CYTRX CORP
Form 10-K/A
May 22, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K/A
Amendment No. 1

(Mark One)

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

For the fiscal year ended December 31, 2005

or

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

Commission File No. 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, California	**90049**
(Address of principal executive offices)	*(Zip Code)*

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

Securities registered pursuant to Section 12(b) of the Act:
None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $.001 par value per share

Indicate by check mark with the Registrant is a well-known seasoned issuer (as defined in Securities Act Rule 405). Yes o No þ

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes o No þ

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 and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K þ

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 2b-2 of the Act). Yes o No þ

The aggregate market value of the Registrant s common stock held by non-affiliates on June 30, 2005 was approximately $49,272,313. On March 23, 2006, there were 70,457,988 shares of the Registrant s common stock

outstanding, exclusive of treasury shares.

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EXPLANATORY NOTE

CytRx Corporation (the Company) is amending its Annual Report on Form 10-K for the fiscal year ended December 31, 2005. The purpose of this amendment is to restate our consolidated financial statements for the year ended December 31, 2005 and amend the related disclosures in our original Form 10-K, as described below and in Notes 2 and 14 to our Consolidated Financial Statements included in this amendment.

The restatement of our consolidated financial statements is related to the pro forma amounts disclosed in accordance with Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, which were calculated incorrectly and reported in the stock-based compensation section of our significant accounting policies footnote contained in our original Form 10-K. The restatement also includes a correction in the accounting for antidilution features in certain of our outstanding warrants. On May 20, 2006, the Audit Committee of our Board of Directors approved management s recommendation to restate our consolidated financial statements for the year ended December 31, 2005 to reflect the corrected disclosures in our significant accounting policies footnote and the correction in the accounting for antidilution features in certain of our outstanding warrants.

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

Part II Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Part II Item 8. Financial Statements and Supplementary Data

Part II Item 9A. Controls and Procedures

Part IV Item 15. Exhibits and Financial Statement Schedules

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-K. Additionally, this amendment, except for the restatement information, speaks as of the filing date of the original Form 10-K and does not attempt to update the disclosures in our original Form 10-K 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-K 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-K and this amendment.

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Exhibit Index located on page 49 of this report.

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SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

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 Annual Report on Form 10-K, as well as those made in other filings with the SEC.

All statements in this Annual 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 Annual 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 Annual Report, and including risks or uncertainties regarding 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 the RNAi development activities to be conducted by our planned 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 Annual 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.

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PART I

Item 1. *Business*

As used in this report, the terms we, our, ours and us refer to CytRx Corporation, a Delaware corporation, unless the context suggests otherwise.

General

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 our 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 our drug discovery operations conducted at our laboratory in Worcester, Massachusetts. Development work on RNAi, a relatively recent technology for silencing genes in living cells and organisms, is still at an early stage, and we are aware of only four clinical tests of therapeutic applications using RNAi that have yet 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.

On October 4, 2004, we acquired all of the clinical and pharmaceutical and related intellectual property assets of Biorex Research & Development, RT, or Biorex, a Hungary-based company focused on the development of novel small molecules based on molecular chaperone co-induction technology, with broad therapeutic applications in neurology, type 2 diabetes, cardiology and diabetic complications. The acquired assets include 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.

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 enrolled in Phase IIa trial 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 300 ALS patients recruited from 25 clinical sites and will take approximately 18 months after initiation to complete.

The acquisition of the molecular chaperone co-induction technology from Biorex represented 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 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

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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.

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.

Prior to 2003, our primary technologies consisted of Flocor, an intravenous agent for treatment of sickle cell disease and other acute vaso-occlusive disorders, and TranzFect, a delivery technology for DNA and conventional-based vaccines. In October 2003, we entered into a strategic relationship with another entity to complete the development of Flocor. Our TranzFect technology has been licensed to two companies. We have granted a third party an option to license our TranzFect technology for development as a potential DNA-based prostate cancer adjuvant and may also seek to license this technology as a potential conventional adjuvant for hepatitis C, human pappiloma virus, herpes simplex virus and other viral diseases. Adjuvants are agents added to a vaccine to increase its effectiveness. In addition, we may seek to license TranzFect for use as a non-clinical research reagent to increase transfection *in vitro* or in laboratory animals. Flocor and TranzFect are further described under Pre-Global Genomics Merger Technologies.

In addition, through our merger with Global Genomics, we acquired minority interests in two development-stage genomics companies, Blizzard and Psynomics. In 2003, we recorded a write-off of our investments in those companies. Our decision to record the write-off was based upon several factors. Those investments, and the write-off of those investments, are further described under Genomics Investments.

Molecular Chaperone Co-Induction Platform

The synthesis of proteins is a normal part of every cell s activity that is essential for life. Proteins are linear chains of building blocks known as amino acids. In order to function normally in a cell, proteins must fold into particular three dimensional shapes. During stressful conditions (*e.g.* during certain disease states), proteins can fold into inappropriate shapes that result in aggregation of proteins, which can be toxic to the cell. As an example, it is believed that mis-folding and aggregation of certain mutated forms of the superoxide dismutase 1 (SOD1) protein leads to the death of motor neurons that causes ALS.

In nature, the cell has developed molecular chaperone proteins to deal with these potentially toxic mis-folded proteins. Molecular chaperones are a key component of a universal cellular protection, maintenance and repair mechanism that helps ensure that newly synthesized proteins are complete, taken to the correct position within the cell s structure, and correctly folded. Molecular chaperones detect proteins that are mis-folded, and have the ability to refold those proteins into the appropriate, non-toxic shape. However, if the protein is so badly mis-folded that it cannot be repaired, the molecular chaperones also have the ability to tag the toxic protein for destruction by the cell. This tag, called ubiquitin, directs the mis-folded protein to a cellular apparatus called the proteasome, whose function is to degrade the protein into its constituent amino acids for recycling.

A core element of the cell s stress-management techniques is known as the heat shock response. Although this response was so-named because it was initially discovered by subjecting cells to heat stress, it is now known that the heat shock response is generally induced by a variety of physical and chemical stresses. As a cell comes under stress, proteins begin to mis-fold into toxic shapes. The heat shock response (also referred to as the stress response) increases the synthesis of molecular chaperones that then repair or degrade the mis-folded proteins.

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The stress response can be an important mechanism for cellular survival during certain acute physical stresses. For instance, prior induction of the stress response can protect tissue culture cells from heat-induced cell death. However, it appears that the constant stress that occurs as a result of chronic disease dulls the stress response and erodes the effectiveness of the mechanism. For instance, although the stress response is slightly induced in the motor neurons of mice in an ALS model, the level of expression is apparently insufficient to repair the damage and the mice still die from the disease.

We believe that by boosting the stress response to higher levels, the progression of chronic diseases like ALS can be slowed, halted or reversed. In test tube experiments, mammalian cells engineered to have increased amounts of molecular chaperones are protected against a variety of otherwise lethal stresses. In animal studies, mice that have been genetically engineered to have increased amounts of a molecular chaperone had improved heart function after an experimental heart attack. Increased molecular chaperone amounts also significantly increased the lifespan of mice with a disease similar to ALS, called spinal and bulbar muscular atrophy. We believe that these studies give scientifically accepted support for new drugs like arimoclomol that are capable of boosting the stress response.

Among the assets acquired from Biorex were several drug candidates whose mechanism of action is believed to be the co-induction of the stress response, meaning that they do not seem to activate the stress response by themselves, but instead they amplify the production of molecular chaperone proteins that are already activated by disease-induced cellular stress. These drug candidates thus may selectively amplify molecular chaperone proteins specifically in diseased tissue, which would minimize potential drug side-effects. The amplification of this fundamental protective mechanism may have powerful therapeutic and prophylactic potential, with the potential for an extremely broad field of medical therapeutic utility.

We believe that our molecular chaperone co-induction drug candidates can potentially improve the cell s natural capability to resist the toxic effects of protein mis-folding, caused by both acute and chronic diseases. Thus, these orally available small molecule drug candidates may accomplish some of the same goals as RNAi, as described below, but accomplish them by repairing or degrading the offending proteins, instead of degrading their corresponding mRNAs. Since the specificity for the recognition of mis-folded proteins is an intrinsic feature of the amplified molecular chaperones, it is not necessary to identify the actual molecular target of the stress-induced damage. As a result, these drug candidates may allow broader therapeutic utility for the removal of damaged proteins compared to that of RNAi.

We are not aware of other pharmaceutical companies developing small molecule co-inducers of molecular chaperones. At present, a few potential drug candidates have been reported in scientific papers to activate molecular chaperone expression, but these do not require pre-activation of the stress response, and therefore these drug candidates may simply represent a stress to the cell.

RNAi Platform Technology

RNAi technology is a recently-discovered technology that uses short double-stranded RNA, or dsRNA, molecules to silence targeted genes and, as a result, is commonly referred to as gene silencing. RNAi has been shown to effectively silence targeted genes within living cells with great specificity and potency. As a result, RNAi technology is able to effectively silence targeted genes without impacting other, non-targeted, genes.

RNA is a polymeric constituent of all living cells and many viruses, consisting of a long, usually single-stranded chain of alternating phosphate and ribose units with the bases adenine, guanine, cytosine, and uracil bonded to the ribose. The structure and base sequence of RNA are determinants of protein synthesis and the transmission of genetic information. RNAi is a technique of using short pieces of double-stranded RNA to precisely target the messenger RNA, or mRNA, of a specific gene. The end result is the destruction of the specific mRNA, thus silencing that gene.

RNAi is regarded as a significant advancement in gene silencing and was featured in *Science* magazine as the Breakthrough of the Year in 2002. Delivery of RNAi can be useful in laboratory cell culture experiments and in animals (including humans) to target specific mRNAs, thus reducing the levels of the corresponding specific protein product that is coded for by that RNA in the targeted cells. This allows the use of RNAi either as an effective drug discovery tool or potentially as a therapeutic product itself. We intend to develop RNAi technology as both a discovery tool to help identify classical, orally-available small molecule drugs and, potentially through the creation of a new subsidiary, for direct therapeutic applications when technically feasible. As a drug discovery tool, we use RNAi

to identify and validate novel protein targets, which could then be used to discover small molecule therapeutics for the treatment and prevention of diseases such as obesity and type 2 diabetes. As a therapeutic, we are conducting pre-clinical RNAi efficacy studies to determine whether to proceed with human clinical trials using RNAi to silence specific genes that cause certain forms of ALS, CMV retinitis, and type 2 diabetes. In January 2004, Tariq Rana, a scientific authority in delivery and stability of

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RNAi, and in March 2004, Dr. Craig Mello, the co-discoverer of RNAi, each joined our Scientific Advisory Board and they act in an advisory capacity to help us develop RNAi therapeutics for specific diseases. 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, the Company would continue to use its RNAi gene silencing technology as a drug discovery tool to facilitate its small molecule drug discovery program.

In mammals and human cells, gene silencing can be triggered by dsRNA molecules present in the cell s cytoplasm (the region inside the cell membrane but outside the cell nucleus). Specific enzymes (proteins) in the cell called dicer enzymes cut the dsRNA to form small interfering RNA, or siRNA. These siRNA are approximately 21 to 25 nucleotide long pieces of RNA. The siRNA then interact with other cellular proteins to form the RNA-induced silencing complex, or RISC, which causes the unwinding of the bound siRNA. This unwound strand of the siRNA can then act as a template to seek out and bind with the complementary target mRNA, which carries the coding, or instructions, from the cell nucleus DNA. These instructions determine which proteins the cell will produce. When the siRNA-loaded RISC binds with the corresponding mRNA, that message is degraded and the cell does not produce the specific protein that it encodes. Since the siRNA can be designed to specifically interact with a single gene through its mRNA, it can prevent the creation of a specific protein without affecting other genes.

One reason for the potential of RNAi to be effective, where previous nucleic acid-based technologies have, to date, been unsuccessful, is that the cell already has in place all of the enzymes and proteins to effectively silence genes once the dsRNA is introduced into the cell. This is in direct contrast to the older technology of antisense, where there were no known proteins present in the cells to facilitate the recognition and binding of the antisense molecule to its corresponding mRNA.

Another reason for the interest in RNAi is its potential to completely suppress or eliminate the viral replicon. A replicon is a DNA or RNA element that can act as a template to replicate itself. Once a virus is established in a cell, there are very few drugs that are effective in eliminating the virus. The RNAi process, however, has the potential of eliminating viral nucleic acids and, therefore, to cure certain viral diseases. Development work on RNAi is still at an early stage, and we are aware of only four clinical trials using RNAi, namely trials for age-related macular degeneration by Acuity Pharmaceuticals and Sirna Therapeutics, for respiratory syncytial virus by Alnylam Pharmaceuticals and for diabetic macular edema by Acuity Pharmaceuticals.

Product Development

ALS

The development of therapeutics for the treatment of various forms of ALS is an area of significant interest for us. ALS is a debilitating disease. According to the ALS Survival Guide, 50% of ALS patients die within 18 months of diagnosis and 80% of ALS patients die within five years of diagnosis. According to the ALS Association, in the United States, alone, approximately 30,000 people are living with ALS and nearly 6,000 new cases are diagnosed each year.

We recently entered the clinical stage of drug development in ALS with the initiation of a Phase II clinical program with our 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. The initial portion of the Phase II clinical program was initiated in September 2005. We expect enrollment in this Phase IIa trial to be complete shortly, and expect to announce results in the third quarter of 2006.

In October 2003, we entered into sponsored research agreements with UMMS and Massachusetts General Hospital, pursuant to which we sponsored certain ALS research at those institutions utilizing our proprietary RNAi gene silencing technology targeted at the mutant SOD1 gene, which is the subject of the ALS technology we have licensed from UMMS. The mutant SOD1 gene is responsible for causing ALS in a subset of the 10% of all ALS patients who suffer from the familial, or genetic, form of the disease.

Dr. Zuoshang Xu, an Associate Professor of Biochemistry and Molecular Pharmacology at UMMS, is the principal investigator under our sponsored research agreement with UMMS, through which we have agreed to fund approximately $870,000 of research related to the development of an RNAi therapeutic targeting the mutant form of SOD1 that causes certain forms of ALS, of which $654,000 had been paid as of December 31, 2005. We anticipate

that the development of this program will be continued by our planned RNAi subsidiary.

Dr. Robert B. Brown, Jr., a Professor of Neurology at Harvard Medical School, Founder and Director of the Cecil B. Day Laboratory for Neuromuscular Research and a co-discoverer of the mutant SOD1 gene as a cause for certain ALS cases, is the

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principal investigator under our sponsored research agreement with Massachusetts General Hospital. Under the agreement, we have funded approximately $556,000 of sponsored research at Massachusetts General Hospital to increase our basic understanding of certain aspects of the ALS disease process. In March 2004, Dr. Brown joined our Scientific Advisory Board and entered into a consulting agreement with us.

University of Massachusetts Medical School

Through our strategic alliance with UMMS, we have acquired the rights to a portfolio of technologies, including the rights to use UMMS s proprietary RNAi technology in the identification and screening of novel protein targets and as a potential therapeutic in certain defined areas that include obesity, type 2 diabetes, ALS and CMV, as well as a DNA-based HIV vaccine technology. In addition, we have entered into a collaboration and invention disclosure agreement with the 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.

The HIV subunit vaccine technology that we have licensed from UMMS is based upon a unique mixture of pieces of human HIV-1 primary isolates from several genetic subtypes of HIV. These pieces, called HIV envelope proteins, are not sufficient for viral replication and therefore cannot lead to accidental infection by HIV. This polyvalent naked DNA (isolated, purified DNA) vaccine approach has the potential advantages of maintaining efficacy despite the high mutation rate of HIV, a broader immune response against divergent HIV-1 glycoproteins and the possible ability to neutralize a wide spectrum of HIV-1 viruses. UMMS has conducted animal studies of this vaccine, and UMMS and Advanced BioScience Laboratories, or ABL, which provides an adjuvant for use with the vaccine, received a $16 million grant from the NIH. This grant funded a Phase I clinical trial of a vaccine candidate using our licensed technology. We have previously announced that the vaccine candidate demonstrated very promising interim Phase I clinical trial results that indicate its ability to produce potent antibody responses with neutralizing activity against multiple HIV viral strains, and we expect to announce final results from the Phase I clinical trial in mid-2006. We have a commercial relationship with ABL which gives us the ownership of, and responsibility for, the further development of the vaccine and subsequent FDA registration following the completion of the Phase I trial. We do not have a commercial relationship with a company that is providing an adjuvant for the HIV vaccine candidate in the current Phase I clinical trial. In any future clinical development of the vaccine candidate, we may be required either to license that adjuvant, or use a different adjuvant in conjunction with our HIV vaccine technology, in which case we may not be able to utilize some or all of the results of the currently planned trial as part of our clinical data for obtaining FDA approval of a vaccine.

Our agreements with UMMS may require us to make significant expenditures to fund research at the institution relating to developing therapeutic products based on UMMS s proprietary technologies that have been licensed to us. We estimate that the aggregate amount of these sponsored research expenditures under our current commitments will be approximately $842,000 for 2006, although a significant portion of those commitments may be assumed by our planned RNAi subsidiary. Our license agreements with UMMS require us to make payments of an aggregate of up to $94,000 per year to maintain all of our licenses, with such aggregate annual payments increasing to as much as $154,000 if we are not then conducting certain sponsored research at the institution. Our UMMS license agreements also provide, in certain cases, for milestone payments, from us to UMMS, based on the progress we make in the clinical development and marketing of products utilizing the technologies licensed from UMMS. In addition, our license agreements with UMMS require us to reimburse UMMS for legal expenses that they incur in prosecuting and maintaining of the related licenses patents. We estimate these legal expenses to be approximately $250,000 during 2006 and 2007. In the event that we were to successfully develop a product in each of the categories of obesity/type 2 diabetes, ALS, CMV and an HIV vaccine, under our licenses, those milestone payments could aggregate up to $16.1 million. Those milestone payments, however, could vary significantly based upon the milestones we achieve and the number of products we ultimately undertake to develop. In addition, our collaboration and invention disclosure agreement with UMMS requires us to make payments totaling up to $375,000 in 2006 in consideration for the option, upon making a specified payment, to negotiate an exclusive worldwide license to certain disclosed

technologies.

Obesity and Type 2 Diabetes

Obesity and type 2 diabetes are significant health problems. The World Health Organization estimates that, on a worldwide basis, there are more than 300 million cases of obesity and 159 million cases of type 2 diabetes. According to the American Obesity Association, there are currently more than 60 million cases of obesity in the United States, and the American Diabetes Association reports that there are more than 16 million cases of type 2 diabetes in the United States. Scientists in our Worcester laboratory and scientists at UMMS, as part of our strategic alliance, are focused on using cultured adipocytes (fat cells) as a model system for

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studying the regulation of gene expression involved in adipocyte differentiation and function. This research may lead to the identification of specific drug targets which regulate insulin signaling as well as other metabolic pathways regulating glucose and fatty acids. With this understanding, the program will focus on drug discovery of small molecule therapeutics and, potentially through a newly-created subsidiary, RNAi-based therapeutics for type 2 diabetes (e.g., drugs that act as insulin sensitizers and compounds that alleviate obesity). We believe that RNAi could potentially be a reliable method to selectively inhibit certain genes and their corresponding protein expression in adipocytes.

In May 2004, we licensed from the technology transfer company of the Imperial College of Science, Technology & Medicine, the exclusive rights to intellectual property covering a drug screening method using RIP 140, which is a nuclear hormone co-repressor that is believed to regulate fat accumulation. This proprietary technology is covered by a pending patent application. We paid the licensor a license fee in the form of cash and shares of our common stock, and we will be required to make defined milestone and royalty payments based on sales of products developed using this technology. We believe this license provides us with an important potential drug target in the area of obesity and type 2 diabetes in conjunction with our RNAi gene silencing technology.

In addition, one of the drug candidates acquired from Biorex, iroxanadine, was shown to be well tolerated in two Phase I and one Phase II clinical trials and demonstrated significant improvement of vascular function in the brachial artery of hypertensive patients. We plan to evaluate the preclinical efficacy of this drug for two diabetic complications that involve vascular dysfunction, retinopathy and wound healing. If the drug proves to be efficacious in preclinical work and the FDA agrees that it is appropriate to proceed with a Phase II clinical trial, we believe that a Phase II clinical trial for either of these indications could begin in 2007.

Although we initially intend to develop arimoclomol for the treatment of ALS, the drug also showed efficacy in preclinical animal models of diabetes. If efficacy is observed in additional preclinical models, we would also consider beginning a Phase II clinical trial for diabetes in 2007, as arimoclomol has already been tested in two Phase I clinical trials.

Research and Development Laboratory

In addition to the obesity and diabetes work being done under our sponsored research agreement with UMMS, our research and development laboratory located in Worcester, Massachusetts is working to develop orally-active small-molecule and RNAi-based drugs for the prevention and treatment of obesity and type 2 diabetes. Our business strategy is to use our portfolio of state of the art drug discovery technologies and our relationships with leading diabetes and obesity researchers to discover and develop first in class medicines to prevent and treat obesity and type 2 diabetes. Utilizing the RNAi target validation technology that we have licensed from UMMS, in combination with state of the art target identification methods, our research and development laboratory is focused on using a structure-based drug discovery approach to accelerate the process of screening and identifying potential proprietary drug targets and pathways for these diseases. Through our laboratory, we are seeking to develop orally-administered drugs that are based on promising targets and pathways that we may be able to identify.

Through our license and sponsored research agreement with UMMS, we have secured rights to novel drug targets believed to be involved in obesity and type 2 diabetes. We will seek to validate these targets using the proprietary high throughput RNAi screening technology that we have licensed from UMMS and will apply state-of-the-art structure-based medicinal chemistry to develop small molecules and RNAi-based therapeutic products.

Cardiovascular Disease

Preclinical results by third parties with our drug candidate, iroxanadine, indicate that it has therapeutic potential for the treatment of cardiovascular atherosclerosis. If iroxanadine proves to be effective in additional preclinical work, we plan to seek a strategic alliance with a larger company to support the subsequent clinical development for this indication.

Pre-Global Genomics Merger Technologies

The following discussion describes our primary scientific programs prior to our merger with Global Genomics on July 19, 2002, and the status of those programs today.

Therapeutic Copolymer Program

Before the Global Genomics merger, our primary focus was on CRL-5861 (purified poloxamer 188), which we also call Flocor. Flocor is an intravenous agent for the treatment of sickle cell disease and other acute vaso-occlusive disorders. Sickle cell disease is an

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inherited disease caused by a genetic mutation of hemoglobin in the blood, and acute vaso-occlusive disorders are a blockage of blood flow caused by deformed, or sickled, red blood cells which can cause intense pain in sickle cell disease patients. In June 2004, we licensed our copolymer technologies, including Flocor, on an exclusive basis, to SynthRx, Inc., a Houston, Texas-based biopharmaceutical company. As a result of the SynthRx license, we received a 19.9% ownership interest in SynthRx and a cash payment from SynthRx of approximately $228,000, in return for our rights to the licensed technologies. In addition, upon commercialization of any products developed under our alliance with SynthRx, we may also receive significant milestone payments and royalties. Prior to the change in our business strategy that led us to seek licensees for our Flocor technology, we had internally developed Flocor. In December 1999, we reported results from a Phase III clinical study of Flocor for treatment of acute sickle cell crisis. Although the study did not demonstrate statistical significance in the primary endpoint, or objective, of the study, statistically significant and clinically important benefits associated with Flocor were observed in certain subgroups. All amounts paid to us by SynthRx are non-refundable upon termination of the agreement and require no additional effort on our part.

Vaccine Enhancement and Gene Therapy

Gene therapy and gene-based vaccines are mediated through the delivery of DNA containing selected genes into cells by a process known as transfection. We refer to our gene delivery technology as TranzFect. A large majority of the revenues we have generated over the past three years has been due to license fees paid to us with respect to our TranzFect technology, representing 54%, 93% and 81% of our total revenues for 2005, 2004 and 2003, respectively.

Merck License

In November 2000, we entered into an exclusive, worldwide license agreement with Merck & Co., Inc. whereby we granted Merck the right to use our TranzFect technology in DNA-based vaccines for HIV and three other targets. To date, Merck has focused its efforts on the HIV application, which is still at an early stage of clinical development, and, in July 2003, Merck notified us that it was returning to us the rights to the three other targets covered by its license, which we are now able to license to other third parties. In November 2000, Merck paid us a signature payment of $2 million. In February 2002, we received an additional $1 million milestone fee related to the commencement of Merck s first FDA Phase I study for a product incorporating TranzFect designed for the prevention and treatment of HIV. Merck completed a multi-center, blinded, placebo controlled Phase I trial of an HIV vaccine utilizing TranzFect as a component. Although the formulation of this tested vaccine was generally safe, well-tolerated and generated an immune response, the addition of TranzFect to the vaccine did not increase this immune response. Moreover, the DNA single-modality vaccine regimen with TranzFect, when tested in humans, yielded immune responses that were inferior to those obtained with the DNA vaccines in macaque monkeys. All amounts paid to us by Merck are non-refundable upon termination of the agreement and require no additional effort on our part.

Vical License

In December 2001, we entered into a license agreement with Vical Incorporated granting Vical exclusive, worldwide rights to use or sublicense our TranzFect poloxamer technology to enhance viral or non-viral delivery of polynucleotides, such as DNA and RNA, in all preventive and therapeutic human and animal health applications, except for (1) the four targets previously licensed by us to Merck, (2) DNA vaccines or therapeutics based on prostate-specific membrane antigen, or PSMA, and (3) sale of a non-regulated product for use as a non-clinical research reagent to increase transfection *in vitro* or in laboratory animals. In addition, the Vical license permits Vical to use TranzFect poloxamer technology to enhance the delivery of proteins in prime-boost vaccine applications that involve the use of polynucleotides (short segments of DNA or RNA). Under the Vical license, we received a non-refundable up-front payment of $3,750,000, and, in addition to annual maintenance payments, we have the potential to receive milestone and royalty payments in the future based on criteria described in the agreement. In each of April 2004 and January 2005, we received additional $100,000 milestone fees related to the commencement of Vical s first FDA Phase I clinical trial for a product incorporating our TranzFect technology. All amounts paid to us by Vical are non-refundable upon termination of the agreement and require no additional effort on our part.

Genomics Investments

In connection with our merger with Global Genomics in July 2002, we acquired indirectly equity interests in two development-stage genomics companies, a 40% equity interest in Blizzard and a 5% equity interest in Psynomics. In

the fourth quarter of 2003, we decided that we would cease funding our investments in those genomics companies to focus on our core strategy of developing human therapeutics for large market indications. In May 2004, we determined that a write-off of those investments in the third quarter of 2003 should have been made. Our decision to record the write-off was based upon several factors, including Blizzard s lack of success

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in raising a significant amount of the financing necessary for it to pursue the commercialization strategy for its products, current financial projections prepared by Blizzard, application of a discounted cash flow valuation model of Blizzard s projected cash flows and the consideration of other qualitative factors. Based upon the quantitative and qualitative factors described above, in addition to others, we determined that the investment in Blizzard had no remaining value as of September 30, 2003 and that a write-off of this investment should have been made in the third quarter of 2003. It is our understanding that, by the end of 2003, Blizzard had ceased operations and, in 2004, returned its licensed intellectual property to the Minnesota Research Fund.

Research and Development Expenditures

Expenditures for research and development activities were $9.1 million, $9.0 million and $4.4 million during the years ended December 31, 2005, 2004 and 2003, respectively. Included in research and development expenses for 2004 was $3.0 million of in-process research and development that was written off in conjunction with our acquisition of assets from Biorex.

Manufacturing

We do not have the facilities or expertise to manufacture any of the clinical or commercial supplies of any of our products, including our supply of arimoclomol used for our clinical program. To be successful, our products and the products of our partners must be manufactured in commercial quantities in compliance with regulatory requirements and at an acceptable cost. To date, we have not commercialized any products, nor have we demonstrated that we can manufacture commercial quantities of our product candidates in accordance with regulatory requirements. If we cannot manufacture products in suitable quantities and in accordance with regulatory standards, either on our own or through contracts with third parties, it may delay clinical trials, regulatory approvals and marketing efforts for such products. Such delays could adversely affect our competitive position and our chances of achieving profitability. We cannot be sure that we can manufacture, either on our own or through contracts with third parties, such products at a cost or in quantities, which are commercially viable. We currently rely and intend to continue to rely on third-party contract manufacturers to produce materials needed for research, clinical trials and, ultimately, for product commercialization.

Patents and Proprietary Technology

We actively seek patent protection for our technologies, processes, uses, and ongoing improvements and consider our patents and other intellectual property to be critical to our business. We have filed applications for a number of patents and have been granted patents related to technologies, primarily TranzFect and Flocor, we were developing prior to our 2002 merger with Global Genomics. Subsequent to the merger, we acquired patents in connection with our acquisition of intellectual property rights of Biorex and we have licensed additional technologies covered by patents or patent applications, most of which are in the RNAi field.

As part of our development process, we evaluate the patentability of new inventions and improvements developed by us or our collaborators. Whenever appropriate, we will endeavor to file United States and international patent applications to protect these new inventions and improvements. However, we cannot be certain that any of the current pending patent applications we have filed or licensed, or any new patent applications we may file or license, will ever be issued in the United States or any other country. Even if issued, there can be no assurance that those patents will be sufficiently broad to prevent others from using our products or processes. Furthermore, our patents, as well as those we have licensed or may license in the future, may be held invalid or unenforceable by a court, or third parties could obtain patents that we would need to either license or to design around, which we may be unable to do. Current and future competitors may have licensed or filed patent applications or received patents, and may acquire additional patents and proprietary rights relating to molecular chaperone co-induction and other small molecule technology, RNAi technology, DNA-based vaccines or other compounds, products or processes competitive with ours.

In addition to patent protection, we also attempt to protect our proprietary products, processes and other information by relying on trade secrets and non-disclosure agreements with our employees, consultants and certain other persons who have access to such products, processes and information. Under the agreements, all inventions conceived by employees are our exclusive property. Nevertheless, there can be no assurance that these agreements will afford significant protection against misappropriation or unauthorized disclosure of our trade secrets and confidential information.

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Competition

Currently, Rilutek(R), which was developed by Aventis Pharma AG, is the only drug of which we are aware that has been approved by the FDA for the treatment of ALS. Other companies are working to develop pharmaceuticals to treat ALS, including Aeolus Pharmaceuticals, Ono Pharmaceuticals, Trophos SA, FaustPharmaceuticals SA and Oxford BioMedica plc. In addition, ALS belongs to a family of diseases called neurodegenerative diseases, which includes Alzheimer s, Parkinson s and Huntington s disease. Due to similarities between these diseases, a new treatment for one ailment potentially could be useful for treating others. There are many companies that are producing and developing drugs used to treat neurodegenerative diseases other than ALS, including Amgen, Inc., Cephalon, Inc., Ceregene, Inc., Elan Pharmaceuticals, plc, H. Lundbeck A/S, Phytopharm plc, and Schwarz Pharma AG.

The RNAi field, though at an early stage of development, is already a competitive one and the competition is expected to increase. We face competition on many fronts ranging from large and small pharmaceutical, chemical and biotechnology companies to universities, government agencies and other public and private research organizations. Examples of companies that are focusing their commercial efforts in the RNAi field are Sirna Therapeutics, Alnylam Pharmaceuticals, Acuity Pharmaceuticals, Nastech Pharmaceutical Company Inc., Nucleonics, Inc. and Benitec Ltd. A number of the multinational pharmaceutical companies also either have their own gene silencing product development programs or are working with smaller biopharmaceutical companies in this area. In addition to our RNAi competitors, companies in other fields may be using other technologies to target the same diseases that we are targeting. The competition from other firms and institutions will manifest itself not only in our potential product markets but also, and importantly at this stage in development of RNAi technology, in recruiting and retaining key scientific and management personnel.

Companies developing HIV vaccines that could compete with our HIV vaccine technology include Merck, VaxGen, Inc., AlphaVax, Inc. and Immunitor Corporation, and ABL may also seek to develop competing HIV vaccines that could utilize a portion of the technology that we have licensed from UMMS and ABL.

With respect to both our RNAi and non-RNAi products, many companies, including large pharmaceutical and biotechnology firms with financial resources, research and development staffs, and facilities that may, in certain cases, be substantially greater than those of ours or our strategic partners or licensees, are engaged in the research and development of pharmaceutical products that could compete with our potential products. To the extent that we seek to acquire, through license or otherwise, existing or potential new products, we will be competing with numerous other companies, many of which will have substantially greater financial resources, large acquisition and research and development staffs that may give those companies a competitive advantage over us in identifying and evaluating these drug acquisition opportunities. Any products that we acquire will be competing with products marketed by companies that in many cases will have substantially greater marketing resources than we have. The industry is characterized by rapid technological advances and competitors may develop their products more rapidly and such products may be more effective than those currently under development or that may be developed in the future by our strategic partners or licensees. Competitive products for a number of the disease indications that we have targeted are currently being marketed by other parties, and additional competitive products are under development and may also include products currently under development that we are not aware of or products that may be developed in the future.

Government Regulation

The marketing of pharmaceutical products requires the approval of the FDA and comparable regulatory authorities in foreign countries. The FDA has established guidelines and safety standards which apply to the pre-clinical evaluation, clinical testing, manufacture and marketing of pharmaceutical products. The process of obtaining FDA approval for a new drug product generally takes a number of years and involves the expenditure of substantial resources. The steps required before such a product can be produced and marketed for human use in the United States include preclinical studies in animal models, the filing of an Investigational New Drug (IND) application, human clinical trials and the submission and approval of a New Drug Application (NDA) or a Biologics License Application (BLA). The NDA or BLA involves considerable data collection, verification and analysis, as well as the preparation of summaries of the manufacturing and testing processes, preclinical studies, and clinical trials. The FDA must approve the NDA or BLA before the drug may be marketed. There can be no assurance that we or our strategic alliance partners or licensees will be able to obtain the required FDA approvals for any of our products.

The manufacturing facilities and processes for our products, which we anticipate will be manufactured by our strategic partners or licensees or other third parties, will be subject to rigorous regulation, including the need to comply with Federal Good Manufacturing Practice regulations. Our manufacturers also will be subject to regulation under the Occupational Safety and Health Act, the Environmental Protection Act, the Nuclear Energy and Radiation Control Act, the Toxic Substance Control Act and the Resource Conservation and Recovery Act.

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Employees

As of December 31, 2005, we had 28 employees, 18 of whom were engaged in research and development activities and 10 of whom were involved in management and administrative operations. All of the full-time employees engaged in research and development activities hold Ph.D. degrees.

Item 1A. ***Risk Factors***

If any of the following risks actually occur, our business or prospects could be materially adversely affected. You should also refer to the other information in this Annual Report, including our financial statements and the related notes.

We Have Operated at a Loss and Will Likely Continue to Operate at a Loss For the Foreseeable Future

We have incurred significant losses over the past five years, including net losses of $15.1 million, $16.4 million and $17.8 million for the years ended December 31, 2005, 2004 and 2003, respectively, and we had an accumulated deficit of approximately $121.3 million as of December 31, 2005. Our operating losses have been due primarily to our expenditures for research and development on our products and for general and administrative expenses and our lack of significant revenues. We are likely to continue to incur operating losses until such time, if ever, that we generate significant recurring revenues. We anticipate it will take a minimum of three years (and possibly longer) for us to generate recurring revenues, since we expect that it will take at least that long before the development of any of our licensed or other current potential products is completed, marketing approvals are obtained from the FDA and commercial sales of any of these products can begin.

We Have No Source of Significant Recurring Revenues, Which Makes Us Dependent on Financing to Sustain Our Operations

Our revenues were $184,000, $428,000, and $94,000 during the years ended December 31, 2005, 2004 and 2003, respectively. We will not have significant recurring operating revenues until at least one of the following occurs:

We are able to complete the development of and commercialize one or more of the products that we are currently developing, which may require us to first enter into license or other arrangements with third parties.

One or more of our currently licensed products is commercialized by our licensees, thereby generating royalty income for us.

We are able to acquire products from third parties that are already being marketed or are approved for marketing.

We expect to incur losses from operations until such time, if ever, as we can generate significant recurring revenues. On March 7, 2006, we completed a private placement financing and received net proceeds of approximately $12.4 million. Although we believe that we have adequate financial resources to support our currently planned level of operations into the third quarter of 2007, 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 laboratory, our planned RNAi subsidiary 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.

We have no commitments from third parties to provide us with any additional debt or equity financing, and may not be able to obtain future financing on favorable terms, or at all. A lack of needed financing would force us to reduce the scope of, or terminate, our operations, or to seek to merge with or to be acquired by another company. There can be no assurance that we would be able to identify an appropriate company to merge with or be acquired by or that we could consummate such a transaction on terms that would be attractive to our stockholders or at all.

Most of Our Revenues Have Been Generated by License Fees for TranzFect, Which May Not be a Recurring Source of Revenue for Us

License fees paid to us with respect to our TranzFect technology have represented 54%, 93% and 81% of our total revenues for the years ended December 31, 2005, 2004 and 2003, respectively. We have already licensed most of the potential applications for this technology, and there can be no assurance that we will be able to generate additional license fee revenues from any new licensees for this technology. Our current licensees for TranzFect, Merck, and

Vical, may be required to make further milestone payments to us under their licenses based on their future development of products using TranzFect. Since TranzFect is to be used as a component in

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vaccines, we do not need to seek FDA approval, but any vaccine manufacturer will need to seek FDA approval for the final vaccine formulation containing TranzFect. Merck has completed a multi-center, blinded, placebo controlled Phase I trial of an HIV vaccine utilizing TranzFect as a component. In the Merck trials, although the formulation of the tested vaccine using TranzFect was generally safe, well-tolerated and generated an immune response, the addition of TranzFect to the vaccine did not increase this immune response. Moreover, the DNA single-modality vaccine regimen with TranzFect, when tested in humans, yielded immune responses that were inferior to those obtained with the DNA vaccines in macaque monkeys. Accordingly, there is likely to be a substantial period of time, if ever, before we receive any further significant payments from Merck or Vical under their TranzFect licenses.

We Have Changed Our Business Strategy, Which Will Require Us, in Certain Cases, to Find and Rely Upon Third Parties for the Development of Our Products and to Provide Us With Products

Following our merger with Global Genomics, we modified our business strategy of internally developing Flocor and the other, then-current, potential products that we had not yet licensed to third parties. Instead, we began to seek to enter into strategic alliances, license agreements or other collaborative arrangements with other pharmaceutical companies that would provide for those companies to be responsible for the development and marketing of those products. In June 2004, we licensed Flocor, the primary potential product that we held prior to the Global Genomics merger and which we had not already licensed to a third party, to SynthRx, Inc., a recently formed Houston, Texas-based biopharmaceutical company, under a strategic alliance that we entered into with that company in October 2003. Although we intend to internally fund or carry out a significant portion of the research and development related to at least one of our small molecule drug candidates, and the early stage development work for certain product applications based on the RNAi and other technologies that we licensed from UMMS, and we may seek to fund all of the later stage development work for our potential ALS products, the completion of the development, manufacture and marketing of these products is likely to require, in many cases, that we enter into strategic alliances, license agreements or other collaborative arrangements with larger pharmaceutical or biotechnology companies for this purpose.

There can be no assurance that any of our products will have sufficient potential commercial value to enable us to secure strategic alliances, license agreements or other collaborative arrangements with suitable companies on attractive terms or at all. If we are unable to enter into collaborative agreements, we may not have the financial or other resources to continue development of a particular product or the development of any of our products. In connection with the recently-completed Phase I clinical trial conducted by UMMS and Advanced BioScience Laboratories on an HIV vaccine candidate that utilizes a technology that we licensed from UMMS, we do not have a commercial relationship with the company that provided an adjuvant for the vaccine for the trial. If we are not able to enter into an agreement with this company on terms favorable to us or at all, we may be unable to use some or all of the results of the clinical trial as part of our clinical data for obtaining FDA approval of this vaccine, which will delay the development of the vaccine.

If we enter into these collaborative arrangements, we will be dependent upon the timeliness and effectiveness of the development and marketing efforts of our contractual partners. If these companies do not allocate sufficient personnel and resources to these efforts or encounter difficulties in complying with applicable regulatory (including FDA) requirements, the timing of receipt or amount of revenues from these arrangements may be materially and adversely affected. By entering into these arrangements rather than completing the development and then marketing these products on our own, we may suffer a reduction in the ultimate overall profitability for us of these products. In addition, if we are unable to enter into these arrangements for a particular product, we may be required to either sell our rights in the product to a third party or abandon it unless we are able to raise sufficient capital to fund the substantial expenditures necessary for development and marketing of the product.

We may also seek to acquire products from third parties that already are being marketed or have previously been marketed. We have not yet identified any of these products. Even if we do identify such products, it may be difficult for us to acquire them with our limited financial resources and, if we acquire products using our securities as currency, we may incur substantial shareholder dilution. We do not have any prior experience in acquiring or marketing products and may need to find third parties to market these products for us. We may also seek to acquire products through a merger with one or more companies that own such products. In any such merger, the owners of our merger

partner could be issued or hold a substantial, or even controlling, amount of stock in our company or, in the event that the other company is the surviving company, in that other company.

Our Current Financial Resources May Limit Our Ability to Execute Certain Strategic Initiatives

In June 2004, we licensed Flocor to SynthRx, which will be responsible for developing potential product applications for Flocor. Although we are not doing any further development work on TranzFect or Flocor, should our three principal licensees for those technologies successfully meet the defined milestones, we could receive future milestone payments and, should any of the licensees

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commercialize products based upon our technology, future royalty payments. However, there can be no assurance that our licensees will continue to develop or ever commercialize any products that are based on our Flocor or our TranzFect technology.

Our strategic alliance with UMMS will require us to make significant expenditures to fund research at UMMS relating to the development of therapeutic products based on UMMS s technologies that we have licensed and pursuant to our collaboration and invention disclosure agreement with UMMS. We estimate that the aggregate amount of these expenditures under our current commitments will be approximately $1,186,000 million for 2006 and approximately $450,000 for 2007. Our license agreements with UMMS also provide, in certain cases, for milestone payments based on the progress we make in the clinical development and marketing of products utilizing the licensed technologies. In the event that we were to successfully develop a product in each of the categories of obesity/type 2 diabetes, ALS, CMV and an HIV vaccine, under our licenses, those milestone payments could aggregate up to $16.1 million.

We estimate that the Phase II clinical program with arimoclomol for ALS, including the recently-initiated Phase IIa trial and the Phase IIb trial that we expect to initiate soon after completion of the present Phase IIa trial subject to FDA approval, will require us to expend approximately $17.8 million over a period of 24 to 30 months. In addition, the agreement pursuant to which we acquired the clinical and pharmaceutical assets of Biorex provides for milestone payments based on the occurrence of certain regulatory filings and approvals related to the acquired products. In the event that we successfully develop any of the products acquired from Biorex, the milestone payments could aggregate up to $4.2 million. Each of the foregoing milestone payments, however, could vary significantly based upon the milestones we achieve and the number of products we ultimately undertake to develop.

Under our license for our HIV vaccine candidate, following the completion of the current Phase I trial, we will be responsible for all of the costs for subsequent clinical trials for this vaccine. The costs of subsequent trials for the HIV vaccine will be very substantial. Although we are seeking NIH or other governmental funding for these future trials, we do not have, and there can be no assurance that we will be able to secure, such funding for any of these trials.

The expenditures potentially required under our agreements with UMMS and ABL, together with the operating capital requirements of our obesity and type 2 diabetes laboratory, our planned sponsored research funding for Massachusetts General Hospital, our Phase II clinical program with arimoclomol for ALS and our development of our small molecule drug candidates, substantially exceed our current financial resources. Although we raised approximately $12.4 million in March 2006, net of transaction expenses, those required expenditures will nonetheless require us to raise additional capital or to secure a licensee or strategic partner 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 laboratory, our planned RNAi subsidiary 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. If we are unable to meet our various financial obligations under license agreements with UMMS, we could lose all of our rights under those agreements. If we were to have inadequate financial resources at that time, we also could be forced to reduce the level of, or discontinue, operations at our laboratory.

If Our Products Are Not Successfully Developed and Approved by the FDA, We May Be Forced to Reduce or Terminate Our Operations

All of our products are at various stages of development and must be approved by the FDA or similar foreign governmental agencies before they can be marketed. The process for obtaining FDA approval is both time-consuming and costly, with no certainty of a successful outcome. This process typically includes the conduct of extensive pre-clinical and clinical testing, which may take longer or cost more than we or our licensees anticipate, and may prove unsuccessful due to numerous factors. Product candidates that may appear to be promising at early stages of development may not successfully reach the market for a number of reasons. The results of preclinical and initial clinical testing of these products may not necessarily indicate the results that will be obtained from later or more extensive testing. Companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in advanced clinical trials, even after obtaining promising results in earlier trials.

Numerous factors could affect the timing, cost or outcome of our drug development efforts, including the following:

Difficulty in securing centers to conduct trials.

Difficulty in enrolling patients in conformity with required protocols or projected timelines.

Unexpected adverse reactions by patients in trials.

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Difficulty in obtaining clinical supplies of the product.

Changes in the FDA s requirements for our testing during the course of that testing.

Inability to generate statistically significant data confirming the efficacy of the product being tested.

Modification of the drug during testing.

Reallocation of our limited financial and other resources to other clinical programs.

It is possible that none of the products we develop will obtain the appropriate regulatory approvals necessary for us to begin selling them. The time required to obtain FDA and other approvals is unpredictable but often can take years following the commencement of clinical trials, depending upon the complexity of the drug candidate. Any analysis we perform of data from clinical activities is subject to confirmation and interpretation by regulatory authorities, which could delay, limit or prevent regulatory approval. Any delay or failure in obtaining required approvals could have a material adverse effect on our ability to generate revenues from the particular drug candidate and we may not have the financial resources to continue to develop our products and may have to terminate our operations.

The Approach We Are Taking to Discover and Develop Novel Therapeutics Using RNAi is Unproven and May Never Lead to Marketable Products

The RNAi technologies that we have acquired from UMMS have not yet been clinically tested by us, nor are we aware of any clinical trials having been completed by third parties involving similar technologies. Neither we nor any other company has received regulatory approval to market therapeutics utilizing RNAi. The scientific discoveries that form the basis for our efforts to discover and develop new drugs are relatively new. The scientific evidence to support the feasibility of developing drugs based on these discoveries is both preliminary and limited. Successful development of RNAi-based products will require solving a number of issues, including providing suitable methods of stabilizing the RNAi drug material and delivering it into target cells in the human body. We may spend large amounts of money trying to solve these issues, and never succeed in doing so. In addition, any compounds that we develop may not demonstrate in patients the chemical and pharmacological properties ascribed to them in laboratory studies, and they may interact with human biological systems in unforeseen, ineffective or harmful ways.

Our Planned RNAi Subsidiary May Not Be Able to Obtain Sufficient Funding, and We May Not Control a Majority of the Planned Subsidiary if We Obtain Financing

We are currently pursuing a plan 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. Although we believe that this structure may facilitate our obtaining additional financing to pursue our RNAi development efforts, we have no commitments or arrangements for any financing, and there is no assurance that we will be able to obtain financing for this purpose. Our planned RNAi subsidiary will be only partially owned by us. Depending upon the amount and terms of its future financing activities, we may not control the subsidiary, or may share control with other shareholders whose interests may not be directly aligned with ours. It also is possible that any products developed by the RNAi subsidiary could eventually compete with our products for some disease indications, such as ALS, type 2 diabetes and obesity.

The Drug Candidates Acquired from Biorex May Not Obtain Regulatory Marketing Approvals

On October 4, 2004, we acquired all of the clinical and pharmaceutical assets and related intellectual property of Biorex, including three drug candidates (arimoclomol, iroxanadine and bimoclomol), and a library of small molecule drug candidates. Although each of arimoclomol, iroxanadine and bimoclomol has undergone clinical testing, significant and costly additional testing will be required in order to bring any product to market. We may be unable to confirm in our pre-clinical or clinical trials with arimoclomol, iroxanadine or bimoclomol the favorable pre-clinical or clinical data previously generated by European investigators for these drug candidates, which could require us to have to modify our development plans for these compounds.

In September 2005, we initiated Phase II clinical testing for arimoclomol for ALS. There are no assurances that the clinical testing will be successful, or that the FDA will permit us to commence our planned Phase IIb clinical trial

upon the completion of our ongoing Phase IIa clinical trial. Any additional requirements imposed by the FDA in connection with the ongoing Phase IIa trial, or in connection with our planned Phase IIb trial, could add further time and expense for us to carry out this trial.

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We believe that the FDA may accept the completion of a successful Phase II clinical program as sufficient to enable us to submit a New Drug Application, or NDA; however there are no assurances that the FDA will accept our Phase II program in lieu of a Phase III clinical trial. If the FDA requires us to complete a Phase III clinical trial, the cost of development of arimoclomol will increase significantly beyond our estimated costs, and the time to completion of clinical testing would be delayed. In addition, the FDA ultimately could require us to achieve an efficacy end point in the clinical trials for arimoclomol that could be more difficult, expensive and time-consuming than our planned end point. Although we anticipate developing arimoclomol for the treatment of ALS, arimoclomol has also shown therapeutic efficacy in a preclinical animal model of diabetes and we may pursue development of arimoclomol for diabetic indications. However, such development would require significant and costly additional testing. There is no guarantee that arimoclomol would show any efficacy for any other indications.

Iroxanadine has been tested in two Phase I clinical trials and one Phase II clinical trial which showed improvement in the function of endothelial cells in blood vessels of patients at risk of cardiovascular disease. We intend to develop this product to improve endothelial dysfunction in indications such as diabetic retinopathy and wound healing, which will require significant and costly additional testing. There is no guarantee that iroxanadine will show any efficacy in the intended uses we are seeking. We may also attempt to license iroxanadine to larger pharmaceutical or biotechnology companies for cardiovascular indications; however, there is no guarantee that any such company will be interested in licensing iroxanadine from us or on terms that are favorable to us.

Bimoclomol has been tested in two Phase II clinical trials where it was shown to be safe, but where it did not show efficacy for diabetic neuropathy, the indication for which it was tested. We intend to develop this compound for other therapeutic indications; however there can be no guarantee that this compound will be effective in treating any diseases. In addition, the FDA may require us to perform new safety clinical trials, which would be expensive and time consuming and would delay development of bimoclomol. There is no guarantee that any additional clinical trials will be successful or that the FDA will approve any of these products and allow us to begin selling them in the United States.

Our Obesity and Type 2 Diabetes Laboratory May Not Be Able to Develop Products

In order to develop new obesity and type 2 diabetes products, we will first need to identify appropriate drug targets and pathways. We are using novel RNAi-based techniques to accelerate this process, but there is no assurance that these techniques will accelerate our work or that we will be able to identify highly promising targets or pathways using these techniques or otherwise. Even if we are successful in identifying these targets or pathways, we will need to then develop proprietary molecules that are safe and effective against these targets. The development process and the clinical testing of our potential products will take a lengthy period of time and involve expenditures substantially in excess of our current financial resources that are available for this purpose. We are currently seeking a strategic alliance with a major pharmaceutical or biotechnology company to complete the development, clinical testing and manufacturing and marketing of our potential obesity and type 2 diabetes products, which are at an early stage of development, but we may not be able to secure such a strategic partner on attractive terms or at all. We do not have prior experience in operating a genomic and proteomic-based drug discovery company. Accordingly, we will be heavily dependent on the prior experience and current efforts of Dr. Michael P. Czech, the Chairman of our Scientific Advisory Board, Dr. Jack Barber, our Senior Vice President Drug Development, and Dr. Mark A. Tepper, our Senior Vice President Drug Discovery, in establishing our scientific goals and strategies.

We Will Be Reliant Upon SynthRx to Develop and Commercialize Flocor

In June 2004, we licensed Flocor and our other co-polymer technologies to SynthRx and acquired a 19.9% equity interest in that newly formed biopharmaceutical company. SynthRx has only limited financial resources and will have to either raise significant additional capital or secure a licensee or strategic partner to complete the development and commercialization of Flocor and these other technologies. We are not aware that SynthRx has any commitments from third parties to provide the capital that it will require, and there can be no assurance that it will be able to obtain this capital or a licensee or strategic partner on satisfactory terms or at all.

Our prior Phase III clinical trial of Flocor for the treatment of sickle cell disease patients experiencing an acute vaso-occlusive crisis did not achieve its primary objective. However, in this study, for patients 15 years of age or younger, the number of patients achieving a resolution of crisis was higher for Flocor-treated patients at all time

periods than for placebo-treated patients, which may indicate that future clinical trials should focus on juvenile patients. Generating sufficient data to seek FDA approval for Flocor will require additional clinical studies which have not yet been funded or commenced by SynthRx, and those studies will entail substantial time and expense for SynthRx.

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The manufacture of Flocor involves obtaining new raw drug substance and a supply of the purified drug from the raw drug substance, which requires specialized equipment. Should SynthRx encounter difficulty in obtaining the purified drug substance in sufficient amounts and at acceptable prices, SynthRx may be unable to complete the development or commercialization of Flocor on a timely basis or at all.

We Are Subject to Intense Competition That Could Materially Impact Our Operating Results

We and our strategic partners or licensees may be unable to compete successfully against our current or future competitors. The pharmaceutical, biopharmaceutical and biotechnology industry is characterized by intense competition and rapid and significant technological advancements. Many companies, research institutions and universities are working in a number of areas similar to our primary fields of interest to develop new products. There also is intense competition among companies seeking to acquire products that already are being marketed. Many of the companies with which we compete have or are likely to have substantially greater research and product development capabilities and financial, technical, scientific, manufacturing, marketing, distribution and other resources than at least some of our present or future strategic partners or licensees.

As a result, these competitors may:

Succeed in developing competitive products sooner than us or our strategic partners or licensees.

Obtain FDA and other regulatory approvals for their products before approval of any of our products.

Obtain patents that block or otherwise inhibit the development and commercialization of our product candidates.

Develop products that are safer or more effective than our products.

Devote greater resources to marketing or selling their products.

Introduce or adapt more quickly to new technologies or scientific advances.

Introduce products that render our products obsolete.

Withstand price competition more successfully than us or our strategic partners or licensees.

Negotiate third-party strategic alliances or licensing arrangements more effectively.

Take advantage of other opportunities more readily.

A number of medical institutions and pharmaceutical companies are seeking to develop products based on gene silencing technologies. Companies working in this area include Sirna Therapeutics, Alnylam Pharmaceuticals, Acuity Pharmaceuticals, Nastech Pharmaceutical Company Inc., Nucleonics, Inc., Benitec Ltd. and a number of the multinational pharmaceutical companies. A number of products currently are being marketed by a variety of the multinational or other pharmaceutical companies for treating type II diabetes, including among others the diabetes drugs Avandia(R) by Glaxo SmithKline PLC, Actos(R) by Eli Lilly & Co., Glucophage(R) by Bristol-Myers Squibb Co., Symlin(R) by Amylin Pharmaceuticals, Inc. and Starlix(R) by Novartis and the obesity drugs Acomplia(R) by Sanofi-Aventis SA, Xenical(R) by F. Hoffman-La Roche Ltd. and Meridia(R) by Abbott Laboratories. Many major pharmaceutical companies are also seeking to develop new therapies for these disease indications. Companies developing HIV vaccines that could compete with our HIV vaccine technology include Merck, VaxGen, Inc., AlphaVax, Inc. and Immunitor Corporation.

Currently, Rilutek(R), which was developed by Aventis Pharma AG, is the only drug of which we are aware that has been approved by the FDA for the treatment of ALS. Other companies are working to develop pharmaceuticals to treat ALS, including Aeolus Pharmaceuticals, Ono Pharmaceuticals, Trophos SA, FaustPharmaceuticals SA and Oxford BioMedica plc. In addition, ALS belongs to a family of diseases called neurodegenerative diseases, which

includes Alzheimer s, Parkinson s and Huntington s disease. Due to similarities between these diseases, a new treatment for one ailment potentially could be useful for treating others. There are many companies that are producing and developing drugs used to treat neurodegenerative diseases other than ALS, including Amgen, Inc., Cephalon, Inc., Ceregene, Inc., Elan Pharmaceuticals, plc, H. Lundbeck A/S, Phytopharm plc, and Schwarz Pharma AG.

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Although we do not expect Flocor to have direct competition from other products currently available or that we are aware of that are being developed related to Flocor s ability to reduce blood viscosity in the cardiovascular area, there are a number of anticoagulant products that Flocor would have to compete against, such as tissue plasminogen activator, or t-PA, and streptokinase (blood clot dissolving enzymes) as well as blood thinners such as heparin and coumatin, even though Flocor acts by a different mechanism to prevent damage due to blood coagulation. In the sickle cell disease area, Flocor would compete against companies that are developing or marketing other products to treat sickle cell disease, such as Droxia(R) (hydroxyurea) marketed by Bristol-Myers Squibb Co. and Dacogen(tm), which is being developed by SuperGen, Inc. Our TranzFect technology will compete against a number of companies that have developed adjuvant products, such as the adjuvant QS-21(tm) marketed by Antigenics, Inc. and adjuvants marketed by Corixa Corp.

We Do Not Have the Ability to Manufacture Any of Our Products and Will Need to Rely upon Third Parties for the Manufacture of Our Clinical and Commercial Product Supplies

We do not currently have the facilities or expertise to manufacture any of the clinical or commercial supplies of any of our products, including the supply of arimoclomol used in our Phase II clinical trials. Accordingly, we are and will be dependent upon contract manufacturers or our strategic alliance partners to manufacture these supplies, or we will need to acquire the ability to manufacture these supplies ourselves, which could be very difficult, time-consuming and costly. We have a manufacturing supply arrangement in place with respect to the clinical supplies for both the Phase IIa and Phase IIb trials for arimoclomol for ALS. We do not otherwise have manufacturing supply arrangements for our other product candidates, including any of the licensed RNAi technology, the other drug candidates acquired from Biorex or, with the exception of the clinical supplies for the current Phase I trial, the HIV vaccine product that utilizes the HIV vaccine technology that we have licensed from UMMS. There can be no assurance that we will be able to secure needed manufacturing supply arrangements, or acquire the ability to manufacture the products ourselves, on attractive terms or at all. Delays in, or a failure to, secure these arrangements or abilities could have a materially adverse effect on our ability to complete the development of our products or to commercialize them.

We May Be Unable to Protect Our Intellectual Property Rights, Which Could Adversely Affect the Value of Our Assets

We believe that obtaining and maintaining patent and other intellectual property rights for our technologies and potential products is critical to establishing and maintaining the value of our assets and our business. Although we believe that we have significant patent coverage for the technologies that we acquired from Biorex and for our TranzFect technologies, there can be no assurance that this coverage will be broad enough to prevent third parties from developing or commercializing similar or identical technologies, that the validity of our patents will be upheld if challenged by third parties or that our technologies will not be deemed to infringe the intellectual property rights of third parties. In particular, although we conducted certain due diligence regarding the patents and patent applications acquired from Biorex and received certain representations and warranties from Biorex in connection with the acquisition, the patents and patent applications acquired from Biorex were issued or filed, as applicable, prior to our acquisition and thus there can be no assurance that the validity, enforceability and ownership of those patents and patent applications will be upheld if challenged by third parties. We have a nonexclusive license to a patent owned by UMMS and the Carnegie Institution of Washington that claims various aspects of gene silencing, or genetic inhibition by double-stranded RNA, but there can be no assurance that this patent will withstand possible third-party challenges or otherwise protect our technologies from competition. The medical applications of the gene silencing technology and the other technologies that we have licensed from the UMMS also are claimed in a number of pending patent applications, but there can be no assurance that these applications will result in any issued patents or that those patents will withstand third-party challenges or protect our technologies from competition. Moreover, we are aware of at least one other issued United States patent claiming broad applications for RNAi, and many patent applications covering different methods and compositions in the field of RNAi therapeutics have been and are expected to be filed, and certain organizations or researchers may hold or seek to obtain patents that could make it more difficult or impossible for us to develop products based on the gene silencing technology that we have licensed. We are aware that at least one of our competitors is seeking patent coverage in the RNAi field that could restrict our ability to develop certain

RNAi-based therapeutics.

Any litigation brought by us to protect our intellectual property rights or by third parties asserting intellectual property rights against us, or challenging our patents, could be costly and have a material adverse effect on our operating results or financial condition, make it more difficult for us to enter into strategic alliances with third parties to develop our products, or discourage our existing licensees from continuing their development work on our potential products. If our patent coverage is insufficient to prevent third parties from developing or commercializing similar or identical technologies, the value of our assets is likely to be materially and adversely affected.

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We are sponsoring research at UMMS and Massachusetts General Hospital under agreements that give us certain rights to acquire licenses to inventions, if any, that arise from that research, and we may enter into additional research agreements with those institutions, or others, in the future. We also have a collaboration and invention disclosure agreement with UMMS under which UMMS has agreed to disclose to us certain inventions it makes and to give us an option to negotiate licenses to the disclosed technologies. There can be no assurance, however, that any such inventions will arise, that we will be able to acquire licenses to any inventions under satisfactory terms or at all, or that any licenses will be useful to us commercially.

We May Incur Substantial Costs from Future Clinical Testing or Product Liability Claims

If any of our products are alleged to be defective, they may expose us to claims for personal injury by patients in clinical trials of our products or by patients using our commercially marketed products. Even if the commercialization of one or more of our products is approved by the FDA, users may claim that such products caused unintended adverse effects. We currently do not carry product liability insurance covering the commercial marketing of these products. We have obtained clinical trial insurance for our recently-initiated Phase IIa clinical trial with arimoclomol for the treatment of ALS and will seek to obtain such insurance for any other clinical trials that we conduct, including the planned Phase IIb clinical trial for arimoclomol, as well as liability insurance for any products that we market, although there can be no assurance that we will be able to obtain additional insurance in the amounts we seek or at all. We anticipate that our licensees who are developing our products will carry liability insurance covering the clinical testing and marketing of those products. However, if someone asserts a claim against us and our insurance or the insurance coverage of our licensees or if their other financial resources are inadequate to cover a successful claim, such successful claim could have a material adverse effect on our financial condition or cause us to discontinue operations. Even if claims asserted against us are unsuccessful, they may divert management s attention from our operations and we may have to incur substantial costs to defend such claims.

Compliance with Requirements of Section 404 of the Sarbanes-Oxley Act of 2002 Will Increase Our Costs and Require Additional Management Resources, and We May Not Successfully Comply

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, the SEC adopted rules requiring public companies to include a report of management on the company s internal controls over financial reporting in their annual reports on Form 10-K. In addition, the independent registered public accounting firm auditing the company s financial statements must attest to and report on management s assessment of the effectiveness of the company s internal controls over financial reporting. Although the SEC has postponed the effectiveness of this requirement several times, if the SEC does not postpone or otherwise alter the requirement again, then we expect that it will first apply to our annual report on Form 10-K for our fiscal year ending December 31, 2006. If we are required to comply, we will incur significant legal, accounting, and other expenses and compliance will occupy a substantial amount of time of our board of directors and management. Uncertainty exists regarding our ability to comply with these requirements by the SEC s current deadlines. If we are unable to complete the required assessment as to the adequacy of our internal control reporting or if we conclude that our internal controls over financial reporting are not effective or if our independent registered public accounting firm is unable to provide us with an unqualified report as to the effectiveness of our internal controls over financial reporting as of December 31, 2006 and future year ends, investors could lose confidence in the reliability of our financial reporting. In addition, while we plan to expand our staff to assist in complying with the additional requirements when and if they become applicable, we may encounter substantial difficulty attracting qualified staff with requisite experience due to the high level of competition for experienced financial professionals.

Our Anti-Takeover Provisions May Make It More Difficult to Change Our Management or May Discourage Others From Acquiring Us and Thereby Adversely Affect Stockholder Value

We have a stockholder rights plan and provisions in our bylaws that may discourage or prevent a person or group from acquiring us without the approval of our board of directors. The intent of the stockholder rights plan and our bylaw provisions is to protect our stockholders interests by encouraging anyone seeking control of our company to negotiate with our board of directors.

We have a classified board of directors, which requires that at least two stockholder meetings, instead of one, will be required to effect a change in the majority control of our board of directors. This provision applies to every election

of directors, not just an election occurring after a change in control. The classification of our board increases the amount of time it takes to change majority control of our board of directors and may cause our potential purchasers to lose interest in the potential purchase of us, regardless of whether our purchase would be beneficial to us or our stockholders. The additional time and cost to change a majority of the members of our board of directors makes it more difficult and may discourage our existing stockholders from seeking to change our existing management in order to change the strategic direction or operational performance of our company.

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Our bylaws provide that directors may only be removed for cause by the affirmative vote of the holders of at least a majority of the outstanding shares of our capital stock then entitled to vote at an election of directors. This provision prevents stockholders from removing any incumbent director without cause. Our bylaws also provide that a stockholder must give us at least 120 days notice of a proposal or director nomination that such stockholder desires to present at any annual meeting or special meeting of stockholders. Such provision prevents a stockholder from making a proposal or director nomination at a stockholder meeting without us having advance notice of that proposal or director nomination. This could make a change in control more difficult by providing our directors with more time to prepare an opposition to a proposed change in control. By making it more difficult to remove or install new directors, the foregoing bylaw provisions may also make our existing management less responsive to the views of our stockholders with respect to our operations and other issues such as management selection and management compensation.

Our Outstanding Options and Warrants and the Registrations of Our Shares Issued in the Global Genomics Merger and Our Recent Private Financings May Adversely Affect the Trading Price of Our Common Stock

As of December 31, 2005, there were outstanding stock options and warrants to purchase approximately 24.7 million shares of our common stock at exercise prices ranging from $0.20 to $2.73 per share. Our outstanding options and warrants could adversely affect our ability to obtain future financing or engage in certain mergers or other transactions, since the holders of options and warrants can be expected to exercise them at a time when we may be able to obtain additional capital through a new offering of securities on terms more favorable to us than the terms of outstanding options and warrants. For the life of the options and warrants, the holders have the opportunity to profit from a rise in the market price of our common stock without assuming the risk of ownership. To the extent the trading price of our common stock at the time of exercise of any such options or warrants exceeds the exercise price, such exercise will also have a dilutive effect on our stockholders. In addition, warrants issued in connection with our financings in 2003 contain antidilution provisions that are triggered upon certain events, including any issuance of securities by us below the market price. In the event that those antidilution provisions are triggered by us in the future, we would be required to reduce the exercise price, and increase the number of shares underlying, those warrants, which would have a dilutive effect on our stockholders.

In August 2003, we registered with the SEC for resale by the holders a total of 14,408,252 shares of our outstanding common stock and an additional 3,848,870 shares of our common stock issuable upon exercise of outstanding options and warrants, which shares and options and warrants were issued primarily in connection with our merger with Global Genomics and the $5.4 million private equity financing that we completed in May 2003. In December 2003, we registered a total of 6,113,448 shares of our common stock, consisting of the 5,175,611 shares issued, or that are issuable upon exercise of the warrants issued, in connection with the $8.7 million private equity financing that we completed in September 2003, and an additional 937,837 shares of our common stock that we issued, or that are issuable upon the exercise of warrants that we issued, to certain other third parties. In November 2004, we registered 4,000,000 shares of our common stock and an additional 3,080,000 shares of our common stock issuable upon the exercise of warrants in connection with the $4,000,000 private equity financing that we completed in October 2004, and an additional 1,550,000 shares of our common stock issued or issuable upon exercise of warrants to other third parties. In February 2005, we registered 17,334,494 shares of our common stock and an additional 9,909,117 shares of our common stock issuable upon the exercise of warrants in connection with the $21.3 million private equity financing that we completed in January 2005. In April 2006, we expect to file a registration statement to register 10,650,794 shares of our common stock and an additional 5,325,397 shares of our common stock issuable upon the exercise of warrants in connection with the $13.4 million private equity financing that we completed in March 2006. Both the availability for public resale of these various shares and the actual resale of these shares could adversely affect the trading price of our common stock.

We May Issue Preferred Stock in the Future, and the Terms of the Preferred Stock May Reduce the Value of Our Common Stock

We are authorized to issue up to 5,000,000 shares of preferred stock in one or more series. Our board of directors may determine the terms of future preferred stock offerings without further action by our stockholders. If we issue preferred stock, it could affect your rights or reduce the value of our outstanding common stock. In particular, specific

rights granted to future holders of preferred stock may include voting rights, preferences as to dividends and liquidation, conversion and redemption rights, sinking fund provisions, and restrictions on our ability to merge with or sell our assets to a third party.

Changes in Stock Option Accounting Rules May Adversely Impact Our Reported Operating Results, Our Stock Price and Our Competitiveness in the Employee Marketplace

In December 2004, the Financial Accounting Standards Board published new rules that will require companies in 2005 to record all stock-based employee compensation as an expense. The new rules apply to stock options grants, as well as a range of other stock-based compensation arrangements, including restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. We will have to apply the new financial accounting rules beginning in the first quarter of 2006. We

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have depended in the past upon compensating our officers, directors, employees and consultants with such stock-based compensation awards in order to limit our cash expenditures and to attract and retain officers, directors, employees and consultants. Accordingly, if we continue to grant stock options or other stock-based compensation awards to our officers, directors, employees, and consultants after the new rules apply to us, our future earnings, if any, will be reduced (or our future losses will be increased) by the expenses recorded for those grants. The expenses we may have to record as a result of future options grants may be significant and may materially negatively affect our reported financial results. The adverse effects that the new accounting rules may have on our future financial statements should we continue to rely heavily on stock-based compensation may reduce our stock price and make it more difficult for us to attract new investors. In addition, reducing our use of stock plans to reward and incentivize our officers, directors and employees could result in a competitive disadvantage to us in the employee marketplace.

We May Experience Volatility in Our Stock Price, Which May Adversely Affect the Trading Price of Our Common Stock

The market price of our common stock has experienced significant volatility in the past and may continue to experience significant volatility from time to time. Our stock price has ranged from $0.21 to $3.74 per share over the past three years. Factors such as the following may affect such volatility:

Our quarterly operating results.

Announcements of regulatory developments or technological innovations by us or our competitors.

Government regulation of drug pricing.

Developments in patent or other technology ownership rights.

Public concern regarding the safety of our products.

Other factors which may affect our stock price are general changes in the economy, financial markets or the pharmaceutical or biotechnology industries.

Item 2. ***Properties***

Our operations are based in Los Angeles, California, and Worcester, Massachusetts. The lease for our headquarters facility in Los Angeles covers approximately 4,700 square feet of office space and expires in June 2008. The lease for our laboratory in Worcester covers approximately 6,900 square feet of office and laboratory space and expires in December 2007. Our facilities are suitable and adequate for our current operations.

Item 3. ***Legal Proceedings***

We are occasionally involved in claims arising out of our operations in the normal course of business, none of which are expected, individually or in the aggregate, to have a material adverse effect on us.

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PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Our common stock is currently traded on the Nasdaq Capital Market under the symbol CYTR. The following table sets forth the high and low sale prices for our common stock for the periods indicated as reported by the Nasdaq Capital Market.

	High	Low
Fiscal Year 2006:		
January 1 to March 28	$1.87	$1.01
Fiscal Year 2005:		
Fourth Quarter	$1.13	$0.85
Third Quarter	$1.22	$0.76
Second Quarter	$1.44	$0.75
First Quarter	$2.07	$1.14
Fiscal Year 2004:		
Fourth Quarter	$1.75	$1.10
Third Quarter	$1.80	$0.94
Second Quarter	$2.10	$1.06
First Quarter	$2.43	$1.43

On March 15, 2006, there were approximately 10,900 holders of record of our common stock. The number of record holders does not reflect the number of beneficial owners of our common stock for whom shares are held by brokerage firms and other institutions. We have not paid any dividends since our inception and do not contemplate paying dividends in the foreseeable future.

Item 6. ***Selected Financial Data***

The following selected financial data are derived from our audited financial statements. Our financial statements for 2005, 2004 and 2003 have been audited by BDO Seidman, LLP, our independent registered public accounting firm. These historical results do not necessarily indicate future results. When you read this data, it is important that you also read our financial statements and related notes, as well as the section Management s Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors. Financial information provided below has been rounded to the nearest thousand.

	2005	2004	2003	2002	2001
Statement of Operations Data:					
Revenues					
Recruiting revenues	$	$	$	$ 23,000	$ 101,000
License fees	101,000	428,000	94,000	1,051,000	3,751,000
Grant income				46,000	157,000
Service revenues	83,000				
Total revenues	$ 184,000	$ 428,000	$ 94,000	$ 1,120,000	$ 4,009,000
Net loss	$ (15,093,000)	$ (16,392,000)	$ (17,845,000)	$ (6,176,000)	$ (931,000)
Basic and diluted loss per common share:					
Net loss	$ (0.27)	$ (0.48)	$ (0.65)	$ (0.39)	$ (0.09)

Balance Sheet Data:					
Total assets	$ 9,939,000	$ 5,049,000	$ 12,324,000	$ 9,284,000	$ 7,611,000
Total stockholders equity	$ 7,208,000	$ 1,595,000	$ 10,193,000	$ 7,959,000	$ 6,583,000

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

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Factors Affecting Comparability

In January 2005, we completed a $21.3 million private equity financing in which we issued 17,334,494 shares of our common stock and warrants to purchase an additional 8,667,247 shares of our common stock at an exercise price of $2.00 per share. Net of investment banking commissions, legal, accounting and other fees related to the transaction, we received proceeds of approximately $19.4 million.

In the fourth quarter of 2004, we completed our acquisition of all of the clinical, pharmaceutical and related intellectual property assets of Biorex, a Hungary-based company focused on the development of novel small molecules with broad therapeutic applications in neurology, diabetes and cardiology. We paid Biorex $3.0 million in cash for the assets at the closing, and incurred approximately $500,000 in expenses related to the transaction.

The assets acquired from Biorex include three drug candidates that had completed the equivalent of a Phase I clinical trial. We intend to perform additional testing on those drug candidates, and initiated a Phase II clinical trial for one of the drug candidates, arimoclomol, for ALS in September 2005. In addition, we acquired a 500-compound molecular library, which we plan to use in high throughput screening at our obesity and diabetes laboratory. With the assistance of an outside appraiser, we evaluated the technology assets acquired from Biorex, including their current state of development, the severability of the assets, and alternative uses of the compounds. Based in part on that appraisal, we concluded that the $3.0 million value allocated to the three drug candidates should be written off at the time of acquisition as in-process research and development, and that the $500,000 value attributable to the 500-compound molecular library should be included in our fixed assets at December 31, 2004.

In the third quarter of 2003, we recorded an impairment charge of $5.9 million related to our investments in Blizzard s acquired developed technology and in Psynomics, based upon our analysis of the recoverability of the carrying amount of these assets in accordance with the Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. This impairment charge represented the total net book value of these assets at the time of the write-off. See Note 12 to our audited financial statements.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion and analysis of our financial condition and results of operations should be read together with the discussion under Selected Financial Data and our consolidated financial statements included in this Annual Report. This discussion contains forward-looking statements, based on current expectations and related to future events and our future financial performance, that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many important factors, including those set forth under Risk Factors and elsewhere in this Annual Report.

Restatement of Financial Statements

We have restated our consolidated financial statements for the year ended December 31, 2005 and each of the quarters ended March 31, 2005, June 30, 2005, and September 30, 2005, respectively. The restatements are related to the pro forma amounts disclosed in accordance with SFAS 123, *Accounting for Stock-Based Compensation,* which were calculated incorrectly as set forth in the stock-based compensation sections of the footnotes contained in our consolidated financial statements for these periods. The restatement also includes a correction in the accounting for antidilution features in certain of our outstanding warrants. On May 20, 2006, the Audit Committee of our Board of Directors approved management s recommendation to restate our consolidated financial statements for these periods to reflect the corrected disclosures in our stock-based compensation footnote and the correction in the accounting for antidilution features in certain of our outstanding warrants.

The following discussion gives effect to the restatements. See Notes 2 and 14 to Consolidated Financial Statements contained herein.

Overview

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 our 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 our drug discovery operations conducted at our laboratory in Worcester, Massachusetts. Development work on RNAi, a relatively recent technology for silencing genes in living cells and organisms, is still at an early stage, and we are aware of only four clinical tests of

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therapeutic applications using RNAi that have yet 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.

On October 4, 2004, we acquired all of the clinical and pharmaceutical and related intellectual property assets of Biorex Research & Development, RT, or Biorex, a Hungary-based company focused on the development of novel small molecules based on molecular chaperone co-induction technology, with broad therapeutic applications in neurology, type 2 diabetes, cardiology and diabetic complications. The acquired assets include 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 ALS. Arimoclomol has received Orphan Drug and Fast Track designation from the U.S. Food and Drug Administration.

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 300 ALS patients recruited from 25 clinical sites and will take approximately 18 months after initiation to complete.

The acquisition of the molecular chaperone co-induction technology from Biorex represented 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 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. 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.

We have no significant revenues and we expect not to have significant revenues 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.

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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.

Research and Development

Following our 2003 acquisition of rights to new technologies from UMMS and our 2004 acquisition of the clinical assets of Biorex, we initiated research and development programs for products based upon those technologies. Expenditures for research and development activities related to continuing operations were $9.1 million, $9.0 million and $4.4 million for the years ended December 31, 2005, 2004 and 2003, respectively, with research and development expenses representing approximately 58%, 53% and 39% of our total expenses for the years ended December 31, 2005, 2004 and 2003, respectively. Included in research and development expenses for 2004 was $3.0 million of in-process research and development that was written off in conjunction with our acquisition of assets from Biorex. Research and development expenses are further discussed below under Critical Accounting Policies and Estimates and Results of Operations.

There is a risk that any drug discovery and development program may not produce revenue because of the risks inherent in drug discovery and development. Moreover, there are uncertainties specific to any new field of drug discovery, including molecular chaperone co-induction technology or RNAi. The successful development of any product candidate we develop is highly uncertain. We cannot reasonably estimate or know the nature, timing and costs of the efforts necessary to complete the development of, or the period in which material net cash inflows are expected to commence from any product candidate, due to the numerous risks and uncertainties associated with developing drugs, including the uncertainty of:

Our ability to advance product candidates into pre-clinical and clinical trials.

The scope, rate and progress of our pre-clinical trials and other research and development activities.

The scope, rate of progress and cost of any clinical trials we commence.

The cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights.

Future clinical trial results.

The terms and timing of any collaborative, licensing and other arrangements that we may establish.

The cost and timing of regulatory approvals.

The cost and timing of establishing sales, marketing and distribution capabilities.

The cost of establishing clinical and commercial supplies of our product candidates and any products that we may develop.

The effect of competing technological and market developments.

Any failure to complete any stage of the development of our products in a timely manner could have a material adverse effect on our operations, financial position and liquidity. A discussion of the risks and uncertainties associated with completing our projects on schedule, or at all, and the potential consequences of failing to do so, are set forth in the Risk Factors section of this Annual Report.

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, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management

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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 audited financial statements. 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 in the future to defer significant amounts of 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.

Clinical Trial Expenses

Clinical trial expenses, which are included in research and development expenses, include obligations resulting from our contracts with various clinical research organizations in connection with conducting clinical trials for our product candidates. We recognize expenses for these activities based on a variety of factors, including actual and estimated labor hours, clinical site initiation activities, patient enrollment rates, estimates of external costs and other activity-based factors. We believe that this method best approximates the efforts expended on a clinical trial with the expenses we record. We adjust our rate of clinical expense recognition if actual results differ from our estimates.

Stock-based Compensation

We apply Accounting Principles Board Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees*, and related interpretations in accounting for our stock-based employee compensation plans, rather than the alternative fair value accounting method provided for under Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). In the Notes to Consolidated Financial Statements, we provide pro forma disclosures in accordance with SFAS 123 and related pronouncements. Under APB 25, compensation expense is recorded on the date of grant of an option to an employee or member of the Board only if the fair market value of the underlying stock at the date of grant exceeds the exercise price. In addition, we have granted options to certain outside consultants, which are required to be measured at fair value and recognized as compensation expense in our financial statements. We apply the Black-Scholes option-pricing model for estimating the fair value of options, which involves a number of judgments and variables, including estimates of the life of the options and expected volatility which are subject to significant change. A change in the fair value estimate could have a significant effect on the amount of pro forma compensation expense calculated.

In December 2004, the FASB released its revised standard, SFAS No. 123(R) (SFAS 123(R)), Share-Based Payment. SFAS 123(R) requires that a public entity measure the cost of equity-based service awards based on the fair value of the award on the date of grant. That cost will be recognized over either the vesting period or the period during which an employee is required to provide service in exchange for the award. We are required to adopt the provisions of SFAS 123(R) for periods after January 2006, and we will adopt the new requirements using the modified

prospective transition method. The adoption of SFAS 123(R) requires us to value stock options granted prior to adoption of SFAS 123(R) under the fair value method and expense these amounts in the income statement over the stock option s remaining vesting period. The adoption of SFAS 123(R) will result in recognition of additional non-

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cash stock-based compensation expense and, accordingly, will increase net losses in amounts which likely will be considered material, although it will not impact our cash position.

We account for equity instruments issued to non-employees in accordance with the provisions of SFAS 123 and Emerging Issues Task Force Issue (EITF) No. 96-18, *Accounting for Equity Instruments that Are Issued to other than Employees for Acquiring, or in conjunction with Selling Goods, or Services* (EITF 96-18) which require that such equity instruments are recorded at their fair value on the measurement date. The measurement of stock-based compensation is subject to periodic adjustment as the underlying equity instruments vest. Non-employee stock-based compensation charges are amortized over the vesting period on a straight-line basis.

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

In accordance with the provisions of Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock* (APB 18), we reviewed the net values on our balance sheet, as of September 30, 2003, assigned to Investment in Minority Owned Entity Acquired Developed Technology resulting from our acquisition of Blizzard Research and Development Company, or Blizzard. Blizzard was recorded as an acquired development-stage company and there was an external valuation used for substantiation of the value of the technology and the investment, which was prepared as of the date of the announcement of the transaction February 11, 2002. For our annual audit of fiscal 2002, potential impairment was addressed and the valuation was updated internally using similar methods used for the original investment. Based upon our analysis there was no impairment. Our auditors for that fiscal year concurred. We continued to measure impairment through these methods on a quarterly basis and through the second quarter of 2003, we continued to believe that Blizzard s proprietary technology was commercially viable, subject to its ability to obtain significant financing. At that time we believed there was no impairment. APB 18 requires that a loss in value of an investment, which is other than a temporary decline, should be recognized as an impairment loss. Through the third quarter of 2003, Blizzard had been unsuccessful in its attempts to raise a significant amount of financing necessary for it to pursue its commercialization strategy for its products and we subsequently decided not to further invest in this entity. We believe that Blizzard was unable to obtain substantial third-party financing primarily because (1) the genomics market, which the Blizzard technology was targeting, had begun to decline in 2003, (2) Blizzard had not completed a production unit of its principal product for testing by potential investors, and (3) certain investors were unwilling to invest without a simultaneous infusion of additional capital from us as Blizzard s 40% shareholder, and we were unable to reach satisfactory terms for such financing. Our analysis consisted of a review of the financial projections prepared by Blizzard, application of a discounted cash flow valuation model of Blizzard s projected cash flows, and consideration of other qualitative factors such as Blizzard s termination of its employees, its office lease and its engagement of its investment banker. Based upon the quantitative and qualitative factors described above, in addition to others, our management determined that the estimated fair value of our investment in Blizzard was $0 and that an impairment charge of $5.9 million was necessary. In considering the timing of the write-off, we looked to Blizzard s termination of its employees, lease and investment banker in October 2003 as affirmation of conditions that existed at September 2003, and therefore recorded the write-off in the third quarter of 2003. The write-off had no impact upon our cash or working capital position. It is our understanding that, by the end of 2003, Blizzard had ceased operations and, in 2004, returned its licensed intellectual property to the Minnesota Research Fund.

Estimated Facility Abandonment Accrual

Subsequent to our merger with Global Genomics in 2002, we recorded a loss of $563,000 associated with the closure of our Atlanta headquarters and our relocation to Los Angeles. This loss represented the total remaining lease obligations and estimated operating costs through the remainder of the lease term, less estimated sublease rental income and deferred rent at the time. In August 2005, we entered into a lease termination agreement pursuant to which 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 third quarter general and administrative expenses.

Quarterly Financial Data

The following table sets forth unaudited statement of operations data for our most recent two completed fiscal years. This quarterly information has been derived from our unaudited financial statements and, in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information for the periods covered. The

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quarterly financial data should be read in conjunction with our financial statements and related notes. The operating results for any quarter are not necessarily indicative of the operating results for any future period.

	Quarter Ended			
	March 31	June 30	September 30	December 31
	(In thousands, except per share data)			
2005				
Total revenues	$ 1	$	$ 10	$ 173
Net loss	(3,527)	(4,509)	(3,492)	(3,565)
Basic and diluted loss per common share:				
Net loss	$ (0.07)	$ (0.08)	$ (0.06)	$ (0.06)
2004				
Total revenues	$ 100	$ 228	$	$ 100
Net loss	(3,774)	(4,061)	(2,796)	(5,761)
Basic and diluted loss per common share:				
Net loss	$ (0.11)	$ (0.12)	$ (0.08)	$ (0.15)

Quarterly and year to date loss per share amounts are computed independently of each other. Therefore, the sum of the per share amounts for the quarters may not agree to the per share amounts for the year.

Liquidity and Capital Resources

At December 31, 2005, we had cash, cash equivalents and short-term investments of $8.3 million and total assets of $9.9 million compared to $3.0 million and $5.0 million, respectively, at December 31, 2004. Working capital totaled $6.3 million at December 31, 2005, compared to $1.2 million at December 31, 2004.

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, drug discovery efforts related to additional product candidates, working capital and general corporate purposes. Included in our planned expenses are approximately $3.2 million for our Phase II clinical program with arimoclomol for ALS during 2006, and an additional $4.5 million in 2007 and $6.3 million in 2008. The cost of our clinical program for ALS 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. 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.

For the year ended December 31, 2005, net cash provided by investing activities consisted of $964,000, of which $1.0 million was from the redemption of short-term securities, which was partially offset by the acquisition of $48,000 of property and equipment. We expect capital spending to increase during 2006 over our 2005 levels to support our increasing research and development efforts and the implementation of Sarbanes-Oxley. In the year ended December 31, 2004, net cash used in investing activities consisted of $962,000 for the purchase of securities to be held to maturity and $772,000 for property and equipment, which includes $447,000 related to assets acquired in

connection with the molecular library assets of Biorex. Net cash provided by investing activities for the year ended December 31, 2003 was $1.2 million which was primarily due to the maturity of held-to-maturity investments acquired in 2002.

Cash provided by financing activities for the year-ended December 31, 2005 was $19.8 million. The cash provided includes $256,000 received upon the exercise of stock options and warrants. Additionally, we raised $19.6 million through the sale of equity, of which $19.4 million was raised in connection with a private equity financing, net of expenses, that closed in January 2005. Net cash

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provided by financing activities in the year ended December 31, 2004 was $4.4 million. The cash provided was the result of $526,000 received upon the exercise of stock options and warrants and the $4.0 million private equity financing completed in October 2004. Net cash provided by financing activities for the year ended December 31, 2003 was $14.4 million. In May and September 2003, we completed private equity financings raising net proceeds of $4.9 million and $7.7 million, respectively. For the year ended December 31, 2003, we also received proceeds from the exercise of stock options and warrants totaling $1.9 million.

Our net loss for the year-ended December 31, 2005 was $15.1 million, which resulted in net cash used in operating activities of $14.5 million. Adjustments to reconcile net loss to net cash used in operating activities for the year-ended December 31, 2005 include $586,000 of common stock, options and warrants issued in lieu of cash for research and development and general and administrative services, as well as a net change in assets and liabilities of $210,000 offset by the recording of $217,000 in depreciation and amortization. Our net loss for the year ended December 31, 2004 was $16.4 million, which includes the write-off of $3.0 million of in-process research and development related to the acquisition of assets from Biorex. The $16.4 million loss resulted in net cash used in operating activities of $12.4 million. Adjustments to reconcile net loss to net cash used in operating activities for the year ended December 31, 2004 were primarily $873,000 of common stock, options and warrants issued in lieu of cash for general and administrative services. Additionally, we issued $388,000 of common stock, options and warrants in lieu of cash in connection with certain license fees and $1.0 million in connection with research and development activities. Our net loss for the year-ended December 31, 2003 was $17.8 million, which resulted in net cash used in operating activities of $4.3 million. Adjustments to reconcile net loss to net cash used in operating activities for the year ended December 31, 2003 were primarily $6.7 million of losses from a minority-owned entity, $1.5 million of common stock, options and warrants issued in lieu of cash for general and administrative services, $1.8 million of common stock issued in connection with certain license agreements and $1.1 million of common stock issued in connection with research and development activities.

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 was approximately $2.5 million during 2005, and if we retain our current license portfolio, we expect expenditures to be approximately $1.2 million during 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 the drug candidates acquired from Biorex in October 2004. We spent $3.8 million on the arimoclomol clinical program in 2005, and we estimate that the overall program, including the ongoing Phase IIa trial and the planned Phase IIb trial that we expect to initiate soon after completion of the present Phase IIa trial subject to FDA approval, will require us to expend approximately $3.2 million in 2006, and an additional $10.8 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.

Any 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 there is likely to be a substantial period of time, if ever, before we receive any further significant payments from Merck or Vical.

We intend also to pursue 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.

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Contractual Obligations

We have no current commitments for capital expenditures in 2006; however, we anticipate incurring capital expenditures in connection with the expansion of our laboratory. As of December 31, 2005, we had no committed lines of credit or other committed funding or long-term debt. As of December 31, 2005, minimum annual future obligations for operating leases, minimum annual future obligations under various license agreements and minimum annual future obligations under employment agreements consist of the following:

	Operating Leases	License Agreements	Employment Agreements	Total
		(In thousands)		
2006	$ 507	$ 971	$ 1,264	$ 2,742
2007	389	235	887	1,511
2008	108	339	590	1,037
2009	1	339		340
2010 and thereafter	2	1070		1,072
Total	$ 1,007	$ 2,954	$ 2,741	$ 6,702

We have employment agreements with our executive officers, the terms of which expire at various times through July 2008. Certain agreements provide for minimum salary levels, which are subject to increase annually in the Compensation Committee s discretion, as well as for minimum annual bonuses. The reported commitment for employment agreements includes, among other things, a total of $0.9 million of compensation payable to members of our Scientific Advisory Board through 2008, and a total of $1.6 million of minimum salary and guaranteed bonuses payable to our executives.

License and Collaboration Agreements

In April 2003, we acquired new technologies by entering into exclusive license arrangements with UMMS covering potential applications of the medical institution s proprietary RNAi technology in the treatment of specified diseases, including those within the areas of obesity, type 2 diabetes ALS and CMV. In consideration of the licenses, we made cash payments to UMMS totaling $186,000 and issued it a total of 1,613,258 shares of our common stock which were valued, for financial statement purposes, at $1.5 million. In May 2003, we broadened our strategic alliance with UMMS by acquiring an exclusive license from that institution covering a proprietary DNA-based HIV vaccine technology. In consideration of this license, we made cash payments to UMMS totaling $18,000 and issued it 215,101 shares of our common stock which were valued, for financial statement purposes, at $361,000. 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 the Company 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 of December 31, 2005, we have made cash payments to UMMS totaling $1.1 million pursuant to the collaboration agreement with UMMS, but have not yet acquired or made any payments to acquire any options under that agreement.

In May 2004, we licensed from the technology transfer company of the Imperial College of Science, Technology & Medicine, or Imperial College, the exclusive rights to intellectual property covering a drug screening method using RIP 140, which is a nuclear hormone co-repressor that is believed to regulate fat accumulation. In consideration of the license, we made cash payments to Imperial College totaling $87,000 and issued it a total of 75,000 shares of our common stock which were valued, for financial statement purposes, at the then-aggregate fair market value of $108,000. As the drug screening technology from Imperial College and the RNAi technology from UMMS had not achieved technological feasibility at the time of their license by us, had no alternative future uses and, therefore, no separate economic value, the total value of all cash payments and stock issued for acquisition of the technology was

expensed as research and development in our financial statements.

Net Operating Loss Carryforward

At December 31, 2005, we had consolidated net operating loss carryforwards for income tax purposes of $35.6 million, which will expire in 2006 through 2025 if not utilized. We also have research and development tax credits and orphan drug tax credits available to reduce income taxes, if any, of $6.4 million, which will expire in 2006 through 2025 if not utilized. The amount of net operating loss carryforwards and research tax credits available to reduce income taxes in any particular year may be limited in certain circumstances. Based on an assessment of all available evidence including, but not limited to, our limited operating history in our core

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business and lack of profitability, uncertainties of the commercial viability of our technology, the impact of government regulation and healthcare reform initiatives, and other risks normally associated with biotechnology companies, we have concluded that it is more likely than not that these net operating loss carryforwards and credits will not be realized and, as a result, a 100% deferred tax valuation allowance has been recorded against these assets.

Results of Operations

CytRx Corporation recorded net losses of $15.1 million, $16.4 million and $17.8 million during the years ended 2005, 2004 and 2003.

We earned an immaterial amount in licensing fees during the years ended 2005, 2004 and 2003. All future licensing fees under out 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.

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Research and Development

	Year Ended December 31,		
	2005	2004	2003
		(In thousands)	
Research and development expense	$ 8,867	$ 4,626	$ 1,485
Non-cash research and development expense	220	1,387	2,903
Acquired in-process research and development expense		3,022	
	$ 9,087	$ 9,035	$ 4,388

Research expenses are expenses incurred by us in the discovery of new information that will assist us in the creation and the development of new drugs or treatments. Development expenses are expenses incurred by us in our efforts to commercialize the findings generated through our research efforts. Our research and development expenses were $9.1 million in 2005, $9.0 million in 2004 and $4.4 million in 2003.

Research and development expenses incurred during 2005 relate primarily to (i) the initiation of our Phase II clinical program for arimoclomol in ALS, (ii) our ongoing research and development related to other drug candidates purchased from Biorex, (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. Research and development expenses presented in the accompanying consolidated financial statements during 2004 were primarily the result of efforts to develop RNAi through new and existing licensing agreements, sponsored research agreements, as well as research and development efforts performed at our Massachusetts laboratory. Research and development expenses incurred in 2003 were primarily for the acquisition and licensing of intellectual property and the commencement of operations of our Massachusetts laboratory. 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.

In October 2004, we acquired all of the clinical and pharmaceutical and related intellectual property assets of Biorex, a Hungry-based company focused on the development of novel small molecules with broad therapeutic applications in neurology, diabetes and cardiology for approximately $3.5 million in cash. Included in the assets acquired from Biorex are a 500-compound molecular library, as well as the molecules arimoclomol, iroxanadine and bimoclomol, each of which had, at the time of acquisition, successfully completed the European equivalent of a Phase I clinical trial. After management s evaluation of the acquired technology, approximately $3.0 million of the acquisition price was expensed in 2004 as in-process research and development.

As compensation to members of our scientific advisory board and consultants, and in connection with the acquisition of technology, we issue shares of our common stock, stock options and warrants to purchase shares of our common stock. For financial statement purposes, we value these shares of common stock, stock options, and warrants at the fair value of the common stock, stock options or warrants granted, or the services received, whichever is more reliably measurable. We recorded non-cash charges of $0.2 million, $1.4 million, and $2.9 million during 2005, 2004, and 2003, respectively.

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 estimate that the Phase II trial and related studies will cost approximately $17.8 million, of which approximately $3.8 million had been spent as of December 31, 2005, and will last between 24 to 30 months. Additionally, we estimate that our costs related to the activities of our Massachusetts laboratory will be consistent with expenses incurred in 2005.

General and administrative expense

	Year Ended December 31,		
	2005	**2004**	**2003**
		(In thousands)	
General and administrative expense	$ 6,057	$ 5,924	$ 3,841
Common stock, stock options and warrants issued for general and administrative expense	367	1,977	3,148
	$ 6,424	$ 7,901	$ 6,989

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General and administrative expenses include all administrative salaries and general corporation expenses. Our total general and administrative expenses, including common stock, stock options and warrants issued, were $6.4 million in 2005, $7.9 million in 2004 and $7.0 million in 2003. Our general and administrative expenses, net of common stock, stock options and warrants issued, were $6.1 million in 2005, $5.9 million in 2004 and $3.8 million in 2003. General and administrative expenses during 2005 as compared to 2004 were relatively constant. During 2005 the Company incurred approximately $0.9 million in higher salary expense than 2004, although the difference in total general and administrative expense was substantially smaller between 2005 and 2004 due to one-time expenses associated with our change in auditors in 2004, severance paid to certain members of management in the first half of 2004, and the settlement of certain legal proceedings, for which there was no comparable expenses in 2005. For the same reasons, general and administrative expenses during 2004 were higher as compared to 2003. We expect our general and administrative expenses in 2006 to be slightly higher than those incurred in 2005, as a result of our ongoing Sarbanes-Oxley compliance efforts.

From time to time, we issue shares of our common stock or warrants or options 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, and warrants at the fair value of the common stock, stock options or warrants granted, or the services received, whichever is more reliably measurable. We recorded non-cash charges of $0.4 million, $2.0 million, and $3.1 million during 2005, 2004, and 2003, respectively. These charges relate primarily to common stock, stock options and warrants issued in connection with the engagement and retention of financial, business development and scientific advisors. During 2004, as our business strategy matured, less use of financial business advisors was required, which resulted in substantially fewer options and common stock being issued as compared to 2003.

Depreciation and amortization expense

Depreciation and amortization expenses were $217,000, $104,000, and $2,000 in 2005, 2004 and 2003 respectively. Depreciation and amortization expenses recorded in 2005 reflect the depreciation of fixed assets located at our obesity and diabetes laboratory, as well as $75,000 of amortization expenses related to the molecular screening library acquired from Biorex in October 2004 and placed in service in March 2005. Depreciation incurred in 2004 consists almost entirely of depreciation on assets acquired for our obesity and diabetes laboratory. During the fourth quarter of 2003 and the first two quarters of 2004, we increased our capital spending as part of our overall strategy to establish our obesity and diabetes laboratory. As our need for additional equipment was nominal during 2005, our net capital assets declined to $726,000, net of depreciation, from $895,000 at December 31, 2004. During 2004, capital assets increased by $668,000 to $895,000, net of depreciation. As a result of these additions to assets, depreciation related to capital equipment increased from $2,000 in 2003 to $104,000 in 2004.

Severance and other contractual payments to officers

In accordance with a Mutual General Release and Severance Agreement in May 2004, we paid our former General Counsel, approximately $52,000 and 12 months of related benefits, and vested options to purchase 87,500 shares of our common stock that were granted upon the commencement of his employment. In accordance with a Mutual General Release and Severance Agreement in May 2004, we paid our former Chief Financial Officer, approximately $150,000 and 18 months of related benefits, and vested options to purchase 105,000 shares of our common stock that were granted upon the commencement of his employment.

Loss on facility abandonment

Subsequent to our merger with Global Genomics in 2002, we recorded a loss of $478,000 associated with the closure of our Atlanta headquarters and our relocation to Los Angeles. This loss represented the total remaining lease obligations and estimated operating costs through the remainder of the lease term, less estimated sublease rental income and deferred rent at the time. In August 2005, we entered into a lease termination agreement pursuant to which 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 $163,000 offset against third quarter general and administrative expenses.

Interest income

Interest income was $206,000 in 2005, as compared to $60,000 in 2004 and $82,000 in 2003. The variances between years are primarily attributable to the cash available for investment and higher interest yields.

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Equity Losses from Minority-Owned Entity

	Year Ended December 31,		
	2005	2004	2003
		(In thousands)	
Equity losses from minority-owned entity	$	$	$ 245
Asset impairment charge			5,869
Amortization of acquired developed technology			548
	$	$	$ 6,662

Blizzard ceased operations at the end of 2003. Prior to that time, we recorded our portion of the net loss of Blizzard in accordance with the equity method of accounting. In 2003, we recorded $6.7 million in equity losses, of which $5.9 million was an asset impairment charge, $245,000 was our 40% share of the net loss in Blizzard and $548,000 was amortization of acquired developed technology. For the period July 19, 2002 (date of acquisition of Global) to December 31, 2002, we recorded $665,000 in equity losses, of which $330,000 was our share in the net losses of Blizzard Genomics and $335,000 was amortization of acquired developed technology.

Minority interest in losses of subsidiary

We recorded $81,000 in 2005, $160,000 in 2004 and $20,000 in 2003 related to the 5% minority interest in losses of CytRx Laboratories, which we acquired in September 2003. On June 30, 2005, we repurchased the outstanding 5% interest in CytRx Laboratories from Dr. Michael Czech, and on September 30, 2005, we completed the merger of CytRx Laboratories with and into the Company.

Recently Issued Accounting Standards

In December 2004, the Financial Accounting Standards Board (FASB) revised and issued SFAS 123, Share-Based Payment (SFAS 123(R)). SFAS 123(R) eliminates the alternative of using the APB 25 intrinsic value method of accounting for stock options. This revised statement will require recognition of the cost of employee services received in exchange for awards of equity instruments based on the fair value of the award at the grant date. This cost is required to be recognized over the vesting period of the award. The stock-based compensation table in Note 2 to our audited financial statements illustrates the effect on net income and earnings per share for 2005, 2004 and 2003 if we had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation. SFAS 123(R) applies to all awards granted, modified, repurchased, or cancelled after June 30, 2005. We will adopt SFAS 123(R) effective January 1, 2006, using the modified prospective method. As a result of the adoption of this statement, our compensation expense for share-based payments is expected to be approximately $1.4 million in 2006, but may be significantly greater dependant upon levels of share-based payments granted in the future, option valuation models utilized and assumptions selected at the time of the future grants.

In December 2004, the FASB issued SFAS 153 (SFAS 153), Exchanges of Nonmonetary Assets, an amendment of APB No. 29, Accounting for Nonmonetary Transactions. SFAS 153 requires exchanges of productive assets to be accounted for at fair value, rather than at carryover basis, unless (1) neither the asset received nor the asset surrendered has a fair value that is determinable within reasonable limits or (2) the transactions lack commercial substance. SFAS 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Adoption of this standard did not have a material effect on our consolidated financial statements.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, Accounting Changes and Error Corrections , (SFAS 154). SFAS 154 replaces APB Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. We are required to adopt SFAS 154 in 2006. Our results of operations and financial condition will only be impacted by SFAS 154 if we implement changes in accounting principles that are addressed by the standard or correct accounting errors in future periods.

Related Party Transactions

Dr. Michael Czech, who was until June 30, 2005 a 5% minority shareholder of our prior subsidiary, CytRx Laboratories, and who is 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 2005 and 2004, Dr. Czech was paid $80,000 for his Scientific Advisory Board services. In addition, during 2005 and 2004, we paid UMMS $1,410,000 and $403,000, respectively, under a sponsored research agreement to fund a portion of Dr. Czech s research.

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Off-Balance Sheet Arrangements

We have not entered into off-balance sheet financing arrangements, other than operating leases.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

Our exposure to market risk is limited primarily to interest income sensitivity, which is affected by changes in the general level of United States interest rates, particularly because a significant portion of our investments are in short-term debt securities issued by the U.S. government and institutional money market funds. The primary objective of our investment activities is to preserve principal while at the same time maximizing the income received without significantly increasing risk. Due to the nature of our short-term investments, we believe that we are not subject to any material market risk exposure. We do not have any derivative financial instruments or foreign currency instruments. If interest rates had varied by 10% in 2005, it would not have had a material effect on our statement of operations or cash flows for 2005 based upon our December 31, 2005 balances.

Item 8. ***Financial Statements and Supplementary Data***

Our consolidated financial statements and supplemental schedule and notes thereto as of December 31, 2005 and 2004, and for each of the three years ended December 31, 2005, 2004 and 2003, together with the independent registered public accounting firms reports thereon, are set forth on pages F-1 to F-21 of this Annual Report.

Item 9A. ***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 of December 31, 2005, the end of the period covered by our original Form 10-K. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer previously concluded that our disclosure controls and procedures were effective as of December 31, 2005 to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

There was no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2005 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Subsequently, in conjunction with the preparation of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, 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 antidilution 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 footnote, 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 our Quarterly Report on Form 10-Q for the quarter ended March 31, 2006. 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 antidilution 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 recently in March 2006, we completed private placement transactions which triggered these antidilution adjustments to the warrants in question.

We accounted for these antidilution 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 Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, management reevaluated our historical accounting for these antidilution adjustments. Based upon our

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reevaluation, management determined that these antidilution 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 and recorded as a decrease in retained earnings (i.e., an increase in our retained deficit) and a corresponding increase in additional paid-in capital.

As required by Exchange Act Rule 13a-15(b), as of the end of March 31, 2006, the period covered by our Quarterly Report on Form 10-Q, management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures. Based on this evaluation, and solely because of the corrections referred to above, our Chief Executive Officer and Chief Financial Officer concluded in retrospect that our disclosure controls and procedures over the disclosure of stock-based compensation in accordance with SFAS No. 123 and accounting for antidilution adjustments to our outstanding warrants were not effective as of December 31, 2005 and as of the end of each quarter since the first quarter of 2005.

We are in the process of reviewing and strengthening our internal control procedures, and intend to pursue actions to ensure the effectiveness of all aspects of our controls related to the recording and disclosure of stock-based compensation and antidilution adjustment to outstanding warrants and other securities. Such actions include, but are not necessarily limited to, the following:

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

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

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

We are continuing our efforts to improve and strengthen our control processes and procedures to fully remedy this material deficiency and 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 III

Item 10. ***Directors and Executive Officers of the Registrant***

The following table provides information concerning our directors and executive officers:

Name	Age	Class of Director(1)	Position
Max Link	65	III	Director, Chairman of the Board(2)(3)
Steven A. Kriegsman	64	II	Director, Chief Executive Officer, President
Marvin R. Selter	78	II	Director, Vice Chairman of the Board(2)(3)(4)
Louis Ignarro, Ph.D.	64	I	Director
Joseph Rubinfeld, Ph.D.	73	I	Director(2)(4)
Richard L. Wennekamp	63	II	Director(2)(3)(4)
Mark A. Tepper, Ph.D.	48		Senior Vice President; Drug Discovery
Matthew Natalizio	51		Chief Financial Officer, Treasurer
Jack R. Barber, Ph.D.	50		Senior Vice President Drug Development
Benjamin S. Levin	30		General Counsel, Vice President Legal Affairs and Corporate Secretary

(1) Our Class I directors serve until the 2007 annual meeting of stockholders, our Class II directors serve until the 2008 annual meeting of stockholders and our Class III director serves until the 2006 annual meeting of stockholders.

(2) These directors constitute the members of our Audit Committee. Mr. Selter is the Chairman of the Committee.

(3) These directors constitute the members of our Nominating and Corporate Governance

Committee. Mr. Wennekamp is Chairman of the Committee.

(4) These directors constitute the members of our Compensation Committee. Dr. Rubinfeld is Chairman of the committee.

Max Link has been a director since 1996. Dr. Link has been retired from business since 2003. From March 2002 until its acquisition by Zimmer Holdings, Dr. Link served as Chairman and CEO of Centerpulse, Ltd. From May 1993 to June 1994, Dr. Link served as the Chief Executive Officer of Corange Ltd. (the holding company for Boehringer Mannheim Therapeutics, Boehringer Mannheim Diagnostics and DePuy International). From 1992 to 1993, Dr. Link was Chairman of Sandoz Pharma, Ltd. From 1987 to 1992, Dr. Link was the Chief Executive Officer of Sandoz Pharma and a member of the Executive Board of Sandoz, Ltd., Basel. Prior to 1987, Dr. Link served in various capacities with the United States operations of Sandoz, including President and Chief Executive Officer. Dr. Link also serves as a director of Access Pharmaceuticals, Inc., Alexion Pharmaceuticals, Inc., Celsion Corporation, Discovery Laboratories, Inc., Human Genome Sciences, Inc. and PDL BioPharma, Inc.

Steven A. Kriegsman has been a director and our President and Chief Executive Officer since July 2002. He previously served as a director and the Chairman of Global Genomics since June 2000. Mr. Kriegsman is Chairman and founder of Kriegsman Capital Group LLC, a financial advisory firm specializing in the development of alternative sources of equity capital for emerging growth companies. Mr. Kriegsman has advised such companies as Closure Medical Corporation, Novoste Corporation, Miravant Medical Technologies, Maxim Pharmaceuticals and Supergen Inc. Mr. Kriegsman has a B.S. degree from New York University in accounting and completed the Executive Program in Mergers and Acquisitions at New York University, The Management Institute. Mr. Kriegsman serves as a director of Bradley Pharmaceuticals, Inc.

Marvin R. Selter has been a director since October 2003. He has been President and Chief Executive Officer of CMS, Inc. since he founded that firm in 1968. CMS, Inc. is a national management consulting firm. In 1972, Mr. Selter originated the concept of employee leasing. He serves as a member of the Business Tax Advisory Committee City of Los Angeles, Small Business Board State of California and the Small Business Advisory Commission State of California. Mr. Selter also serves on the Valley Economic Development Center as past Chairman and Audit Committee Chairman, the Board of Valley Industry and Commerce Association as past Chairman, the Advisory Board of the San Fernando Economic Alliance and the California State University Northridge as Chairman of the Economic Research Center. He has served, and continues to serve, as a member of boards of directors of various hospitals, universities, private medical companies and other organizations. Mr. Selter attended Rutgers The State University,

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majoring in Accounting and Business Administration. He was an LPA having served as Controller, Financial Vice President and Treasurer at distribution, manufacturing and service firms. He has lectured extensively on finance, corporate structure and budgeting for the American Management Association and other professional teaching associations.

Louis Ignarro, Ph.D. has been a director since July 2002. He previously served as a director of Global Genomics since November 20, 2000. Dr. Ignarro serves as the Jerome J. Belzer, M.D. Distinguished Professor of Pharmacology in the Department of Molecular and Medical Pharmacology at the UCLA School of Medicine. Dr. Ignarro has been at the UCLA School of Medicine since 1985 as a professor, acting chairman and assistant dean. Dr. Ignarro received the Nobel Prize for Medicine in 1998. Dr. Ignarro received a B.S. in pharmacy from Columbia University and his Ph.D. in Pharmacology from the University of Minnesota.

Joseph Rubinfeld, Ph.D. has been a director since July 2002. He co-founded SuperGen, Inc. in 1991 and has served as its Chief Executive Officer and President and as a director since its inception until December 31, 2003. He resigned as Chairman Emeritus of SuperGen, Inc. on February 8, 2005. Dr. Rubinfeld was also Chief Scientific Officer of SuperGen from 1991 until September 1997. Dr. Rubinfeld is also a founder of, and currently serves as the Chairman and Chief Executive Officer of, JJ Pharma. Dr. Rubinfeld was one of the four initial founders of Amgen, Inc. in 1980 and served as a Vice President and its Chief of Operations until 1983. From 1987 until 1990, Dr. Rubinfeld was a Senior Director at Cetus Corporation and from 1968 to 1980, Dr. Rubinfeld was employed at Bristol-Myers Company, International Division in a variety of positions. Dr. Rubinfeld received a B.S. degree in chemistry from C.C.N.Y. and an M.A. and Ph.D. in chemistry from Columbia University.

Richard L. Wennekamp has been a director since October 2003. He has been the Senior Vice President-Credit Administration of Community Bank since October 2002. From September 1998 to July 2002, Mr. Wennekamp was an executive officer of Bank of America Corporation, holding various positions, including Managing Director-Credit Product Executive for the last four years of his 22-year term with the bank. From 1977 through 1980, Mr. Wennekamp was a Special Assistant to former President of the United States, Gerald R. Ford, and the Executive Director of the Ford Transition Office. Prior thereto, he served as Staff Assistant to the President of the United States for one year, and as the Special Assistant to the Assistant Secretary of Commerce of the U.S.

Mark A. Tepper, Ph.D. was the President and co-founder of our prior subsidiary CytRx Laboratories (formerly Araios, Inc.) since September 2004, and is now our Senior Vice President, Drug Discovery. From November 2002 to August 2003, he served as an independent pharmaceutical consultant. Prior to that, from April 2002 to October 2002, he served as President and CEO of Arradial, Inc., an Oxford Biosciences Venture-backed company developing a novel microfluidics based drug discovery platform. From April 1995 to March 2002, Dr. Tepper served in a number of senior management roles at Serono, US, including Vice President, Research and Operations for the US Pharmaceutical Research Institute and Executive Director of Lead Discovery. From 1988 to 1995, Dr. Tepper was Sr. Research Investigator at the Bristol Myers Squibb Pharmaceutical Research Institute where he worked on the discovery and development of novel drugs in the area of Oncology and Immunology. Prior to that, Dr. Tepper was a post-doctoral fellow at the University of Massachusetts Medical School in the laboratory of Dr. Michael Czech. Dr. Tepper received a B.A. in Chemistry from Clark University with highest honors, and a Ph.D. in Biochemistry and Biophysics from Columbia University.

Matthew Natalizio has been our Chief Financial Officer and Treasurer since July 2004. From November 2002 to December 2003, he was President and General Manager of a privately held furniture manufacturing company. Prior to that, from January 2000 to October 2002, he was Chief Financial Officer at Qualstar Corporation, a publicly traded designer and manufacturer of data storage devices. He was also the Vice President of Operations Support, the Vice President Finance and Treasurer of Superior National Insurance Group, a publicly traded workers compensation insurance company. Mr. Natalizio is a CPA who worked at Ernst and Young as an Audit Manager and Computer Audit Executive and was a Senior Manager at KPMG. He earned his Bachelor of Arts degree in Economics from the University of California, Los Angeles.

Jack Barber, Ph.D. has been our Senior Vice President Drug Development since July 2004. He previously served as Chief Technical Officer and Vice President of Research and Development at Immusol, a biopharmaceutical company based in San Diego, California, since 1994. Prior to that, Dr. Barber spent seven years in various

management positions at Viagene, most recently serving as Associate Director of Oncology. Dr. Barber received both his B.S. and Ph.D. in Biochemistry from the University of California, Los Angeles. He also carried out his post-doctoral fellowship at the Salk Institute for Biological Studies in La Jolla, California.

Benjamin S. Levin has been our General Counsel, Vice President Legal Affairs and Corporate Secretary since July 2004. From November 1999 to June 2004, Mr. Levin was an associate in the transactions department of the Los Angeles office of O Melveny & Myers LLP. Mr. Levin received his S.B. in Economics from the Massachusetts Institute of Technology, and a J.D. from Stanford Law School.

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Our board of directors has determined that Messrs. Link, Rubinfeld, Selter and Wennekamp are independent under the current independence standards of both the Nasdaq Capital Market and the SEC, and have no material relationships with us (either directly or as a partner, shareholder or officer of any entity) which could be inconsistent with a finding of their independence as members of our board of directors or as the members of our Audit Committee. In making these determinations, our board of directors has broadly considered all relevant facts and circumstances, recognizing that material relationships can include commercial, banking, consulting, legal, accounting, and familial relationships, among others.

Our board of directors has a standing Audit Committee currently composed of Messrs. Selter, Link, Rubinfeld and Wennekamp. Our board of directors has determined that Mr. Selter, one of the independent directors serving on our Audit Committee, also is an audit committee financial expert as defined by the SEC s rules.

Section 16(a) Beneficial Ownership Reporting Compliance

Our executive officers and directors and any person who owns more than 10% of our outstanding shares of common stock are required by Section 16(a) of the Securities Exchange Act to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock and to furnish us with copies of those reports. Based solely on our review of copies of reports we have received and written representations from certain reporting persons, we believe that all Section 16(a) filing requirements applicable to our directors and executive officers and greater than 10% shareholders for 2005 were complied with.

Code of Ethics

We have adopted a Code of Ethics applicable to our principal executive officer, principal financial officer, and principal accounting officer or controller, a copy of which is filed as an exhibit to this Form 10-K.

Item 11. ***Executive Compensation***

Summary Compensation Table

The following table presents summary information concerning all compensation paid or accrued by us for services rendered in all capacities during the fiscal years ended December 31, 2005, 2004 and 2003 by Steven A. Kriegsman, our President and Chief Executive Officer, and the four other most highly compensated executive officers:

Name and Principal Position	Year	Salary	Bonus	Long-Term Compensation Securities Underlying Options (#)	All Other Compensation
Steven A. Kriegsman	2005	$399,403	$250,000	300,000(1)	$ 11,000(2)
President and Chief Executive Officer	2004	$361,173	$150,000		$ 42,617(3)
	2003	$313,772	$150,000	1,000,000(4)	
Jack R. Barber, Ph.D.	2005	$238,132	$ 50,000	150,000(1)	
Senior Vice President Drug Development	2004(5)	$112,910		$ 100,000(6)	
Mark A. Tepper, Ph.D.	2005	$214,285	$ 50,000		
Senior Vice President Drug Discovery	2004	$200,699	$ 50,000		
	2003(7)	$ 58,333	$	400,000(6)	
Matthew Natalizio	2005	$184,167	$ 50,000	150,000(1)	
Chief Financial Officer and Treasurer	2004(8)	$ 82,900	$	100,000(6)	
Benjamin S. Levin	2005	$184,167	$ 50,000	150,000(1)	
General Counsel, Vice President Legal Affairs and Corporate Secretary	2004(9)	$ 80,881	$	160,000(6)	

(1) The options shown are

subject to vesting in 36 equal monthly installments beginning on May 17, 2005, subject to the option holder s remaining in our continuous employ through such dates.

(2) The amount shown includes approximately $5,000 in insurance premiums paid by us with respect to a life insurance policy for Mr. Kriegsman with a face value of approximately $1.4 million and under which Mr. Kriegsman s designee is the beneficiary. The amount shown also includes approximately $6,000 of legal fees and expenses paid or reimbursed by us in accordance with the terms of Mr. Kriegsman s employment agreement described below under Employment Agreement with Steven A. Kriegsman.

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(3) The amount shown includes approximately $5,000 in insurance premiums paid by us with respect to the life insurance policy for Mr. Kriegsman referred to in note (2) above. The amount shown also includes approximately $37,617 of legal fees and expenses paid or reimbursed by us in accordance with the terms of Mr. Kriegsman s employment agreement described below under Employment Agreement with Steven A. Kriegsman.

(4) 250,000 of the options shown vested on each of June 20, 2003 and June 20, 2004. The remaining 500,000 of the options shown vest in twenty-four monthly installments of 1/24th each on the 20th day of each month

beginning on June 20, 2004, subject to Mr. Kriegsman s remaining in our continuous employ through such dates.

(5) Dr. Barber was hired on July 6, 2004.

(6) The options shown are subject to vesting in three annual installments of 1/3rd each on each of the first three anniversaries of the named executive officer s date of hire, subject to his remaining in our continuous employ through such dates.

(7) Dr. Tepper was hired on September 20, 2003.

(8) Mr. Natalizio was hired on July 12, 2004.

(9) Mr. Levin was hired on July 15, 2004.

Option Grants in Last Fiscal Year

The following table contains information concerning grants of stock options during the fiscal year ended December 31, 2005 to the executive officers named in the Summary Compensation Table:

Option Grants in Twelve Months Ended December 31, 2005

	Individual Grants		Potential Realizeable Value
	Number of	% of Total	at Assumed Annual Rates

Name	Shares Underlying Options Granted	Options Granted to Employees In Fiscal Year	Exercise Price	of Stock Price Appreciation for Option Term(1) 5%	10%
Steven A. Kriegsman	300,000	28.6%	$0.79	$266,300	$564,500
Jack R. Barber, Ph.D.	150,000	14.3%	$0.79	$133,200	$282,200
Mark A. Tepper, Ph.D.				$	$
Matthew Natalizio	150,000	14.3%	$0.79	$133,200	$282,200
Benjamin S. Levin	150,000	14.3%	$0.79	$133,200	$282,200

(1) The potential realizable value shown in this table represents the hypothetical gain that might be realized based on assumed 5% and 10% annual compound rates of stock price appreciation over the full option term. These prescribed rates are not intended to forecast possible future appreciation of the common stock.

Fiscal Year-End Option Values

The following table sets forth the number of options and total value of unexercised in-the-money options and warrants at December 31, 2005 for the executive officers named in the Summary Compensation Table, using the price per share of our common stock of $1.03 on December 30, 2005. During 2005, Mr. Kriegsman exercised warrants to purchase 459,352 shares of our common stock.

Name	Number of Securities Underlying Unexercised Options at December 31, 2005 (#) Exercisable	Unexercisable	Value of Unexercised In-the-Money Options at December 31, 2005 ($) Exercisable	Unexercisable
Steven A. Kriegsman	850,000	450,000	$14,000	$ 58,000
Jack R. Barber, Ph.D.	62,500	187,500	$ 7,000	$ 29,000
Mark A. Tepper, Ph.D.	266,680	133,320	$	$
Matthew Natalizio	62,500	187,500	$ 7,000	$ 29,000
Benjamin S. Levin	82,495	227,505	$ 7,000	$ 29,000

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Compensation of Directors

Periodically, our board of directors reviews our director compensation policies and, from time to time, makes changes to such policies based on various criteria the board deems relevant. During 2005, directors who were employees of our company received no compensation for their service as directors or as members of board committees.

Effective October 1, 2005, our non-employee directors receive a quarterly retainer of $2,000 ($8,000 for the Chairman of the Board), a fee of $2,000 for each board meeting attended ($750 for meetings attended by teleconference and for board actions taken by unanimous written consent) and $1,000 for each committee meeting attended. Non-employee directors who serve as the Chairman a Board committee receive an additional $1,500 for each meeting attended as the Chairman of the Nomination and Governance Committee or the Compensation Committee and an additional $2,000 for each meeting attended as the Chairman of the Audit Committee. Prior to October 2005, our non-employee directors received a quarterly retainer of $1,500, a fee of $1,500 for each board meeting attended ($750 for meetings attended by teleconference and for board actions taken by unanimous written consent) and $750 for each committee meeting attended. Non-employee directors who served as Chairman of a Board committee received an additional $500 for each meeting attended as the Chairman of the Nomination and Governance Committee or the Compensation Committee and an additional $1,000 for each meeting attended as the Chairman of the Audit Committee. We grant options to purchase 15,000 shares of common stock at an exercise price equal to the current market value of our common stock to each non-employee director annually, usually in the summer of each year. Past option grants were made subject to vesting in annual increments of 1/3rd each, subject to the director remaining as a director.

Equity Compensation Plans

The following table sets forth certain information as of December 31, 2005 regarding securities authorized for issuance under our equity compensation plans.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by our stockholders:			
1994 Stock Option Plan	30,834	$ 1.00	70,850
1995 Stock Option Plan			22,107
1998 Long-Term Incentive Plan	132,541	1.00	29,517
2000 Long-Term Incentive Plan	6,042,167	1.71	3,957,833
Equity compensation plans not approved by our stockholders:			
Outstanding warrants(1)	5,029,822	1.47	
Total:	11,235,364	$ 1.59	4,080,307

(1) Issued as compensation for various services and does not include warrants attached to common stock that were sold in private placement transactions.

Perquisites

In general, we afford our directors and executive officers no perquisites apart from the compensation and stock option benefits described above and any benefits specifically provided for under the terms of any employment agreement as described below. We do, however, bear the cost of outside counsel employed by us to assist directors and executive officers in preparing reports of changes in beneficial ownership under Section 16 of the Securities Exchange Act of 1934 and other Section 16 compliance matters. We also permit Mr. Kriegsman, our President and Chief Executive Officer, and our directors to fly first-class for business travel, which is an exception to our usual practice for business travel by our officers and employees.

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Employment Agreements; Change in Control Agreements

Employment Agreement with Steven A. Kriegsman

Mr. Kriegsman is employed as our Chief Executive Officer pursuant to an employment agreement that was amended and restated as of May 17, 2005 to continue through July 1, 2008. As an incentive to enter the amended and restated employment agreement, Mr. Kriegsman was granted as of May 17, 2005, a ten-year, nonqualified option under our 2000 Long-Term Incentive Plan to purchase 300,000 shares of our common stock at a price of $0.79 per share. The employment agreement will automatically renew in July 2008 for an additional one-year period, unless either Mr. Kriegsman or we elect not to renew it.

Under his employment agreement, Mr. Kriegsman is entitled to an annual base salary of $400,000. Our board of directors (or its Compensation Committee) will review the base salary annually and may increase (but not decrease) it in its sole discretion. In addition to his annual salary, Mr. Kriegsman is eligible to receive an annual bonus as determined by our board of directors (or its Compensation Committee) in its sole discretion, but not to be less than $150,000. Pursuant to his employment agreement with us, we have agreed that he shall serve on a full-time basis as our Chief Executive Officer and that he may continue to serve as Chairman of the Kriegsman Group only so long as necessary to complete certain current assignments.

Mr. Kriegsman is eligible to receive grants of options to purchase shares of our common stock. The number and terms of those options, including the vesting schedule, will be determined by our board of directors (or its Compensation Committee) in its sole discretion.

Under Mr. Kriegsman s employment agreement, we have agreed that, if he is made a party, or threatened to be made a party, to a suit or proceeding by reason of his service to us, we will indemnify and hold him harmless from all costs and expenses to the fullest extent permitted or authorized by our certificate of incorporation or bylaws, or any resolution of our board of directors, to the extent not inconsistent with Delaware law. We also have agreed to advance to Mr. Kriegsman such costs and expenses upon his request if he undertakes to repay such advances if it ultimately is determined that he is not entitled to indemnification with respect to the same. These employment agreement provisions are not exclusive of any other rights to indemnification to which Mr. Kriegsman may be entitled and are in addition to any rights he may have under any policy of insurance maintained by us.

In the event we terminate Mr. Kriegsman s employment without cause (as defined), or if Mr. Kriegsman terminates his employment with good reason (as defined), (i) we have agreed to pay Mr. Kriegsman a lump-sum equal to his salary and prorated minimum annual bonus through to his date of termination, plus his salary and minimum annual bonus for a period of two years after his termination date, or until the expiration of the amended and restated employment agreement, whichever is later, (ii) he will be entitled to immediate vesting of all stock options or other awards based on our equity securities, and (iii) he will also be entitled to continuation of his life insurance premium payments and continued participation in any of our health plans through to the later of the expiration of the amended and restated employment agreement or 24 months following his termination date. Mr. Kriegsman will have no obligation in such events to seek new employment or offset the severance payments to him by the Company by any compensation received from any subsequent reemployment by another employer.

Under Mr. Kriegsman s employment agreement, he and his affiliated company, The Kriegsman Group, are to provide us during the term of his employment with the first opportunity to conduct or take action with respect to any acquisition opportunity or any other potential transaction identified by them within the biotech, pharmaceutical or health care industries and that is within the scope of the business plan adopted by our board of directors.
Mr. Kriegsman s employment agreement also contains confidentiality provisions relating to our trade secrets and any other proprietary or confidential information, which provisions shall remain in effect for five years after the expiration of the employment agreement with respect to proprietary or confidential information and for so long as our trade secrets remain trade secrets.

Change in Control Agreement with Steven A. Kriegsman

Mr. Kriegsman s employment agreement contains no provision for payment to him in the event of a change in control of CytRx. If, however, a change in control (as defined in our 2000 Long-Term Incentive Plan) occurs during the term of the employment agreement, and if, during the term and within two years after the date on which the change in control occurs, Mr. Kriegsman s employment is terminated by us without cause or by him for good reason

(each as defined in his employment agreement), then, to the extent that any payment or distribution of any type by us to or for the benefit of Mr. Kriegsman resulting from the termination of his employment is or will be subject to the excise tax imposed under Section 4999 of the Internal Revenue Code of 1986, as amended, we have agreed to pay Mr. Kriegsman, prior to the time the excise tax is payable with respect to any such payment (through withholding or otherwise), an additional amount that, after the imposition of all income, employment, excise and other taxes, penalties and interest thereon, is equal to the sum of (i) the excise tax on such payments plus (ii) any penalty and interest assessments associated with such excise tax.

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Employment Agreement with Matthew Natalizio

Matthew Natalizio is employed as our Chief Financial Officer pursuant to an employment agreement that was amended and restated as of May 17, 2005, to continue through July 1, 2006. Mr. Natalizio is entitled under his amended and restated employment agreement to an annual base salary of $195,000 and is eligible to receive an annual bonus as determined by our board of directors (or its Compensation Committee) in its sole discretion. As an incentive to enter the amended and restated employment agreement, Mr. Natalizio was granted as of May 17, 2005, a ten-year, nonqualified option under our 2000 Long-Term Incentive Plan to purchase 150,000 shares of our common stock at a price of $0.79 per share. This option will vest as to 1/36th of the shares covered thereby each month after the date of the employment agreement, provided that Mr. Natalizio remains in our continuous employ.

In the event we terminate Mr. Natalizio s employment without cause (as defined), we have agreed to pay him a lump-sum equal to his accrued but unpaid salary and vacation, plus an amount equal to three months salary under his employment agreement.

Employment Agreement with Jack R. Barber, Ph.D.

Jack R. Barber, Ph.D. is employed as our Senior Vice President Drug Development pursuant to an employment agreement that was amended and restated as of May 17, 2005 to continue through July 1, 2006. Dr. Barber is entitled under his amended and restated employment agreement to an annual base salary of $250,000 and is eligible to receive an annual bonus as determined by our board of directors (or its Compensation Committee) in its sole discretion. As an incentive to enter the amended and restated employment agreement, Dr. Barber was granted as of May 17, 2005, a ten-year, nonqualified option under our 2000 Long-Term Incentive Plan to purchase 150,000 shares of our common stock at a price of $0.79 per share. This option will vest as to 1/36th of the shares covered thereby each month after the date of the employment agreement, provided that Dr. Barber remains in our continuous employ.

In the event we terminate Dr. Barber s employment without cause (as defined), we have agreed to pay him a lump-sum equal to his accrued but unpaid salary and vacation, plus an amount equal to three months salary under his employment agreement.

Employment Agreement with Mark A. Tepper, Ph.D.

Mark A. Tepper, Ph.D., is employed as our Senior Vice President Drug Discovery pursuant to an employment agreement effective as of September 17, 2005 to continue through September 17, 2006. Under his employment agreement, Dr. Tepper is entitled to an annual base salary of $250,000 and is eligible to receive an annual bonus as determined by our board of directors (or its Compensation Committee) in its sole discretion.

In the event Dr. Tepper s employment is terminated without cause (as defined), we have agreed to continue to pay Dr. Tepper his salary and other employee benefits for a period of six months following his termination.

Employment Agreement with Benjamin S. Levin

Benjamin S. Levin is employed as our Vice President Legal Affairs, General Counsel and Secretary pursuant to an employment agreement that was amended and restated as of May 17, 2005 to continue through July 1, 2006. Mr. Levin is entitled under his amended and restated employment agreement to an annual base salary of $195,000 and is eligible to receive an annual bonus as determined by our board of directors (or its Compensation Committee) in its sole discretion. As an incentive to enter the amended and restated employment agreement, Mr. Levin was granted as of May 17, 2005, a ten-year, nonqualified option under our 2000 Long-Term Incentive Plan to purchase 150,000 shares of our common stock at a price of $0.79 per share. This option will vest as to 1/36th of the shares covered thereby each month after the date of the employment agreement, provided that Mr. Levin remains in our continuous employ.

In the event we terminate Mr. Levin s employment without cause (as defined), we have agreed to pay him a lump-sum equal to his accrued but unpaid salary and vacation, plus an amount equal to three months salary under his employment agreement.

Compensation Committee Interlocks and Insider Participation in Compensation Decisions

There are no interlocks, as defined by the SEC, with respect to any member of the compensation committee. Joseph Rubinfeld, Ph.D., Marvin R. Selter and Richard L. Wennekamp are the current members of the compensation committee.

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Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

Based solely upon information made available to us, the following table sets forth information with respect to the beneficial ownership of our common stock as of March 10, 2006 by (1) each person who is known by us to beneficially own more than five percent of our common stock; (2) each director; (3) the named executive officers listed in the Summary Compensation Table under Item 11; and (4) all executive officers and directors as a group.

Beneficial ownership is determined in accordance with the SEC rules. Shares of common stock subject to any warrants or options that are presently exercisable, or exercisable within 60 days of March 10, 2006 (which are indicated by footnote) are deemed outstanding for the purpose of computing the percentage ownership of the person holding the warrants or options, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. The percentage ownership reflected in the table is based on 69,515,867 shares of our common stock outstanding as of March 10, 2006. Except as otherwise indicated, the holders listed below have sole voting and investment power with respect to all shares of common stock shown, subject to applicable community property laws. An asterisk represents beneficial ownership of less than 1%.

	Shares of Common Stock	
Name of Beneficial Owner	**Number**	**Percent**
Louis Ignarro, Ph.D.(1)	465,583	*
Steven A. Kriegsman(2)	5,050,265	7.16%
Max Link(3)	60,417	*
Joseph Rubinfeld(4)	23,667	*
Marvin R. Selter(5)	369,118	*
Richard Wennekamp(6)	16,667	*
Matthew Natalizio(7)	79,168	*
Jack R. Barber(8)	79,168	*
Mark A. Tepper(9)	266,676	*
Benjamin S. Levin(10)	99,168	*
All executive officers and directors as a group (ten persons)(11)	6,509,897	9.10%

(1) Includes 373,667 shares subject to options or warrants.

(2) Includes 1,029,165 shares subject to options or warrants. Mr. Kriegsman s address is c/o CytRx Corporation, 11726 San Vicente Boulevard, Suite 650, Los Angeles, CA

90049.

(3) Includes 31,210 shares subject to options or warrants.

(4) Includes 23,667 shares subject to options or warrants.

(5) The shares shown are owned, of record, by the Selter Family Trust or Selter IRA Rollover. Includes 11,667 shares subject to options or warrants owned by Mr. Selter.

(6) Includes 11,667 shares subject to options or warrants.

(7) Includes 79,168 shares subject to options or warrants.

(8) Includes 79,168 shares subject to options or warrants.

(9) Includes 266,676 shares subject to options or warrants.

(10) Includes 99,168 shares subject to options or warrants.

(11) Includes 2,005,223 shares subject to options or warrants.

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Item 13. ***Certain Relationships and Related Transactions***

We entered into an agreement, dated as of July 17, 2003 (and subsequently amended on October 18, 2003), with Louis Ignarro, Ph.D., one of our current directors. Pursuant to the agreement, Dr. Ignarro agreed to serve as our Chief Scientific Spokesperson to the medical and financial communities. As payment for his services, Dr. Ignarro was granted a non-qualified stock option under our 2000 Long-Term Incentive Plan to purchase 350,000 registered shares of our common stock at an exercise price equal to $1.89, the closing price for our common stock on Nasdaq on the date of grant. The option is now fully vested and has a term of seven years. Either party may terminate the agreement at any time.

Item 14. ***Principal Accountant Fees and Services***

BDO Seidman, LLP, or BDO, serves as our independent registered public accounting firm and audited our financial statements for the years ended December 31, 2003, 2004 and 2005.

Audit Fees

The aggregate fees billed for professional services rendered for the audit of our annual financial statements for the fiscal years ended December 31, 2003 and 2004 and the estimated fees for the audit for the fiscal year ended December 31, 2005 are as follows:

Year:	**BDO**
2005	$170,000
2004	$217,000
2003	$160,000

Audit Related Fees

For the fiscal year ended December 31, 2003, 2004 and 2005, BDO rendered $45,000, $0 and $14,000 of other audit-related services, which consisted of certain agreed-upon procedures performed prior to their audit of our financial statements for fiscal 2003 and work performed on the registration statement in 2005.

Tax Fees

The aggregate fees billed by BDO for professional services for tax compliance, tax advice and tax planning for the years ended December 31, 2003 and 2004 were $25,000 and $20,000, respectively. We did not engage BDO to perform any tax-related services for the year ended December 31, 2005.

All Other Fees

No other services were rendered by BDO for the years ended December 31, 2003, 2004 or 2005. Our Audit Committee has pre-approved all services (audit and non-audit) provided or to be provided to us by BDO for the years ended December 31, 2003, 2004 and 2005.

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PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) The following documents are filed as part of this 10-K:

(1) *Financial Statements*

Our consolidated financial statements and the related report of the independent registered public accounting firm thereon are set forth on pages F-1 to F-22 of this Annual Report. These consolidated financial statements are as follows:

Consolidated Balance Sheets as of December 31, 2005 (restated) and 2004

Consolidated Statements of Operations for the Years Ended December 31, 2005, 2004 and 2003

Consolidated Statements of Stockholders Equity for the Years Ended December 31, 2005 (restated), 2004 and 2003

Consolidated Statements of Cash Flows for the Years Ended December 31, 2005, 2004 and 2003

Notes to Consolidated Financial Statements

Reports of Independent Registered Public Accounting Firms

(2) *Financial Statement Schedules*

The following financial statement schedule is set forth on page F-22 of this Annual Report.

Schedule II Valuation and Qualifying Accounts for the years ended December 31, 2005, 2004 and 2003

All other schedules are omitted because they are not required, not applicable, or the information is provided in the financial statements or notes thereto.

(b) Exhibits

See Exhibit Index on page 50 of this Annual Report, which is incorporated herein by reference.

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CytRx Corporation
Form 10-K Exhibit Index

Exhibit Number		Footnote
3.1	Restated Certificate of Incorporation	(a)
3.2	Restated By-Laws	(b)
3.3	Certificate Of Amendment To Restated Certificate of Incorporation	(m)
3.4	Corrected Restated Certificate of Incorporation	(n)
3.5	Certificate of Amendment to Restated Certificate of Incorporation	(n)
3.6	Certificate of Amendment to Restated Certificate of Incorporation	(ll)
4.1	Shareholder Protection Rights Agreement dated April 16, 1997 between CytRx Corporation and American Stock Transfer &Trust Company as Rights Agent	(c)
4.2	Amendment No. 1 to Shareholder Protection Rights Agreement	(k)
4.3	Stock Restriction and Registration Rights Agreement	(o)
4.4	Warrant issued on July 20, 2002 to Corporate Consulting International Group pursuant to Consulting Engagement Letter dated July 20, 2002	(p)
4.5	Warrant issued on February 21, 2003 to Corporate Capital Group International Ltd. Inc	(r)
4.6	Form of Common Stock Purchase Warrant between CytRx Corporation and each of the investors in the May 29, 2003 private placement	(s)
4.7	Form of Common Stock Purchase Warrant between CytRx Corporation and each of the investors in the September 16, 2003 private placement	(v)
4.8	Warrant issued on May 10, 2004 to MBN Consulting, LLC	(aa)
4.9	Form of Common Stock Purchase Warrant between CytRx Corporation and each of the investors in the October 4, 2004 private placement	(dd)
4.10	Form of Common Stock Purchase Warrant between CytRx Corporation and each of the investors in the January 2005 private placement	(ee)
4.11	Form of Common Stock Purchase Warrant between CytRx Corporation and each of the investors in the March 2006 private placement	(kk)
10.1	Agreement with Emory University, as amended	(d)
10.2		(q)

	Option Agreement granting PSMA Development Company option to enter into a license agreement with CytRx Corporation dated December 23, 2002	
10.3*	Amended and Restated Employment Agreement between CytRx Corporation and Jack J. Luchese	(i)
10.4*	Amended and Restated Change of Control Employment Agreement between CytRx Corporation and Jack J. Luchese	(i)
10.5*	Amendment No. 1 to Employment Agreement with Jack J. Luchese	(k)
10.6*	Amendment No. 1 to Change in Control Employment Agreement with Jack J. Luchese	(k)
10.7*	1986 Stock Option Plan, as amended and restated	(f)
10.8*	1994 Stock Option Plan, as amended and restated	(e)
10.9*	1995 Stock Option Plan	(g)
10.10*	1998 Long-Term Incentive Plan	(h)
10.11*	2000 Long-Term Incentive Plan	(k)
10.12*	Amendment No. 1 to 2000 Long-Term Incentive Plan	(m)
10.13*	Amendment No. 2 to 2000 Long-Term Incentive Plan	(m)

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Exhibit Number		Footnote
10.14*	Amendment No. 3 to 2000 Long-Term Incentive Plan	(x)
10.15*	Amendment No. 4 to 2000 Long-Term Incentive Plan	(x)
10.16	License Agreement dated November 1, 2000 by and between CytRx Corporation and Merck & Co., Inc	(j)
10.17	License Agreement dated February 16, 2001 by and between CytRx Corporation and Ivy Animal Health, Inc	(k)
10.18	License Agreement dated December 7, 2001 by and between CytRx Corporation and Vical Incorporated	(l)
10.19*	Amended and Restated Employment Agreement dated as of May 2002 between CytRx Corporation and Steven A. Kriegsman	(p)
10.20	Extension of financial advisory agreement between CytRx Corporation and Cappello Capital Corp. dated January 1, 2002 Agreement between Kriegsman Capital Group and CytRx Corporation dated	(p)
10.21	February 11, 2002 regarding office space rental	(p)
10.22	Marketing Agreement with Madison & Wall Worldwide, Inc. dated August 14, 2002	(p)
10.23	Non-exclusive financial advisory agreement between CytRx Corporation and Sands Brothers & Co. Ltd. dated September 12, 2002	(p)
10.24	Agreement between Kriegsman Capital Group and CytRx Corporate dated January 29, 2003 regarding office space rental and shared services	(r)
10.25	Consulting Agreement, dated February 21, 2003 between CytRx Corporation and Corporate Capital Group International Ltd. Inc	(r)
10.26	Securities Purchase Agreement, dated as of May 29, 2003, between CytRx Corporation and the Purchasers identified on the signatory page thereof	(s)
10.27	Registration Rights Agreement, dated as of May 29, 2003, between CytRx Corporation and the Purchasers identified on the signature page thereof	(s)
10.28	Non-Exclusive License Agreement dated as of April 15, 2003 between University of Massachusetts Medical School and CytRx Corporation covering RNA sequence specific mediators of RNA interference	(t)
10.29	Exclusive License Agreement dated as of April 15, 2003 between University of Massachusetts Medical School and CytRx Corporation covering in vivo production of small interfering RNAs	(t)

10.30	Exclusive License Agreement dated as of April 15, 2003 between University of Massachusetts Medical School and CytRx Corporation covering inhibitation of gene expression in adipocytes using interference RNA	(t)
10.31	Exclusive License Agreement dated as of April 15, 2003 between University of Massachusetts Medical School and CytRx Corporation covering RNAi targeting of viruses	(t)
10.32	Exclusive License Agreement dated as of April 15, 2003 between University of Massachusetts Medical School and CytRx Corporation covering primary and polyvalent HIV-1 envelope glycoprotein DNA vaccines	(t)
10.33	Exclusive License Agreement dated as of April 15, 2003 between University of Massachusetts Medical School and CytRx Corporation covering gene based therapeutics for solid tumor treatments	(t)
10.34	Exclusive License Agreement dated as of April 15, 2003 between University of Massachusetts Medical School and CytRx Corporation covering selective silencing of a dominant ALS gene by RNAi	(t)
10.35	Investment Banking Agreement dated April 1, 2003 between Rockwell Asset Management Inc. and CytRx Corporation	(u)
10.36	Investment Banking Agreement dated April 3, 2003 between J.P. Turner & Company, LLC and CytRx Corporation	(u)
10.37	First Amendment to Investment Banking Agreement dated June 4, 2003 between J.P. Turner & Company, LLC and CytRx Corporation	(u)
10.38	Exclusive Financial Advisor Engagement Agreement dated May 16, 2003 between Cappello Capital Corp. and CytRx Corporation	(u)

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Exhibit Number		Footnote
10.39	Modification letter dated June 6, 2003 to Engagement Agreement between Cappello Capital Corp. and CytRx Corporation	(u)
10.40	Engagement Letter dated May 27, 2003 between Cardinal Securities, LLC and CytRx Corporation	(u)
10.41*	Second Amended and Restated Employment Agreement dated June 10, 2003 between Steven A. Kriegsman and CytRx Corporation	(u)
10.42	Financial Consulting Agreement dated May 10, 2003 between James Skalko and CytRx Corporation	(u)
10.43	Form of Securities Purchase Agreement, dated as of September 15, 2003, between CytRx Corporation and the Purchasers identified on the signatory page thereof	(v)
10.44	Form of Registration Rights Agreement, dated as of September 15, 2003, between CytRx Corporation and the Purchasers identified on the signature page thereof	(v)
10.45	Amended and Restated License Agreement dated as of September 15, 2003 between University of Massachusetts Medical School and CytRx Corporation covering inhibition of gene expression in adipocytes using interference RNA, certain data bases, the use of endoplasmic reticulum stress response pathway of adipose cells to enhance whole body insulin sensitivity, and receptor-activated reporter systems	(w)
10.46	Second Amendment to Investment Banking Agreement dated as of August 13, 2003 between J.P. Turner & Company, LLC and CytRx Corporation	(w)
10.47*	Agreement dated as of July 17, 2003 between Dr. Louis J. Ignarro and CytRx Corporation	(w)
10.48*	Employment Agreement dated as of August 1, 2003 between C. Kirk Peacock and CytRx Corporation	(w)
10.49*	Employment Agreement dated as of September 17, 2003 between Mark A. Tepper and Araios, Inc	(w)
10.50	Agreement of Settlement and Release dated August 8, 2003 among Corporate Capital Group International Ltd., Inc, Peter Simone and CytRx Corporation	(w)
10.51	Confirming letter dated September 19, 2003 to the engagement agreement dated May 16, 2003 between Cappello Capital Corp. and CytRx Corporation	(w)
10.52	Preferred Stock Purchase Agreement dated as of September 16, 2003 between Araios, Inc. and CytRx Corporation	(w)
10.53	Stockholders Agreement dated as of September 17, 2003 among Araios, Inc., Dr. Michael Czech and CytRx Corporation	(w)

10.54	Private Placement Agent Agreement dated September 15, 2003 between Dunwoody Brokerage Services, Inc. and CytRx Corporation	(w)
10.55	Private Placement Agent Agreement dated September 15, 2003 between Gilford Securities Incorporated and CytRx Corporation	(w)
10.56	Agreement dated as of September 16, 2003 between Maxim Group, LLC and CytRx Corporation	(w)
10.57	Amended and Restated Professional Services Agreement among CytRx Corporation, The Kriegsman Group and Kriegsman Capital Group, dated as of July 1, 2003	(x)
10.58	Agreement among University of Massachusetts, Advanced BioScience Laboratories, Inc and CytRx Corporation, dated as of December 3, 2003	(x)
10.59	Amended and Restated Exclusive License Agreement among University of Massachusetts Medical School, CytRx Corporation and Advanced BioScience Laboratories, Inc., dated as of December 22, 2003	(x)
10.60	Collaboration Agreement among University of Massachusetts, Advanced BioScience Laboratories, Inc. and CytRx Corporation, dated as of December 22, 2003	(x)
10.61	Sublicense Agreement between CytRx Corporation and Advanced BioScience Laboratories, Inc., dated as of December 22, 2003	(x)
10.62	Agreement between CytRx Corporation and Dr. Robert Hunter regarding SynthRx, Inc dated October 20, 2003	(x)
10.63	Office Lease between The Kriegsman Group and Douglas Emmett, dated April 13, 2000	(x)

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Exhibit Number		Footnote
10.64	Assignment to CytRx Corporation effective July 1, 2003 of Office Lease between The Kriegsman Group and Douglas Emmett, dated April 13, 2000	(x)
10.65*	Amendment dated October 18, 2003 to Agreement between Dr. Louis J. Ignarro and CytRx Corporation dated as of July 17, 2003	(x)
10.66	Consulting Agreement dated December 1, 2003 between CytRx Corporation and MBN Consulting, LLC	(x)
10.67	Office Lease between Araios, Inc. and Are-One Innovation Drive, LLC dated 11-19-03	(x)
10.68	Registration Rights Agreement, dated as of January 29, 2004, by and between CytRx Corporation and Advanced BioScience Laboratories, Inc	(y)
10.69	Consulting Agreement, dated as of February 9, 2004, between CytRx Corporation and The Investor Relations Group, Inc	(y)
10.70	Investment Banking Agreement, dated as of February , 2004, between CytRx Corporation and Gunn Allen Financial, Inc	(y)
10.71	Scientific Advisory Board Agreement, effective as of March 3, 2004, by Tariq M. Rana, Ph.D., CytRx Corporation and Araios, Inc	(y)
10.72	Scientific Advisory Board Agreement, effective as of March 3, 2004, by Craig Mello, Ph.D., CytRx Corporation and Araios, Inc	(y)
10.73	Patent License Agreement, dated May, 2004, among CytRx Corporation, Imperial College of Science and Technology and Imperial College Innovations Limited	(z)
10.74*	Mutual General Release and Severance Agreement, dated May 12, 2004, between CytRx Corporation and C. Kirk Peacock	(z)
10.75*	Mutual General Release and Severance Agreement, dated May12, 2004, between CytRx Corporation and Gregory Liberman	(z)
10.76	Settlement and Release Agreement dated May 10, 2004, by and between MBN Consulting, LLC and CytRx Corporation	(aa)
10.77	Registration Rights Agreement dated May 10, 2004, by and between MBN Consulting, LLC and CytRx Corporation	(aa)
10.78	Collaboration and Invention Disclosure Agreement dated July 8, 2004, by and between the University of Massachusetts, as represented solely by the Medical School at its Worcester campus, and CytRx Corporation	(aa)
10.79*		(aa)

	Employment Agreement dated July 6, 2004, by and between Jack Barber and CytRx Corporation	
10.80*	Employment Agreement dated July 12, 2004, by and between Matthew Natalizio and CytRx Corporation	(aa)
10.81*	Employment Agreement dated July 15, 2004, by and between Benjamin Levin and CytRx Corporation	(aa)
10.82	Mutual and General Release of All Claims effective as of May 29, 2004, by and between Madison & Wall Worldwide, Inc. and CytRx Corporation	(aa)
10.83	Registration Rights Agreement dated May , 2004, by and between Madison & Wall Worldwide, Inc. and CytRx Corporation	(aa)
10.84	Investment Banking Agreement dated September 13, 2004, by and between CytRx Corporation and J.P. Turner & Company, LLC	(bb)
10.85	Investment Banking Agreement dated September 30, 2004, by and between CytRx Corporation and Rodman & Renshaw, LLC	(cc)
10.86	Asset Sale and Purchase Agreement dated October 4, 2004, by and among CytRx Corporation, Biorex Research & Development, RT and BRX Research and Development Company Ltd	(dd)
10.87	Securities Purchase Agreement dated as of October 4, 2004 among CytRx Corporation and the Purchasers identified on the signatory page thereof	(dd)

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Exhibit Number		Footnote
10.88	Registration Rights Agreement dated as of October 4, 2004 among CytRx Corporation and the Purchasers identified on the signatory page thereof	(dd)
10.89	Securities Purchase Agreement, dated as of January 20, 2005, by and among CytRx Corporation and the Investors named therein	(ee)
10.90	Registration Rights Agreement, dated as of January 20, 2005, by and among CytRx Corporation and the Investors named therein	(ee)
10.91	Investment Banking Agreement dated January 20, 2005 between CytRx Corporation and Rodman & Renshaw, LLC	(ee)
10.91*	Employment Agreement dated April 29, 2005 between CytRx Corporation and Dr. Scott Wieland	(ff)
10.92*	Amended and Restated Employment Agreement dated May 17, 2005 between CytRx Corporation and Steven A. Kriegsman	(gg)
10.93*	Amended and Restated Employment Agreement dated May 17, 2005 between CytRx Corporation and Matthew Natalizio	(gg)
10.94*	Amended and Restated Employment Agreement dated May 17, 2005 between CytRx Corporation and Dr. Jack Barber	(gg)
10.95*	Amended and Restated Employment Agreement dated May 17, 2005 between CytRx Corporation and Benjamin S. Levin	(gg)
10.96*	Employment Agreement dated October 6, 2005 between CytRx Corporation and Dr. Mark A. Tepper	(hh)
10.97	First Amendment to Office Lease dated October 14, 2005, by and between CytRx Corporation and Douglas Emmett 1993, LLC	(ii)
10.98*	Schedule of Non-Employee Director Compensation adopted on October 24, 2005 Securities Purchase Agreement, dated as of March 2, 2006, by and among CytRx Corporation and the	(jj)
10.99	purchasers named therein	(kk)
10.100	Registration Rights Agreement, dated as of March 2, 2006, by and among CytRx Corporation and the purchasers named therein.	(kk)
10.101	Lock-Up Agreement, dated as of March 2, 2006, by and among CytRx Corporation, Steven A. Kriegsman and American Stock Transfer & Trust Company.	(kk)
10.102	Investment Banking Agreement dated February ___, 2006 between CytRx Corporation and T.R. Winston & Company LLC.	(kk)

14.1	Code of Ethics	(x)
21.1	Subsidiaries	(mm)
23.1	Consent of BDO Seidman, LLP	
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	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	(mm)
32.2	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	(mm)

* Indicates a management contract or compensatory plan or arrangement.

Confidential treatment has been requested or granted for certain portions which have been blanked out in the copy of the exhibit filed with the Securities and Exchange Commission. The omitted information has been filed separately with the Securities and Exchange Commission.

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(a) Incorporated by reference to the Registrant s Registration Statement on Form S-3 (File No. 333-39607) filed on November 5, 1997

(b) Incorporated by reference to the Registrant s Registration Statement on Form S-8 (File No. 333-37171) filed on July 21, 1997

(c) Incorporated by reference to the Registrant s Current Report on Form 8-K filed on April 21, 1997

(d) Incorporated by reference to the Registrant s Registration Statement on Form S-l (File No. 33-8390) filed on November 5, 1986

(e) Incorporated by reference to the Registrant s Quarterly Report on Form 10-Q filed on November 13, 1997

(f) Incorporated by reference to the Registrant s Annual Report on Form 10-K filed on March 27, 1996

(g) Incorporated by reference to the Registrant s Registration Statement on Form S-8 (File No. 33-93818) filed on June 22, 1995

(h) Incorporated by reference to the Registrant s Annual Report on Form 10-K filed on March 30, 1998

(i) Incorporated by reference to the Registrant s Annual Report on Form 10-K filed on March 30, 2000

(j) Incorporated by reference to the Registrant s Current Report on Form 8-K/A filed on March 16, 2001

(k) Incorporated by reference to the Registrant s Annual Report on Form 10-K filed on March 27, 2001

(l)

Incorporated by reference to the Registrant s Current Report on Form 8-K filed on December 21, 2001

(m) Incorporated by reference to the Registrant s Proxy Statement filed June 10, 2002

(n) Incorporated by reference to the Registrant s Form S-8 (File No. 333-91068) filed on June 24, 2002

(o) Incorporated by reference to the Registrant s 8-K filed on August 1, 2002

(p) Incorporated by reference to the Registrant s 10-Q filed on November 14, 2002

(q) Incorporated by reference to the Registrant s 10-K filed on March 31, 2003

(r) Incorporated by reference to the Registrant s 10-Q filed on May 15, 2003

(s) Incorporated by reference to the Registrant s 8-K

filed on May 30, 2003

(t) Incorporated by reference to the Registrant s S-3 Amendment No. 4 (File No. 333-100947) filed on August 5, 2003

(u) Incorporated by reference to the Registrant s 10-Q filed on August 14, 2003

(v) Incorporated by reference to the Registrant s 8-K filed on September 17, 2003

(w) Incorporated by reference to the Registrant s 10-Q filed on November 12, 2003

(x) Incorporated by reference to the Registrant s 10-K filed on May 14, 2004

(y) Incorporated by reference to the Registrant s 10-Q filed on May 17, 2004

(z) Incorporated by reference to the Registrant s Post-Effective Amendment No. 1 to Registration

Statement on Form S-1 to Form S-3 (Reg. No. 333-109708) filed on June 2, 2004

(aa) Incorporated by reference to the Registrant s 10-Q filed on August 16, 2004

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(bb) Incorporated by reference to the Registrant s 8-K filed on September 17, 2004

(cc) Incorporated by reference to the Registrant s 10-Q filed on November 3, 2004

(dd) Incorporated by reference to the Registrant s 8-K filed on October 5, 2004

(ee) Incorporated by reference to the Registrant s 8-K filed on January 21, 2005

(ff) Incorporated by reference to the Registrant s 8-K filed on May 4, 2005

(gg) Incorporated by reference to the Registrant s 10-Q filed on August 15, 2005

(hh) Incorporated by reference to the Registrant s 8-K filed on October 7, 2005

(ii) Incorporated by reference to the Registrant s 8-K filed on

October 20, 2005

(jj) Incorporated by reference to the Registrant s 10-Q filed on November 14, 2005

(kk) Incorporated by reference to the Registrant s 8-K filed on March 3, 2006

(ll) Incorporated by reference to the Registrant s Proxy Statement filed June 7, 2005

(mm) Previously filed.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ Steven A. Kriegsman
Steven A. Kriegsman
President and Chief Executive Officer

Date: May 19, 2006

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INDEX TO FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE

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CYTRX CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31, 2005 (restated)	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,299,390	$ 1,987,595
Short-term investments		1,011,814
Accounts Receiveable	172,860	
Prepaid compensation, current portion	27,813	604,750
Prepaid and other current assets	287,793	351,396
Total current assets	8,787,856	3,955,555
Equipment and furnishings, net	352,641	447,579
Molecular library, net	372,973	447,567
Goodwill	183,780	
Other assets:		
Prepaid and other assets	241,660	198,055
Total assets	$ 9,938,910	$ 5,048,756
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 815,626	$ 1,661,104
Accrued expenses and other current liabilities	1,639,922	1,074,146
Total current liabilities	2,455,548	2,735,250
Accrued loss on facility abandonment		206,833
Deferred gain on sale of building		65,910
Deferred revenue	275,000	275,000
Total liabilities	2,730,548	3,282,993
Minority interest		170,671
Commitments and contingencies		
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; 59,283,960 and 40,189,688 shares issued and outstanding at December 31, 2005 and 2004, respectively	59,284	40,190

Additional paid-in capital	131,790,932	110,028,327
Treasury stock, at cost (633,816 shares held, at cost, at December 31, 2005 and 2004, respectively)	(2,279,238)	(2,279,238)
Accumulated deficit	(122,362,616)	(106,194,187)
Total stockholders equity	7,208,362	1,595,092
Total liabilities and stockholders equity	$ 9,938,910	$ 5,048,756

The accompanying notes are an integral part of these consolidated balance sheets.

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CYTRX CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2005	**2004**	**2003**
Income:			
Service revenues	$ 82,860	$	$
License fees	101,500	428,164	94,000
	184,360	428,164	94,000
Expenses:			
Research and development (includes non-cash stock compensation of $219,718, $1,387,645 and $2,902,484 in 2005, 2004, and 2003 respectively)	9,087,270	6,012,903	4,387,599
In-process research and development		3,021,952	
Common stock, stock options and warrants issued for general and administrative	366,753	1,977,330	3,148,047
General and administrative	6,057,353	5,923,910	3,840,620
Depreciation and amortization	217,095	103,851	2,130
	15,728,471	17,039,946	11,378,396
Loss before other income	(15,544,111)	(16,611,782)	(11,284,396)
Other income			
Gain on lease termination	163,604		
Interest income	206,195	59,977	82,064
	(15,174,312)	(16,551,805)	(11,202,332)
Equity in losses from minority-owned entity			(6,662,031)
Minority interest in losses of subsidiary	81,452	159,616	19,763
Net loss	$ (15,092,860)	$ (16,392,189)	$ (17,844,600)
Basic and diluted loss per common share	$ (0.27)	$ (0.48)	$ (0.65)
Basic and diluted weighted average shares outstanding	56,852,402	34,325,636	27,324,794

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

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CYTRX CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Common Stock Shares Issued	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Total
Balance at December 31, 2002	22,143,927	$ 22,144	$ 82,173,839	$ (71,957,398)	$ (2,279,238)	$ 7,959,347
Issuance of common stock for research and development	1,828,359	1,828	2,550,606			2,552,434
Common stock and warrants issued in connection with private placements	7,081,025	7,081	12,485,543			12,492,624
Issuance of common stock for services	700,000	700	1,534,050			1,534,750
Issuance of stock options/warrants			1,613,297			1,613,297
Options and warrants exercised	2,638,689	2,639	1,882,125			1,884,764
Net loss				(17,844,600)		(17,844,600)
Balance at December 31, 2003	34,392,000	34,392	102,239,460	(89,801,998)	(2,279,238)	10,192,616
Common stock and warrants issued in connection with private placements	4,100,000	4,100	3,899,900			3,904,000
Issuance of common stock for services	800,000	800	1,252,950			1,253,750
Issuance of stock options/warrants			2,111,225			2,111,225
Options and warrants exercised	897,688	898	524,792			525,690
Net loss				(16,392,189)		(16,392,189)
Balance at December 31, 2004	40,189,688	40,190	110,028,327	(106,194,187)	(2,279,238)	1,595,092
Common stock and warrants issued in connection with private placements	18,084,494	18,084	19,572,362			19,590,446
Issuance of stock options/ warrants:						
For services			586,471			586,471
For minority interest			273,000			273,000
	1,009,778	1,010	255,203			256,213

Options and warrants exercised						
Deemed dividend			1,075,569	(1,075,569)		
Net loss				(15,092,860)		(15,092,860)
Balance at December 31, 2005 (restated)	59,283,960	$ 59,284	$ 131,790,932	$ (122,362,616)	$ (2,279,238)	$ 7,208,362

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

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CYTRX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2005	**2004**	**2003**
Cash flows from operating activities:			
Net loss	$ (15,092,860)	$ (16,392,189)	$ (17,844,600)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation and amortization	217,095	103,851	2,130
Equity in losses from minority-owned entity			6,662,031
Minority interest in losses of subsidiary	(81,452)	(159,616)	(19,763)
Gain on lease termination	(163,604)		
Stock option and warrant expense	366,753	1,104,730	1,613,297
Common stock issued for services		872,600	1,534,750
Non-cash research and development	219,718	1,387,645	2,902,484
Changes in assets and liabilities:			
Accounts receivable	(172,860)		
Note receivable		16,608	365,249
Prepaid and other assets	596,935	(768,433)	14,123
Accounts payable	(845,477)	922,969	658,188
Other liabilities	456,637	558,643	(181,044)
Total adjustments	593,745	4,038,997	13,551,445
Net cash used in operating activities	(14,499,115)	(12,353,192)	(4,293,155)
Cash flows from investing activities:			
Purchases of short-term investments		(961,765)	
Redemption of short-term investments	1,011,814		1,401,358
Net cash paid related to acquisition Purchases of property and equipment	(47,563)	(771,584)	(228,459)
Disposals of property and equipment, net			
Net cash (used in) provided by investing activities	964,251	(1,733,349)	1,172,899
Cash flows from financing activities:			
Net proceeds from exercise of stock options and warrants	256,213	525,690	1,884,764
Net proceeds from issuance of common stock	19,590,446	3,904,000	12,492,624
Net cash provided by financing activities	19,846,659	4,429,690	14,377,388
Net increase (decrease) in cash and cash equivalents	6,311,795	(9,656,851)	11,257,132
Cash and cash equivalents at beginning of year	1,987,595	11,644,446	387,314
Cash and cash equivalents at end of year	$ 8,299,390	$ 1,987,595	$ 11,644,446
Supplemental disclosures of non-cash investing and financing activities:			

Fair market value of options and warrants provided for goods and services	$ 586,471	$ 1,104,730	$ 1,613,297
Fair market value of common stock exchanged for minority interest in subsidiary	$ 273,000	$	$

Non-cash financing activities:

In connection with the Company s adjustment to terms of certain outstanding warrants on January 20, 2005, the Company recorded a deemed dividend of $1,075,568, which was recorded as a charge to retained earnings with a corresponding credit to additional paid-in capital.

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

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CYTRX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business

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). 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.

On October 4, 2004, CytRx acquired all of the clinical and pharmaceutical and related intellectual property assets of Biorex Research & Development, RT, or Biorex, a Hungary-based company focused on the development of novel small molecules based on molecular chaperone co-induction technology, with broad therapeutic applications in neurology, diabetes and cardiology. The acquired assets include 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.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation The consolidated financial statements include the accounts of CytRx together with those of its majority-owned subsidiaries. The accounts of the Subsidiary, less the minority interest, are included from September 17, 2003 until June 30, 2005, when the Company purchased the outstanding 5% interest in the Subsidiary (see Note 11) and the Subsidiary became wholly owned by the Company. The accounts of Global Genomics are included since July 19, 2002 (see Note 12).

Revenue Recognition Biopharmaceutical revenues consist of license fees and milestone payments from strategic alliances from pharmaceutical companies as well as contract research. Service revenues consist of government grants, and laboratory consulting.

Monies received for license fees are deferred and recognized ratably over the performance period in accordance with Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition. Milestone payments will be recognized upon achievement of the milestone as long as the milestone is deemed substantive and the Company has no other performance obligations related to the milestone and collectibility is reasonably assured, which is generally upon receipt, or recognized upon termination of the agreement and all related obligations. Unbilled costs and fees represent

revenue recognized prior to billing. Deferred revenue represents amounts received prior to revenue recognition.

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Revenues from contract research, government grants, and consulting fees are recognized over the respective contract periods as the services are performed, provided there is persuasive evidence or an arrangement, the fee is fixed or determinable and collection of the related receivable is reasonably assured. The percentage of services performed related to contract research, government grants and consulting services is based upon the ratio of the number of direct labor hours performed to date to the total hours the Company is obligated to perform under the related contract.

Cash Equivalents The Company considers all highly liquid debt instruments with an original maturity of 90 days or less to be cash equivalents. Cash equivalents consist primarily of amounts invested in money market accounts.

Investments Management determines the appropriate classification of debt securities at the time of purchase. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost. Marketable equity securities and debt securities not classified as held-to-maturity are classified as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported as a separate component of stockholders equity. Realized gains and losses are included in investment income and are determined on a first-in, first-out basis.

Fair Value of Financial Instruments The carrying amounts reported in the balance sheet for cash and cash equivalents, short-term investments, accounts receivable and accounts payable approximate their fair values.

Property and Equipment Property and equipment are stated at cost and depreciated using the straight-line method based on the estimated useful lives (generally five years for equipment and furniture) of the related assets. Whenever there is a triggering event that might suggest an impairment, management evaluates the realizability of recorded long-lived assets to determine whether their carrying values have been impaired. The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the nondiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. Any impairment loss is measured by comparing the fair value of the asset to its carrying amount.

Molecular Library The Molecular Library, a collection of chemical compounds that we believe may be developed into drug candidates, are stated at cost and depreciated over five years; the estimated useful life of the molecular library, which is less than the remaining life of the related patents. On an annual basis, or whenever there is a triggering event that might suggest an impairment, management evaluates the realizability of the molecular library to determine whether its carrying value has been impaired. The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the nondiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. Any impairment loss is measured by comparing the fair value of the asset to its carrying amount.

Patents and Patent Application Costs Although the Company believes that its patents and underlying technology have continuing value, the amount of future benefits to be derived from the patents is uncertain. Patent costs are therefore expensed as incurred.

Basic and Diluted Loss per Common Share Basic and diluted loss per common share are computed based on the weighted average number of common shares outstanding. Common share equivalents (which consist of options and warrants) are excluded from the computation of diluted loss per share since the effect would be antidilutive. Common share equivalents which could potentially dilute basic earnings per share in the future, and which were excluded from the computation of diluted loss per share, totaled approximately 24.7 million shares, 14.5 million shares and 10.1 million shares at December 31, 2005, 2004 and 2003, respectively.

Shares Reserved for Future Issuance As of December 31, 2005, the Company has reserved approximately 3.96 million of its authorized but unissued shares of common stock for future issuance pursuant to its employee stock option plans and warrants issued to consultants and investors.

Stock-based Compensation The Company accounts for stock-based compensation using the intrinsic value method in accordance with APB No. 25 (Note 14), *Accounting for Stock Issued to Employees* (APB 25). Under APB 25, when stock options are issued with an exercise price equal to the market price of the underlying stock price on the date of grant, no compensation expense is recognized. The Company continues to follow the disclosure-only provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), as amended by SFAS No. 148, which requires the disclosure of proforma net income and earnings per share as if the Company had applied the fair value

recognition provisions of SFAS 123. The following table illustrates the effect on net loss and loss per share if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation (amounts in thousands except per share data):

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	2005	(restated) 2004	2003
Net loss, as reported	$ (15,093)	$ (16,392)	$ (17,845)
Total stock-based employee compensation expense determined under fair value-based method for all awards	(1,388)	(1,415)	(1,084)
Pro forma net loss	$ (16,481)	$ (17,807)	$ (18,929)
Loss per share, as reported (basic and diluted)	$ (0.27)	$ (0.48)	$ (0.65)
Loss per share, pro forma (basic and diluted)	$ (0.29)	$ (0.52)	$ (0.69)

The fair value for the Company s options and warrants was estimated at the date of grant using a Black-Scholes option pricing model with the following assumptions:

	2005	(restated) 2004	2003
Weighted average risk free interest rate	4.10%	3.65%	2.82%
Dividend yields	0%	0%	0%
Volatility factors of the expected market price of the Company s common stock	109%	117%	99%
Weighted average years outstanding	4.8	5.8	5.1

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company s employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management s opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its warrants and employee stock options.

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.

Income Taxes Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company s financial statements or tax returns. A valuation allowance is established to reduce deferred tax assets if all, or some portion, of such assets will more than likely not be realized.

Concentrations of Credit Risk Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents, short-term investments and note receivable. The Company maintains cash and cash equivalents in large well-capitalized financial institutions and the Company s investment policy disallows investment in any debt securities rated less than investment-grade by national ratings services. The Company has not experienced any losses on its deposits of cash and cash equivalents. The Company is at risk to the extent accounts receivable and note receivable amounts become uncollectible.

Use of Estimates The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from those estimates.

Segment Information Management uses consolidated financial information in determining how to allocate resources and assess financial performance. For this reason, the Company has determined that it is principally engaged in one industry segment.

Other comprehensive income/(loss) The Company follows the provisions of Statement of Financial Accounting Standards (SFAS) No. 130, Reporting Comprehensive Income, which requires separate representation of certain transactions, which are recorded directly as components of shareholders equity. The Company has no other comprehensive income/(loss).

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3. Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), Share-Based Payment, or SFAS 123(R), which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. SFAS 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in SFAS 123(R) is similar to the approach described in Statement 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statement of operations based on their fair values. Pro forma disclosure is no longer an alternative.

SFAS 123(R) requires a company using the modified prospective transition method to recognize share-based employee costs from the beginning of the fiscal period in which the recognition provisions are first applied as if the fair value-based accounting method had been used to account for all employee awards granted, modified, or settled after the effective date and to any awards that were not fully vested as of the effective date. Measurement and attribution of compensation cost for awards that are nonvested as of the effective date of SFAS 123(R) would be based on the same estimate of the grant-date fair value and the same attribution method used previously under SFAS 123.

The Company expects the adoption of SFAS 123(R) to result in recognition of additional non-cash stock-based compensation expense which will increase net losses in amounts which likely will be considered material, although it will not impact its cash position (see Note 2).

In December 2004, the FASB issued SFAS 153 (SFAS 153), Exchanges of Nonmonetary Assets, an amendment of APB No. 29, Accounting for Nonmonetary Transactions. SFAS 153 requires exchanges of productive assets to be accounted for at fair value, rather than at carryover basis, unless (1) neither the asset received nor the asset surrendered has a fair value that is determinable within reasonable limits or (2) the transactions lack commercial substance. SFAS 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Adoption of this standard did not have a material effect on the Company s consolidated financial statements.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, Accounting Changes and Error Corrections , (SFAS 154). SFAS 154 replaces APB Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. We are required to adopt SFAS 154 in 2006. the Company s results of operations and financial condition will only be impacted by SFAS 154 if it implements changes in accounting principles that are addressed by the standard or correct accounting errors in future periods.

4. Investments

At December 31, 2005, the Company did not have any investments. At December 31, 2004, the Company held approximately $1.0 million in short-term investments. The contractual maturities of securities held at December 31, 2004 were one year or less. At December 31, 2004, the Company classified all of its investments (consisting entirely of Certificates of Deposit) as held-to-maturity. The fair market value approximated the carrying costs and gross unrealized and realized gains/losses were immaterial.

5. Restricted Assets

At December 31, 2005, the Company had $150,000 on deposit with its landlords related to its leased facilities, which were classified as other assets. At December 31, 2004 the Company held approximately $51,000 in investments (consisting entirely of Certificates of Deposit), reported in Prepaid and Other Current Assets in the accompanying consolidated balance sheets. The contractual maturities of securities held at December 31, 2004 were one year or less. At December 31, 2004, the investments were pledged as collateral for a letter of credit for the same amount issued in connection with one of the Company s lease agreements. During 2005, the letter of credit was replaced by a cash deposit for the lease on the rental property.

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6. Property and Equipment

Property and equipment at December 31, 2005 and 2004 consist of the following (in thousands):

	2005	2004
Equipment and furnishings	$ 601	$ 554
Less accumulated depreciation	(248)	(106)
Equipment and furnishings, net	353	448
Molecular library	$ 447	$ 447
Less accumulated amortization	(75)	
Molecular library, net	372	447
Property and equipment, net	$ 725	$ 895

At December 31, 2004, the molecular library had been purchased from Biorex, but was not placed in service by the Company, as the compounds were not physically received until March 2005. Therefore, no amortization of the related patents was recorded in 2004. The molecular library is being amortized over 60 months, which is less than the estimated effective life of the patents. The result will be that the Company will incur approximately $89,000 in amortization over the next four years and approximately $16,000 in 2010, the final year.

7. Accrued Expenses

Accrued expenses and other current liabilities at December 31, 2005 and 2004 are summarized below (in thousands).

	2005	2004
Deferred gain on sale of building (current portion)	$	$ 28
Accrued loss on facility abandonment (current portion)		106
Professional fees	205	359
Research and development costs	911	140
Accrued bonuses	163	181
Accrued settlement fee	253	200
Other miscellaneous	108	60
Total	$ 1,640	$ 1,074

8. Termination of the Atlanta Facility Lease

Subsequent to the Company s merger with Global Genomics in 2002, it recorded a loss of $563,000 associated with the closure of the Atlanta headquarters and its relocation to Los Angeles. This loss represented the total remaining lease obligations and estimated operating costs through the remainder of the lease term, less estimated sublease rental income and deferred rent at the time. In August 2005, the Company entered into a lease termination agreement pursuant to which it was 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 the Company realized $164,000 in other income.

9. Commitments and Contingencies

Minimum annual future obligations under operating leases, minimum annual future obligations under various license agreements and minimum annual future obligations under employment agreements consist of the following (in thousands):

	Operating Leases	License Agreements	Employment Agreements	Total
		(In thousands)		
2006	$ 507	$ 971	$ 1,264	$ 2,742
2007	389	235	887	1,511
2008	108	339	590	1,037
2009	1	339		340
2010 and thereafter	2	1,070		1,072
Total	$ 1,007	$ 2,954	$ 2,741	$ 6,702

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Under the various license agreements and sponsored research agreements with University of Massachusetts Medical School (UMMS) (see Note 17) and other institutions, CytRx will be required to make annual license maintenance payments as well as milestone payments, ranging from $11 million to $14 million per approved product, to UMMS and/or other institutions based on the development of products utilizing the licensed technology and will be required to pay royalties, based on future sales of those products, which will generally range from 3% to 7.5% of such sales, depending upon the product and the technology being utilized. In connection with the sponsored research agreements, CytRx agreed to fund certain pre-clinical research at UMMS and other institutions related to the use of CytRx s licensed technologies for the development of therapeutic products.

The Company has employment agreements with its executive officers, the terms of which expire at various times through July 2008. Certain agreements, which have been revised from time to time, provide for minimum salary levels, adjusted annually at the Compensation Committee s determination, as well as for minimum bonuses that are payable. The reported commitment for employment agreements includes, among other things, a total of $0.9 million of compensation payable to members of CytRx s Scientific Advisory Board, and a total of $1.6 million of salary and guaranteed bonuses payable to CytRx s executives.

Rent expense under operating leases during 2005, 2004 and 2003 was approximately $380,000, $364,000 and $258,000, respectively.

The Company applies the disclosure provisions of FASB Interpretation No. (FIN) 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, (FIN 45), to its agreements that contain guarantee or indemnification clauses. The Company provides (i) indemnifications of varying scope and size to certain investors and other parties for certain losses suffered or incurred by the indemnified party in connection with various types of third-party claims; and (ii) indemnifications of varying scope and size to officers and directors against third party claims arising from the services they provide to us. These indemnifications and guarantees give rise only to the disclosure provisions of FIN 45. To date, the Company has not incurred material costs as a result of these obligations and does not expect to incur material costs in the future. Accordingly, the Company has not accrued any liabilities in its consolidated financial statements related to these indemnifications or guarantees.

10. Private Placements of Common Stock

In January 2005, the Company entered into a Stock Purchase Agreement with a group of institutional and other investors (the January 2005 Investors). The January 2005 Investors purchased, for an aggregate purchase price of $21.3 million, 17,334,494 shares of the Company s common stock and warrants to purchase an additional 8,667,247 shares of the Company s common stock, at $2.00 per share, expiring in 2010. After consideration of offering expenses, net proceeds to the Company were approximately $19.4 million. The shares and the shares underlying the warrants issued to the January 2005 Investors were subsequently registered. In addition, the Company issued approximately $158,000 worth of common stock in February 2005.

In October 2004, the Company entered into a Stock Purchase Agreement with a group of institutional and other investors (the October 2004 Investors). The October 2004 Investors purchased, for an aggregate purchase price of $4.0 million, 4,000,000 shares of the Company s common stock and warrants to purchase an additional 3,080,000 shares of the Company s common stock, at $1.69 per share, expiring in 2009. After consideration of offering expenses, net proceeds to the Company were approximately $3.7 million. The shares and the shares underlying the warrants issued to the October 2004 Investors were subsequently registered. In addition, the Company issued approximately $204,000 worth of common stock in January 2004.

In September 2003, the Company entered into a Stock Purchase Agreement with a group of institutional and other investors (the September 2003 Investors). The September 2003 Investors purchased, for an aggregate purchase price of $8.7 million, 4,140,486 shares of the Company s common stock and warrants to purchase an additional 1,035,125 shares of the Company s common stock, at $3.05 per share, expiring in 2008. After consideration of offering expenses, net proceeds to the Company were approximately $7.7 million. The shares and the shares underlying the warrants issued to the September 2003 Investors were subsequently registered.

In May 2003, the Company entered into a Stock Purchase Agreement with a group of institutional investors (the May 2003 Investors). The May 2003 Investors purchased, for an aggregate purchase price of $5.4 million , 2,940,539 shares of the Company s common stock and warrants to purchase an additional 735,136 shares of the Company s

common stock, at $3.05 per share, expiring in 2008. After consideration of offering expenses, net proceeds to the Company were approximately $4.8 million. The shares and the shares underlying the warrants issued to the May 2003 Investors were subsequently registered.

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11. Investment in Subsidiary

On June 30, 2005, the Company issued 650,000 shares of its common stock to Dr. Michael Czech as part of a transaction in which the Company purchased Dr. Czech s 5% interest in the Subsidiary, which, as a result of the purchase, became a wholly-owned subsidiary of CytRx. The Subsidiary was subsequently merged with and into the Company on September 30, 2005. The purchase of Dr. Czech s interest in the Subsidiary was consummated pursuant to the terms of the Stockholders Agreement dated September 17, 2003, by and among CytRx, the Subsidiary and Dr. Czech, 300,000 of the shares of CytRx common stock issued to Dr. Czech were unrestricted and in exchange for his 5% interest in the Subsidiary. That stock is valued at $0.91 per share, the then fair value of the common stock, for financial statement purposes. The non-cash transaction was accounted for using purchase accounting, and resulted in $184,000 of goodwill for financial statement purposes, which represents the difference between the market value of the 300,000 unrestricted shares issued to Dr. Czech and the fair value of the minority interest at June 30, 2005.

12. Merger with Global Genomics

In July 2002, CytRx acquired Global Genomics, a privately-held genomics holding company, through a merger of GGC Merger Corporation, a wholly-owned subsidiary of CytRx, into Global Genomics. Global Genomics is a genomics holding company that at the time of the merger owned a 40% ownership interest in Blizzard and a 5% ownership interest in Psynomics. CytRx s primary reasons for the acquisition were to (a) expand its business into the genomics field to diversify its product and technology base, and (b) gain the management and directors of Global Genomics, who could assist CytRx in developing corporate partnerships and acquisition, investment and financing opportunities not previously available to CytRx.

Equity in Losses of Blizzard. The Company recorded its portion of the losses of Blizzard using the equity method. The equity in losses of Blizzard and the amortization of the acquired developed technology are reported as a separate line item in the accompanying consolidated statement of operations.

Impairment Test of Intangible Assets. In accordance with the provisions of Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock (APB 18), the Company reviewed the net values on its balance sheet as of September 30, 2003 assigned to Investment in Minority Owned Entity Acquired Developed Technology resulting from its acquisition of Global Genomics. CytRx s analysis consisted of a review of current financial projections prepared by Blizzard, application of a discounted cash flow valuation model of Blizzard s projected cash flows, and consideration of other qualitative factors. Based upon the quantitative and qualitative factors described above and in addition to others, CytRx s management determined its investment in Blizzard had no value, and that an impairment charge of $5,868,000 was necessary in 2003.

As of December 31, 2003, the following assets related to Blizzard were reflected in CytRx s balance sheets:

Investment in minority owned entity acquired developed technology	$ 7,309,250
Receivable from Blizzard	16,640
Less: Accumulated amortization	(883,311)
Less: Equity-method losses to date	(574,381)
Less: Impairment charge	(5,868,198)
	$

13. Severance Payments to Officers

In accordance with a Mutual General Release and Severance Agreement in May 2004, the Company paid the Company s former General Counsel, $52,000 and 12 months of related benefits, and immediately vested options to purchase 87,500 shares of its common stock that were granted upon the commencement of his employment. In accordance with a Mutual General Release and Severance Agreement in May 2004, the Company paid the Company s former Chief Financial Officer, $150,000 and 18 months of related benefits, and immediately vested options to purchase 105,000 shares of its common stock that were granted upon the commencement of his employment.

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14. Stock Options and Warrants

CytRx has stock option plans pursuant to which certain key employees, directors and consultants are eligible to receive incentive and/or nonqualified stock options to purchase shares of CytRx s common stock. Fixed options granted under the plans generally become exercisable over a three-year period from the dates of grant and have lives of ten years. The Company may also grant stock options and/or warrants to its Chief Executive Officer and other executive officers containing alternative or additional vesting provisions based on the achievement of corporate objectives. Exercise prices of all stock options and warrants for employees and directors are set at the fair market values of the common stock on the dates of grant.

In connection with the Company s private equity financing that was consummated on January 20, 2005, 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 antidilution 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. Consistent with 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*, the Company accounted for the antidilution adjustments as a deemed dividend, which was recorded as an approximate $1.1 million charge to retained earnings and a corresponding credit to additional paid-in capital.

In connection with the Company s acquisition of Global Genomics in July 2002 (see Note 12), CytRx issued 1,014,677 warrants to the holders of Global Genomics warrants in return for the cancellation of all of their outstanding Global Genomics warrants. The new warrants were 100% vested upon their issuance, have an exercise price of $0.01 per share and expire on January 31, 2007. Additionally, the acquisition of Global Genomics triggered the Change of Control provisions contained in the Company s stock option plans and in the warrants held by the Company s Former CEO, resulting in the immediate vesting of all outstanding warrants held by the Former CEO and of all outstanding stock options issued pursuant to the Company s various stock options plans.

We recorded approximately $586,000, $1.1 million and $1.6 million of non-cash charges related to the issuance of stock options and warrants to certain consultants in exchange for services during 2005, 2004 and 2003, respectively.

A summary of the Company s stock option and warrant activity and related information for the years ended December 31 is shown below.

	Stock Options			Weighted Average Exercise Price		
	2005	2004	2003	2005	2004	2003
Outstanding beginning of year	4,741,042	2,778,042	1,194,038	$ 1.93	$ 2.08	$ 1.10
Granted	1,516,500	2,318,000	2,463,000	0.95	1.73	2.26
Exercised	(17,000)	(55,000)	(817,484)	0.92	0.89	0.71
Forfeited	(38,000)	(285,000)	(50,000)	1.52	2.00	1.00
Expired		(15,000)	(11,512)		3.16	1.00
Outstanding end of year	6,202,542	4,741,042	2,778,042	1.69	1.93	2.08
Exercisable at end of year	3,438,157	2,136,898	650,816	$ 1.89	$ 1.94	$ 1.69
Weighted average fair value of stock options granted during the year:	$ 0.95	$ 1.73	$ 2.26			

	Warrants			Weighted Average Exercise Price		
	2005	**2004**	**2003**	**2005**	**2004**	**2003**
Outstanding beginning of year	9,735,416	7,352,077	5,432,787	$ 1.64	$ 1.61	$ 1.10
Granted	10,267,887	3,884,778	5,611,917	1.96	1.58	1.81
Exercised	(1,294,354)	(976,439)	(2,083,397)	0.55	0.74	0.81
Forfeited		(500,000)	(825,000)		2.25	0.32
Expired	(200,000)	(25,000)	(784,230)	1.00	0.80	2.32
Outstanding end of year	18,508,949	9,735,416	7,352,077	1.94	1.64	1.61
Exercisable at end of year	18,508,949	9,735,416	6,752,070	$ 1.94	$ 1.58	$ 1.57
Weighted average fair value of warrants granted during the year:	$ 2.00	$ 1.36	$ 1.81			

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The following table summarizes additional information concerning stock options and warrants outstanding and exercisable at December 31, 2005:

	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of Shares Exercisable	Weighted Average Exercise Price
$0.25 - 1.05	1,307,043	7.5	$ 0.82	401,099	$ 0.84
1.06 - 1.79	918,000	6.8	1.27	350,868	1.27
1.80 - 2.63	3,980,499	7.5	2.08	2,686,191	2.11
	6,205,542	7.4	$ 1.69	3,438,158	$ 1.88

	Warrants Outstanding			Warrants Exercisable	
Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of Shares Exercisable	Weighted Average Exercise Price
$0.20 - 1.05	1,319,367	3.3	$ 0.68	1,319,367	$ 0.68
1.06 - 1.79	4,341,803	1.6	1.57	4,341,803	1.57
1.80 - 2.67	10,735,282	2.0	2.00	10,735,282	2.00
2.68 - 2.73	2,112,497	2.7	2.73	2,112,497	2.73
	18,508,949	2.1	$ 1.89	18,508,949	$ 1.89

15. Stockholder Protection Rights Plan

Effective April 16, 1997, the Company s Board of Directors declared a distribution of one right (Rights) for each outstanding share of the Company s common stock to stockholders of record at the close of business on May 15, 1997 and for each share of common stock issued by the Company thereafter and prior to a Flip-in Date (as defined below). Each Right entitles the registered holder to purchase from the Company one-ten thousandth (1/10,000th) of a share of Series A Junior Participating Preferred Stock, at an exercise price of $30. The Rights are generally not exercisable until 10 business days after an announcement by the Company that a person or group of affiliated persons (an Acquiring Person) has acquired beneficial ownership of 15% or more of the Company s then outstanding shares of common stock (a Flip-in Date). In connection with the merger agreement with Global Genomics, the Company s Board of Directors amended the stockholders protection rights agreement to exempt the merger from triggering a Flip-in Date.

In the event the Rights become exercisable as a result of the acquisition of shares, each Right will enable the owner, other than the Acquiring Person, to purchase at the Right s then-current exercise price a number of shares of common stock with a market value equal to twice the exercise price. In addition, unless the Acquiring Person owns more than 50% of the outstanding shares of common stock, the Board of Directors may elect to exchange all outstanding Rights (other than those owned by such Acquiring Person) at an exchange ratio of one share of common

stock per Right. All Rights that are owned by any person on or after the date such person becomes an Acquiring Person will be null and void.

The Rights have been distributed to protect the Company s stockholders from coercive or abusive takeover tactics and to give the Board of Directors more negotiating leverage in dealing with prospective acquirors.

16. Income Taxes

For income tax purposes, CytRx and its subsidiaries have an aggregate of approximately $35.6 million of net operating losses available to offset against future taxable income, subject to certain limitations. Such losses expire in 2006 through 2025 as of December 31, 2005. CytRx also has an aggregate of approximately $6.4 million of research and development and orphan drug credits available for offset against future income taxes that expire in 2006 through 2025. The amount of net operating loss carryforwards and research tax credits available to reduce income taxes in any particular year may be limited in certain circumstances. Based on an assessment of all available evidence including, but not limited to, the Company s limited operating history in its core business and lack of profitability, uncertainties of the commercial viability of its technology, the impact of government regulation and healthcare reform initiatives, and other risks normally associated with biotechnology companies, the Company has concluded that it is more likely than not that these net operating loss carryforwards and credits will not be realized and, as a result, a 100% deferred tax valuation allowance has been recorded against these assets.

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Deferred income taxes reflect the net effect of temporary differences between the financial reporting carrying amounts of assets and liabilities and income tax carrying amounts of assets and liabilities. The components of the Company s deferred tax assets and liabilities, all of which are long-term, are as follows (in thousands):

	December 31,	
	2005	2004
Deferred tax assets:		
Net operating loss carryforward	$ 35,607	$ 30,231
Tax credit carryforward	6,443	6,363
Property and equipment and capital losses	4,476	4,559
Total deferred tax assets	46,526	41,153
Deferred tax liabilities Depreciation and other	(2,730)	(2,665)
Net deferred tax assets	43,796	38,488
Valuation allowance	(43,796)	(38,488)
	$	$

Based on assessments of all available evidence as of December 31, 2005 and 2004, management has concluded that the respective deferred income tax assets should be reduced by valuation allowances equal to the amounts of the net deferred income tax assets since it is management s conclusion that it is more likely than not that the deferred tax assets will not be realized. Furthermore, it is likely the July 19, 2002 acquisition of Global Genomics, and the Company s subsequent private investment in public equity transactions, caused a change of ownership as defined by Internal Revenue Code Section 382 which may substantially limit the ability of the Company to utilize net operating losses incurred prior to the dates of those transactions. Generally, the net operating losses will be limited to an annual utilization of approximately 4.9% of the purchase price of Global Genomics.

For all years presented, the Company did not recognize any deferred tax assets or liabilities and deferred tax provision or benefit.

The provision for income taxes differs from the provision computed by applying the Federal statutory rate to net loss before income taxes as follows (in thousands):

	December 31,		
	2005	2004	2003
Federal benefit at statutory rate	$ (5,128)	$ (5,570)	$ (6,066)
State income taxes, net of Federal taxes	(603)	(655)	(1,070)
Permanent differences	736	1,103	1,200
Provision (benefit) related to change in valuation allowance	5,308	5,122	7,414
Other	(313)		(1,478)
	$	$	$

17. License Agreements

University of Massachusetts Medical School(UMMS) In April 2003, CytRx acquired the rights to new technologies by entering into exclusive license arrangements with the UMMS covering potential applications of the medical institution s proprietary gene silencing technology in the treatment of specified diseases, including those within the areas of obesity and type 2 diabetes, and amyotrophic lateral sclerosis, commonly known as Lou Gehrig s disease (ALS), human cytomegalovirus, and covering UMMS s proprietary technology with potential gene therapy applications within the area of cancer. In consideration of the licenses, CytRx made cash payments to UMMS totaling

approximately $186,000 and issued it a total of 1,613,258 shares of CytRx common stock, which were valued for financial statement purposes at approximately $1,468,000, the then fair value of the common stock. In May 2003, CytRx broadened its strategic alliance with UMMS by acquiring an exclusive license from that institution covering a proprietary DNA-based HIV vaccine technology. In consideration of this license, CytRx made cash payments to UMMS totaling approximately $18,000 and issued it 215,101 shares of CytRx common stock, which were valued for financial statement purposes at approximately $361,000. In July 2004, CytRx further expanded its strategic alliance with UMMS by entering into a collaboration and invention disclosure agreement with UMMS under which UMMS will disclose to CytRx 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 CytRx 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 of December 31, 2005, CytRx has not acquired or made any payments to acquire any options under that Collaboration Agreement.

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In May 2004, CytRx licensed from the technology transfer company of the Imperial College of Science, Technology & Medicine, or Imperial College, the exclusive rights to intellectual property covering a drug screening method using RIP 140, which is a nuclear hormone co-repressor that is believed to regulate fat accumulation. In consideration of the license, CytRx made cash payments to Imperial College totaling $87,000 and issued it a total of 75,000 shares of CytRx common stock which were valued, for financial statement purposes, at $108,000. As the drug screening technology from Imperial College and the RNAi technology from UMMS had not achieved technological feasibility at the time of their license by CytRx, had no alternative future uses and, therefore, no separate economic value, the total value of all cash payments and stock issued for acquisition of the technology was expensed as research and development in our financial statements.

18. Quarterly Financial Data (unaudited)

Summarized quarterly financial data for 2005 and 2004 is as follows (in thousands, except per share data):

	Quarter Ended			
	March 31	June 30	September 30	December 31
	(In thousands, except per share data)			
2005				
Total revenues	$ 2	$	$ 10	$ 173
Net loss	(3,527)	(4,509)	(3,492)	(3,565)
Basic and diluted loss per common share:				
Net loss	$ (0.07)	$ (0.08)	$ (0.06)	$ (0.06)
2004				
Total revenues	$ 100	$ 228	$	$ 100
Net loss	(3,774)	(4,061)	(2,796)	(5,761)
Basic and diluted loss per common share:				
Net loss	$ (0.11)	$ (0.12)	$ (0.08)	$ (0.15)

Quarterly and year to date loss per share amounts are computed independently of each other. Therefore, the sum of the per share amounts for the quarters may not agree to the per share amounts for the year.

19. Related Party Transactions

Dr. Michael Czech, who was until June 30, 2005 a 5% minority shareholder of the Company s prior subsidiary, CytRx Laboratories, and who is a member of the Company s Scientific Advisory Board, is an employee of UMMS and is the principal investigator for a sponsored research agreement between the Company and UMMS. During each of 2005 and 2004, Dr. Czech was paid $80,000 for his Scientific Advisory Board services. In addition, during 2005 and 2004, the Company paid UMMS $1,410,000 and $403,000, respectively, under a sponsored research agreement to fund a portion of Dr. Czech s research.

20. Subsequent Event

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
CytRx Corporation
Los Angeles, California

We have audited the accompanying consolidated balance sheets of CytRx Corporation and subsidiaries as of December 31, 2005 (restated) and 2004 and the related consolidated statements of operations, stockholders equity (restated) and cash flow for the three years in the period ended December 31, 2005. We have also audited the schedule listed in the accompanying index on page F-1. These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal controls over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CytRx Corporation and subsidiaries as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ BDO Seidman, LLP
BDO Seidman, LLP
Los Angeles, California

March 15, 2006, except for notes 2 and 24,
which are as of May 20, 2006

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CYTRX CORPORATION
SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 2005, 2004 and 2003

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Additions Charged to Other Accounts	Deductions	Balance at End of Period
Reserve Deducted in the Balance Sheet from the Asset to Which it Applies:					
Allowance for Bad Debts					
Year ended December 31, 2005	$	$	$	$	$
Year ended December 31, 2004	$	$	$	$	$
Year ended December 31, 2003		4,939	16,640	21,579	
Allowance for Deferred Tax Assets					
Year ended December 31, 2005	$38,488,000	$	$5,308,000	$	$43,796,000
Year ended December 31, 2004	36,478,000	$	$2,008,000	$	$38,488,000
Year ended December 31, 2003	29,064,000		7,414,000	$	36,478,000