

In conjunction with some of our work with UMMS, we operate a research and development laboratory in Worcester, Massachusetts whose goal is to develop small molecule and RNAi-based therapeutics for the prevention, treatment and cure of obesity and type 2 diabetes. This laboratory is focusing on using our proprietary RNAi gene silencing technology, combined with genomic and proteomic based drug discovery technologies, to accelerate the process of screening and identifying potential proprietary drug targets and pathways for these diseases. Through this laboratory, we are seeking to develop orally active drugs against promising targets and pathways relevant to obesity and type 2 diabetes. We are currently pursuing a plan, subject to obtaining necessary funding, to transfer all of our RNAi therapeutics assets into a newly-formed subsidiary to accelerate the development and commercialization of drugs based on RNAi technology. In such event, we would continue to use our RNAi gene silencing technology as a drug discovery tool to facilitate our small molecule drug discovery program.

Although we intend to internally fund the early stage development work for certain product applications (including obesity, type 2 diabetes and ALS) and may seek to fund the completion of the development of certain of these product applications (such as arimoclomol for ALS), we may also seek to secure strategic alliances or license agreements with larger pharmaceutical or biotechnology companies to fund the early stage development work for other gene silencing product applications and for subsequent development of those potential products where we fund the early stage development work.

We have no significant revenue, and we expect to have no significant revenue and to continue to incur significant losses over the next several years. Our net losses may increase from current levels primarily due to activities related to our collaborations, technology acquisitions, ongoing and planned clinical trials, research and development programs and other general corporate activities. We anticipate that our operating results will fluctuate for the foreseeable future. Therefore, period-to-period comparisons should not be relied upon as predictive of the results in future periods.

To date, we have relied primarily upon sales of equity securities and, to a much lesser extent, upon payments from our strategic partners and licensees and upon proceeds received upon the exercise of options and warrants, to generate the funds needed to finance our business plans and operations. We will be required to obtain significant additional funding in order to execute our long-term business plans. Our sources of potential funding for the next several years are expected to consist primarily of proceeds from sales of equity, but could also include license and other fees, funded research and development payments, gifts and grants, and milestone payments under existing and future collaborative arrangements. However, we have no commitment or arrangements for such additional funding.

Restatement

The accompanying condensed financial statements have been restated to reflect a reclassification of certain expenses related to the operations of our Massachusetts laboratory and a correction of the accounting for our historical anti-dilution adjustments in certain of its outstanding warrants. The statement of operations was restated to include deemed dividends of $1,075,568 and $488,429 in the first quarters of 2005 and 2006, respectively, in arriving at the net loss applicable to common stockholders of $4,602,060 and $4,654,786 for the three-month periods ended March 31, 2005 and 2006, respectively. The restated net loss applicable to common stockholders resulted in an

increase in net loss per share from $0.07 to $0.09 for the three-month period ended March 31, 2005, but did not change the net loss per share of $0.07 for the same period in 2006. The statement of operations was also restated to reflect $473,529 of expenses that were reclassified from general and administrative expense to research and development expense for the first quarter of 2006.

Critical Accounting Policies and Estimates

Management s discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of

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contingent assets and liabilities. On an ongoing basis, management evaluates its estimates, including those related to revenue recognition, bad debts, impairment of long-lived assets, including finite lived intangible assets, accrued liabilities and certain expenses. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions.

Our significant accounting policies are summarized in Note 2 to our financial statements contained in our Annual Report on Form 10-K filed for the year ended December 31, 2005. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue Recognition

Nonrefundable license fee revenue is recognized when collectibility is reasonably assured, which is generally upon receipt, when no continuing involvement on our part is required and payment of the license fee represents the culmination of the earnings process. Nonrefundable license fees received subject to future performance by us or that are credited against future payments due to us are deferred and recognized as services are performed and collectibility is reasonably assured, which is generally upon receipt, or upon termination of the agreement and all related obligations thereunder, whichever is earlier. Our revenue recognition policy may require us to defer significant amounts of future revenue.

Research and Development Expenses

Research and development expenses consist of costs incurred for direct and overhead-related research expenses and are expensed as incurred. Costs to acquire technologies which are utilized in research and development and which have no alternative future use are expensed when incurred. Technology developed for use in our products is expensed as incurred, until technological feasibility has been established. Expenditures, to date, have been classified as research and development expense in the consolidated statements of operations, and we expect to continue to expense research and development for the foreseeable future.

Stock-based Compensation

Effective January 1, 2006, we adopted the provisions of SFAS 123(R), Share-Based Payment (SFAS 123(R)), which revises SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. SFAS 123(R) requires that companies recognize compensation expense associated with stock option grants and other equity instruments to employees in the financial statements. SFAS 123(R) applies to all grants after the effective date and to the unvested portion of stock options outstanding as of the effective date. The pro forma disclosures previously permitted under SFAS 123 are no longer an alternative to financial statement recognition. We are using the modified-prospective method and the Black-Scholes valuation model for valuing the share-based payments. We will continue to account for transactions in which services are received in exchange for equity instruments based on the fair value of such services received from non-employees, in accordance with SFAS 123 and Emerging Issues Task Force (EITF) Issue No. 96-18, Accounting for Equity Instruments that Are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services.

Impairment of Long-Lived Assets

We review long-lived assets, including finite lived intangible assets, for impairment on an annual basis, as of December 31, or on an interim basis if an event occurs that might reduce the fair value of such assets below their carrying values. An impairment loss would be recognized based on the difference between the carrying value of the

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asset and its estimated fair value, which would be determined based on either discounted future cash flows or other appropriate fair value methods.

Facility Abandonment

During 2005, we entered into a termination agreement related to the lease for our former Atlanta headquarters. Pursuant to this agreement, we were released from all future obligations on the lease in exchange for a one-time $110,000 payment and the forfeiture of a $49,000 security deposit. As a result of this agreement, we realized a $164,000 offset against our 2005 third quarter general and administrative expenses.

Liquidity and Capital Resources

At March 31, 2006, we had cash, cash equivalents and short-term investments of $17.1 million and total assets of $18.7 million, compared to $8.3 million and $9.9 million, respectively, at December 31, 2005. Working capital totaled $15.4 million at March 31, 2006, compared to $6.3 million at December 31, 2005.

To date, we have relied primarily upon sales of equity securities and, to a much lesser extent, payments from our strategic partners and licensees and upon proceeds received upon the exercise of options and warrants, to generate funds needed to finance our business and operations. As a result of the $12.4 million equity financing (net of expenses) that we completed in March 2006, we believe that we have adequate working capital to support our currently planned level of operations into the third quarter of 2007, including our current and planned clinical trials for arimoclomol and drug discovery efforts related to additional product candidates. Included in our planned expenses are approximately $2.5 million for our Phase II clinical program with arimoclomol for ALS during the remainder of 2006, and an additional $4.0 million in 2007 and $9.1 million in 2008. The cost of our clinical program for ALS, which we estimate will total approximately $19.8 million from inception to completion, could vary significantly from our current projections due to any additional requirements imposed by the FDA in connection with the ongoing Phase IIa trial, or in connection with our planned Phase IIb trial, or if actual costs are higher than current management estimates for other reasons. In the event that actual costs of our clinical program for ALS, or any of our other ongoing research activities, are significantly higher than our current estimates, we may be required to significantly modify our planned level of operations. In the future, we will be dependent on obtaining financing from third parties in order to maintain our operations, including our Phase II clinical program with arimoclomol for ALS, our planned levels of operations for our obesity and type 2 diabetes research laboratory and our ongoing research and development efforts related to our other small molecule drug candidates, and in order to continue to meet our obligations to UMMS. Additionally, we expect to spend approximately $300,000 related to our implementation of Sarbanes-Oxley 404 required controls and the testing of these controls. We currently have no commitments from any third parties to provide us with capital. We cannot assure that additional funding will be available to us on favorable terms, or at all. If we fail to obtain additional funding when needed, we would be forced to scale back, or terminate, our operations, or to seek to merge with or to be acquired by another company.

In each of the three-month periods ended March 31, 2006 and 2005, net cash used in investing activities consisted of approximately $23,000 for the purchase of equipment. We expect capital spending to increase during the remainder of 2006 to support our increasing research and development efforts and the implementation of Sarbanes-Oxley requirements.

Cash provided by financing activities in the three-month period ended March 31, 2006 was $12.7 million. The cash provided includes approximately $334,000 received upon the exercise of stock options and warrants. Additionally, we received approximately $12.4 million, net of expenses, through a private equity financing that closed in March 2006. In the three-month period ended March 31, 2005, we raised $19.6 million, net of expenses, from the issuance of common stock in a private equity financing in January 2005, and we received proceeds from the exercise of stock options and warrants totaling $252,000.

Our net loss for the three-month period ended March 31, 2006 was $4.2 million, which resulted in net cash used in operating activities of $3.9 million. Adjustments to reconcile net loss to net cash used in operating activities for the three-month period ended March 31, 2006 were primarily $345,000 of employee stock option expense incurred

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related to our implementation of SFAS 123(R), and $68,000 of common stock, options and warrants expense issued in lieu of cash for general and administrative services, which was off-set by a $278,000 change in operating assets and liabilities. Our net loss for the three month period ended March 31, 2005 was $3.5 million, which resulted in net cash used in operating activities of $3.3 million. Adjustments to reconcile net loss to net cash used in operating activities for the three-month period ended March 31, 2005 were primarily $291,000 of common stock, options and warrants issued in lieu of cash for general and administrative services, which were partially off-set by a $58,000 change in operating assets and liabilities. In 2005, we were not required to record expense per SFAS 123(R) guidance, however, we were required to use pro-forma presentation for the expense related to issuances of stock options and warrants to employees.

We believe that we have adequate working capital to allow us to operate at our currently planned levels into the third quarter of 2007. Our strategic alliance with UMMS may require us to make significant expenditures to fund research at UMMS relating to developing therapeutic products based on UMMS s proprietary gene silencing technology that has been licensed to us. The aggregate amount of these expenditures under certain circumstances is expected to be approximately $892,000 during 2006, of which $461,000 had been expensed through March 31, 2006.

We will require significant additional capital in order to fund the completion of our Phase II clinical program with our lead small molecule product candidate arimoclomol for the treatment of ALS, which commenced in September 2005, and the other ongoing research and development related to our other molecular chaperone co-induction drug candidates. We incurred $1.0 million on the arimoclomol clinical program in the first three months of 2006, and we estimate that the overall program, including the ongoing Phase IIa trial and the planned Phase IIb trial that we expect to initiate after completion of the present Phase IIa trial subject to FDA approval, will require us to expend an additional $2.5 million in the remainder of 2006, and an additional $13.1 million over the following 12 to 18 months. However, we may incur substantial additional expense and the trial may be delayed if the FDA requires us to generate additional pre-clinical or clinical data in connection with the clinical trial, or the FDA requires us to revise significantly our planned protocol for the Phase IIb.

Additional capital may be provided by potential milestones payments pursuant to our licenses with Merck and Vical, both of which relate to Tranzfect, or our license with SynthRx related to Flocor, or by potential payments from future strategic alliance partners or licensees of our technologies. However, Merck is at an early stage of clinical trials of a product utilizing TransFect and Vical has only recently commenced a Phase IIa clinical trial of a product using TransFect, so it is likely to be a substantial period of time, if ever, before we receive any further significant payments from Merck or Vical.

We are pursuing other sources of capital, although we do not currently have commitments from any third parties to provide us with capital. The results of our technology licensing efforts and the actual proceeds of any fund-raising activities will determine our ongoing ability to operate as a going concern. Our ability to obtain future financings through joint ventures, product licensing arrangements, equity financings, gifts, and grants or otherwise is subject to market conditions and out ability to identify parties that are willing and able to enter into such arrangements on terms that are satisfactory to us. Depending upon the outcome of our fundraising efforts, the accompanying financial information may not necessarily be indicative of future operating results or future financial condition.

We expect to incur significant losses for the foreseeable future and there can be no assurance that we will become profitable. Even if we become profitable, we may not be able to sustain that profitability.

Results of Operations

We recorded a net loss of $4.2 million for the three-month period ended March 31, 2006, as compared to $3.5 million for the same period in 2005.

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We earned no licensing fees and an immaterial amount of service revenue during the three-months ended March 31, 2006. We earned an immaterial amount of licensing fees during the three-month period ended March 31, 2005. All future licensing fees under our current licensing agreements are dependent upon successful development milestones being achieved by the licensor. During fiscal 2006, we are not anticipating receiving any significant licensing fees.

In 2006, we expect our research and development expenses to increase primarily as a result of our ongoing Phase II clinical program with arimoclomol and related studies for the treatment of ALS. We incurred $1.0 million on the arimoclomol clinical program in the first three months of 2006, and we estimate that the overall program, including the ongoing Phase IIa trial and the planned Phase IIb trial that we expect to initiate after completion of the present Phase IIa trial subject to FDA approval, will require us to expend an additional $2.5 million in the remainder of 2006, and an additional $13.1 million over the following 12 to 18 months. Additionally, we estimate that our costs related to the activities of our Massachusetts laboratory will remain consistent with 2005 expenditures.

In each of the periods presented in the accompanying condensed consolidated statements of operations, certain vesting criteria of stock options issued to consultants were achieved, resulting in aggregate non-cash charges for research and development activities of $44,000 during the three month period ended March 31, 2006, and $52,000 for the three months ended March 31, 2005.

Research and development expenses were $2.2 million during the three months ended March 31, 2006, as compared to $1.9 million for the same period in 2005. Research and development expenses incurred during the first three months of 2006 and 2005 related primarily to (i) the preparation for and initiation of our Phase II clinical program for arimoclomol in ALS, (ii) our ongoing research and development related to our other molecular chaperone co-induction drug candidates, (iii) our research and development activities conducted at UMMS related to the technologies covered by the UMMS license agreements, (iv) our collaboration and invention disclosure agreement pursuant to which UMMS has agreed to disclose certain inventions to us and provide us with the right to acquire an option to negotiate exclusive licenses for those disclosed technologies, and (v) the on-going small molecule drug discovery operations at our Massachusetts laboratory. Although our future research and development activities could vary substantially, our research and development activities will remain substantial in the future as a result of commitments related to the foregoing activities.

All research and development costs related to the activities of our laboratory are expensed. No in-process research and development costs were eligible for capitalization at the time we purchased the minority interest in our prior subsidiary, CytRx Laboratories.

Depreciation and amortization expense was $59,000 during the three months ended March 31, 2006, as compared to $38,000 for the same period in 2005. The amounts in 2006 and 2005 primarily relate to depreciation of fixed assets located at our Massachusetts laboratory and the amortization of the molecular screening library acquired in 2004, which was put into service in March of 2005.

From time to time, we issue shares of our common stock or warrants to purchase shares of our common stock to consultants and other service providers in exchange for services. For financial statement purposes, we value these shares of common stock, stock options, or warrants at the fair market value of the common stock, stock options or warrants granted, or the services received, whichever is more reliably measurable, and we recognize the expense in the period in which a performance commitment exists or the period in which the services are received, whichever is earlier. During each of the periods presented in the accompanying condensed consolidated statements of operations, certain vesting criteria of stock options and warrants issued to consultants were achieved, resulting in aggregate non-cash charges for general and administrative activities of $68,000 for the three-month period ended March 31, 2006 and $239,000 for the three-month period ended March 31, 2005. In addition, for the three-month period ended March 31, 2006, we recorded $345,000 of employee stock option expense in accordance with SFAS 123(R), for which there was no corresponding expense recorded in prior periods.

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General and administrative expenses incurred were $1.8 million and $1.7 million during the three-month periods ended March 31, 2006 and 2005, respectively. The higher expenses incurred during the three-month period ended March 31, 2006 primarily resulted from an approximately $240,000 increase in salary expense associated with the hiring of additional employees in 2006. We anticipate general and administrative expenses to increase over the remainder of 2006 as a result of, among other things, our planned implementation of Sarbanes-Oxley requirements and continuing employee stock option expense as a result of our implementation of SFAS 123(R).

Interest income was $107,000 for the three months ended March 31, 2006, as compared to $41,000 for the same period in 2005. The increase in interest income was due to the higher rates on our cash and investments that were held during the first three months of 2006 compared to the lower rates in the same period in 2005.

For the three months ended March 31, 2006, we did not record any minority interest share of our losses because, on June 30, 2005, we repurchased the outstanding 5% interest in CytRx Laboratories from Dr. Michael Czech, and on September 30, 2005, we completed our merger with CytRx Laboratories. For the three months ended March 31, 2005, we recorded $39,000 reductions to our losses as a result of the minority interest share in the losses of CytRx Laboratories. This amount is reported as a separate line item in the accompanying condensed consolidated statements of operations.

Related Party Transactions

Dr. Michael Czech, a 5% minority shareholder of CytRx Laboratories until June 30, 2005 and a member of our Scientific Advisory Board, is an employee of UMMS and is the principal investigator for a sponsored research agreement between CytRx and UMMS. During each of the three-month periods ended March 31, 2006 and 2005, we incurred expenses to UMMS related to Dr. Czech s sponsored research agreement of $201,000. Additionally, we paid $27,000 to Dr. Czech for his services on the Scientific Advisory Board for each period.

Item 4 Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Securities Exchange Act Rule 13a-15(e)) as of March 31, 2006, the end of the period covered by our original Form 10-Q, and identified deficiencies, discussed below, that it considered to be material weaknesses in the effectiveness of our internal controls over footnote disclosures of stock-based compensation and accounting for certain anti-dilution adjustments to our outstanding warrants. Pursuant to standards established by the Public Company Accounting Oversight Board, a material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be presented or detected.

In calculating pro forma amounts relating to our stock-based compensation for inclusion in our stock-based compensation disclosure in footnotes in our Annual Report on Form 10-K for the year ended December 31, 2005 and in our Quarterly Reports on Form 10-Q for each quarter since the first quarter of 2005, we inadvertently utilized data relating to stock options granted to non-employees, rather than employee stock option data as called for by SFAS No. 123, *Accounting for Stock-Based Compensation*. In March 2006, we purchased new, more sophisticated software for accounting for stock options, which we first implemented in connection with the preparation of this Form 10-Q. With the help of the new software, we were able to discover required adjustments in our historical calculations of these pro forma amounts.

Certain of our outstanding warrants to purchase common stock contain provisions for anti-dilution adjustments based upon sales of our common stock or common stock equivalents at an effective price per share below the prevailing market price of our common stock at the time of the sale. In January 2005 and in March 2006, we completed private placement transactions which triggered these anti-dilution adjustments to the warrants in question.

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We had previously accounted for these anti-dilution adjustments in accordance with SFAS No. 150, *Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity*. In connection with the preparation of our original Form 10-Q, management reevaluated our historical accounting for these anti-dilution adjustments. Based upon our reevaluation, management determined that these anti-dilution adjustments should be accounted for by analogy to the guidance provided by Emerging Issues Task Force (EITF) 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*, and EITF 00-27, *Application of 98-5 to Certain Convertible Instruments*, rather than under SFAS No. 150. Under the guidance provided in EITF 98-5 and EITF 00-27, these adjustments are treated as a deemed dividend of additional shares of our common stock, with a resulting decrease in retained earnings (i.e., an increase in our retained deficit) and a corresponding increase in additional paid-in capital.

Based on the evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, and solely because of the corrections referred to above, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures over the disclosure of stock-based compensation in accordance with SFAS No. 123 and accounting for anti-dilution adjustments to our outstanding warrants were not effective as of March 31, 2006.

At the time of the filing of our original Form 10-Q, we were in the process of reviewing and strengthening our internal control procedures, and pursuing actions to ensure the effectiveness of all aspects of our controls related to the recording and disclosure of stock-based compensation and anti-dilution adjustment to outstanding warrants and other securities. Such actions included, but were not necessarily limited to, the following:

1. Fully implementing our new software for accounting for stock options;

2. Re-assigning certain duties related to the input and maintenance of stock options records; and

3. Enhancing internal review of all stock-based compensation awards and other equity transactions.

Those changes to our internal control procedures were implemented during the second quarter of 2006.

Subsequently, in conjunction with the preparation of our Annual Report on Form 10-K for the year ended December 31, 2006, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, identified other deficiencies, discussed below, that it considered to be material weaknesses (a) in the effectiveness of our internal controls over financial reporting related to the application of generally accepted accounting principles arising from our accounting for historical warrant anti-dilution adjustments as deemed dividends, and (b) in the effectiveness of our internal controls over quarterly and annual financial statement reporting arising from our accounting for research and development expenses related to our laboratory facility in Worcester, Massachusetts.

Based upon a reevaluation of our historical accounting for the anti-dilution adjustments described above, management determined that, by analogy to the guidance provided by SFAS No. 128, *Earnings Per Share*, the deemed dividends described above should be subtracted from our net earnings (loss) (i.e., added to our net loss) to arrive at net loss allocable to common stockholders and for the purpose of calculating our net earnings (loss) per share.

In addition, until the third quarter of 2005, our laboratory facility was operated by our subsidiary, CytRx Laboratories, Inc. (CytRx Labs). CytRx Labs maintained a separate accounting system, although the general ledger accounts in its system and our accounting system were identically numbered. On September 30, 2005, CytRx Labs was merged into CytRx, and we continued to operate the laboratory as an integrated part of CytRx.

In the first quarter of 2006, for the sake of administrative efficiency, CytRx Labs general ledger system was integrated into our general ledger system by combining the laboratory s general ledger accounts with our identically

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numbered accounts. In the process, expenses of the laboratory relating to rent, payroll and related employee benefits, which should properly have been classified as research and development expenses due to the nature of our activities carried on at the laboratory, were improperly classified as general and administrative expenses and reported as such on the original Form 10-Q, because they were combined with corresponding accounts of CytRx, whose corporate offices and personnel are devoted primarily to administrative activities.

Based on that evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, and solely because of corrections referred to above, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures over our accounting for research and development expenses related to our laboratory facility and our accounting for warrant anti-dilution adjustments were not effective as of March 31, 2006.

The weakness regarding the reclassification of research and development expenses related specifically to the manner in which we integrated the former separate accounting system of our laboratory facility. Having completed our review and evaluation of the integration in connection with the preparation of our annual financial statements for 2006, we believe that the remediation of this weakness also has been completed. We additionally intend to pursue additional actions to enhance internal review of all equity transactions to ensure the effectiveness of all aspects of our controls related to the accounting for anti-dilution adjustments to our outstanding warrants and other securities.

We continuously seek to improve and strengthen our control processes to ensure that all of our controls and procedures are adequate and effective. Any failure to implement and maintain improvements in the controls over our financial reporting could cause us to fail to meet our reporting obligations under the Securities and Exchange Commission s rules and regulations. Any failure to improve our internal controls to address the weakness we have identified could also cause investors to lose confidence in our reported financial information, which could have a negative impact on the trading price of our common stock.

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PART II OTHER INFORMATION

Item 6. Exhibits

The exhibits listed in the accompanying Index to Exhibits are filed as part of this Quarterly Report on Form 10-Q.

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SIGNATURES

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

CYTRX CORPORATION
(Registrant)

Date: April 2, 2007

By: /s/ MATTHEW NATALIZIO
Matthew Natalizio
Chief Financial Officer (Principal Financial Officer)

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INDEX TO EXHIBITS

Exhibit Number	Description
31.1	Certification of Chief Executive Officer Pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1 x	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2 x	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

x Previously filed.