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

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

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from _____to _____

Commission file number 0-15327

CYTRX CORPORATION

(Exact name of Registrant as specified in its charter)

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

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

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

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

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

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

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

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EXPLANATORY NOTE

CytRx Corporation (the Company) is amending in certain respects its Quarterly Report on Form 10-Q for the quarter year ended September 30, 2006, which we sometimes refer to in this amendment as our original Form 10-Q. The purpose of this amendment is to restate our condensed consolidated financial statements for the quarter ended September 30, 2006 as described below.

The restatement of our condensed consolidated financial statements is related to a reclassification of certain expenses related to the operations of our Massachusetts laboratory. The restatement also includes a correction of the accounting for historical anti-dilution adjustments in certain of our outstanding warrants in the quarters ended September 30, 2006 and 2005, respectively.

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

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

Part I Item 1. Financial Statements (unaudited)

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

Part I Item 4. Controls and Procedures

Part II Item 6. Exhibits

Exhibit 31.1 Certification of Chief Executive Officer

Exhibit 31.2 Certification of Chief Financial Officer

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

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Part I FINANCIAL INFORMATION

Item 1. Financial Statements

CYTRX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 33,709,677	$ 8,299,390
Accounts receivable		172,860
Prepaid compensation, current portion		27,813
Prepaid and other current assets	357,449	287,793
Total current assets	34,067,126	8,787,856
Equipment and furnishings, net	309,914	352,641
Molecular library, net	305,838	372,973
Prepaid insurance and other assets	395,994	425,440
Total assets	$ 35,078,872	$ 9,938,910
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 762,287	$ 815,626
Accrued expenses and other current liabilities	1,833,298	1,639,922
Total current liabilities	2,595,585	2,455,548
Deferred revenue	23,831,408	275,000
Total liabilities	26,426,993	2,730,548
Stockholders equity:		
Preferred Stock, $.01 par value, 5,000,000 shares authorized, including 5,000 shares of Series A Junior Participating Preferred Stock; no shares issued and outstanding		
Common stock, $.001 par value, 125,000,000 shares authorized; 70,618,000 and 59,284,000 shares issued at September 30, 2006 and December 31, 2005, respectively	70,618	59,284
Additional paid-in capital	146,315,401	131,790,932
Treasury stock, at cost (633,816 shares held at September 30, 2006 and December 31, 2005, respectively)	(2,279,238)	(2,279,238)
Accumulated deficit	(135,454,902)	(122,362,616)
Total stockholders equity	8,651,879	7,208,362
Total liabilities and stockholders equity	$ 35,078,872	$ 9,938,910

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

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CYTRX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine-Months Ended September 30,	
	2006 (restated)	**2005**	**2006** (restated)	**2005** (restated)
Revenue:				
Service revenue	$ 775,000	$ 10,000	$ 835,831	$ 10,000
License fees	1,000		1,000	1,500
	776,000	10,000	836,831	11,500
Expenses:				
Research and development (includes $92,000 and $197,000 of non-cash stock-based compensation given to consultants for the three and nine-month periods ended September 30, 2006 and $32,000 and $122,000 of non-cash stock-based compensation given to consultants for the three and nine-month periods ended September 30, 2005, respectively)	1,564,126	1,990,963	6,834,066	6,820,952
Depreciation and amortization	53,243	58,074	192,184	158,486
General and administrative (includes $0 and $32,000 of non-cash stock-based compensation given to consultants for the three and nine-month periods ended September 30, 2006 and $26,000 and $342,000 of non-cash stock-based compensation given to consultants for the three and nine-month periods ended September 30, 2005)	1,907,827	1,493,853	5,779,533	4,765,759
Expense related to employee stock options	379,011		1,075,389	
	3,904,207	3,542,890	13,881,172	11,745,197
Loss before other income	(3,128,207)	(3,532,890)	(13,044,341)	(11,733,697)
Other income:				
Interest and dividend income	296,086	40,420	580,483	124,150
Minority interest in losses of subsidiary				81,452
Net loss before income taxes	(2,832,121)	(3,532,890)	(12,463,858)	(11,733,697)
Provision for income taxes	(140,000)		(140,000)	
Net loss	$ (2,972,121)	$ (3,492,470)	$ (12,603,858)	$ (11,528,095)

Deemed dividend for anti-dilution adjustments made to outstanding common stock warrants			(488,429)	(1,075,568)
Net loss applicable to common stockholders	$ (2,972,121)	$ (3,492,470)	$ (13,092,287)	$ (12,603,663)
Basic and diluted loss per share, as originally stated	$ (0.04)	$ (0.06)	$ (0.19)	$ (0.20)
Basic and diluted loss per share, as restated	$ (0.04)	$ (0.06)	$ (0.19)	$ (0.22)
Weighted average shares outstanding	67,421,958	58,190,792	67,463,477	56,367,717

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

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CYTRX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine-Months Ended September 30,	
	2006	**2005**
Cash flows from operating activities:		
Net loss	$ (12,603,858)	$ (11,528,095)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	192,184	158,486
Minority interest in losses of subsidiary		(81,452)
Gain on Atlanta lease termination		(163,000)
Common stock, stock options and warrants issued for services	228,432	485,230
Expense related to employee stock options	1,075,389	
Net change in operating assets and liabilities	23,856,908	(461,594)
Total adjustments	25,352,913	(62,330)
Net cash provided/(used) in operating activities	12,749,055	(11,590,425)
Cash flows from investing activities:		
Purchases of property and equipment	(82,322)	(38,740)
Net cash used in investing activities	(82,322)	(38,740)
Cash flows from financing activities:		
Net proceeds from exercise of stock options and warrants	339,194	251,619
Net proceeds from issuances of common stock	12,404,360	19,590,446
Net cash provided by financing activities	12,743,554	19,842,065
Net increase in cash and cash equivalents	25,410,287	8,212,900
Cash and cash equivalents at beginning of period	8,299,390	2,999,409
Cash and cash equivalents at end of period	$ 33,709,677	$ 11,212,309

Non-Cash Financing Activities:

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

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

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CYTRX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2006
(Unaudited)

1. Description of Company and Basis of Presentation

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

In 2004, the Company began a development program based on molecular chaperone co-induction technology through the acquisition of novel small molecules with broad therapeutic applications in neurology, type 2 diabetes, cardiology and diabetic complications. The acquired assets included three oral, clinical stage drug candidates and a library of 500 small molecule drug candidates. In September 2006, the Company announced results of its Phase IIa clinical testing of its lead small molecule product candidate arimoclomol for the treatment of ALS, reporting that arimoclomol had met the trial s primary endpoints of safety and tolerability at all three doses tested, and that the trial results indicated a non-statistically-significant trend of improvement in functional capacity as measured by the Revised ALS Functional Ration Scale in the arimoclomol high dose group as compared with untreated patients. 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 a sale of a royalty interest in arimoclomol 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 through the fourth quarter of 2008. 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.

In August 2006, the Company received approximately $24.5 million in marketable securities (which were sold by the Company for approximately $24.3 million in cash) from the privately-funded ALS Charitable Remainder Trust (ALSCT) in exchange for the commitment to continue research and development of arimoclomol and other potential treatments for ALS and a one percent royalty in the worldwide sales of arimoclomol. Under the arrangement, the Company retains the rights to any developments funded by the arrangement and the proceeds of

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the transaction are non-refundable. Further, the ALS Charitable Remainder Trust has no obligation to provide any further funding to the Company. Management has analyzed the transaction and concluded that due to the research and development components of the transaction that it is properly accounted for under SFAS No. 68, *Research and Development Arrangements* (SFAS No. 68). Accordingly, the Company has recorded the value received under the arrangement as deferred service revenue and will recognize service revenue using the proportional performance method of revenue recognition, meaning that service revenue is recognized as a percentage of actual research and development expense. As of September 30, 2006, the Company recognized approximately $775,000 of service revenue related to this transaction.

The accompanying condensed consolidated financial statements at September 30, 2006 and for the three and nine-month periods ended September 30, 2006 and 2005 are unaudited, but include all adjustments, consisting of normal recurring entries, which the Company s management believes to be necessary for a fair presentation of the periods presented. Interim results are not necessarily indicative of results for a full year. Balance sheet amounts as of December 31, 2005 have been derived from our audited financial statements as of that date.

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

The accompanying condensed financial statements have been restated to reflect a reclassification of certain expenses related to the operations of the Company s Massachusetts laboratory and a correction of the accounting for the Company s historical anti-dilution adjustments in certain of its outstanding warrants. The statement of operations was restated to include deemed dividends of $1,075,568 and $488,429 in the first quarters of 2005 and 2006, respectively, in arriving at the net loss applicable to common stockholders of $12,603,663 and $13,092,287 for the nine-month periods ended September 30, 2005 and 2006, respectively. The restated net loss applicable to common stockholders resulted in an increase in net loss per share from $0.20 to $0.22 for the nine-month period ended September 30, 2005, but did not change the net loss per share of $0.19 for the same period in 2006. The statement of operations was also restated to reflect $434,599 and $1,316,721 of expenses that were reclassified from general and administrative expense to research and development expense for the three and nine-month periods ended September 30, 2006, respectively.

2. Recent Accounting Pronouncements

On July 13, 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109 (FIN No. 48), to create a single model to address accounting for uncertainty in tax positions. FIN No. 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold in which a tax position be reached before financial statement recognition. FIN No. 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN No. 48 as of January 1, 2007, as required. While the Company has not yet completed its analysis, we do not expect that the adoption of FIN No. 48 will have a significant impact on the Company s financial position and results of operations.

On September 15, 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company does not expect SFAS No. 157 will have a significant impact on the Company s consolidated financial statements.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both the balance sheet and income statement approach when quantifying a misstatement. SAB 108 is effective for the Company s fiscal year ending December 31, 2006. The Company is currently evaluating the impact of SAB 108 on the Company s consolidated financial statements.

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3. Loss Per Share

Basic net loss per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net loss per share is computed using the weighted-average number of common shares and dilutive potential common shares outstanding during the period. Dilutive potential common shares primarily consist of employee stock options and restricted common stock. Common share equivalents which potentially could dilute basic loss per share in the future, and which were excluded from the computation of diluted loss per share, as the effect would be anti-dilutive, totaled approximately 29.5 million and 25.0 million shares at September 30, 2006 and 2005, respectively.

Statement of Financial Accounting Standards No. 128, Earnings per Share (SFAS 128) requires that employee equity share options, nonvested shares and similar equity instruments granted by the Company be treated as potential common shares outstanding in computing diluted loss per share. As the Company recorded losses for the three and nine-month periods ended September 30, 2006 and 2005, all employee equity share options, non-vested shares and similar equity instruments would be anti-dilutive. In the event the Company becomes profitable, diluted shares outstanding will include the dilutive effect of in-the-money options which are calculated based on the average share price for each fiscal period using the treasury stock method. Under the treasury stock method, the amount the employee must pay for exercising stock options, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of benefits that would be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares.

In connection with our adjustment to the exercise terms of certain outstanding warrants to purchase common stock on March 2, 2006 and January 20, 2005, we recorded deemed dividends of $488,000 and $1.1 million, respectively. These deemed dividends are reflected as an adjustment to net loss for the nine-month periods ended September 30, 2006 and 2005, respectively, to arrive at net loss applicable to common stockholders on the condensed consolidated statement of operations and for purposes of calculating basic and diluted loss per share.

4. Stock Based Compensation

As of September 30, 2006, an aggregate of 10,000,000 shares of common stock were reserved for issuance under the Company s 2000 Stock Option Incentive Plan, including 6,831,000 shares subject to outstanding stock options and 2,806,000 shares available for future grant. Additionally, the Company has two other plans, the 1994 Stock Option Plan and the 1998 Long Term Incentive Plan, which include 31,000 and 100,000 shares subject to outstanding stock options. As the terms of our plans provide that no options may be issued after 10 years, no options are available under the 1994 Plan. Under the 1998 Long Term Incentive Plan, 40,000 shares are available for future grant. Options granted under these plans generally vest and become exercisable as to 33% of the option grants on each anniversary of the grant date until fully vested. The options will expire, unless previously exercised, not later than ten years from the grant date.

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

Effective January 1, 2006, the Company adopted the fair value recognition provision of SFAS 123(R) using the modified- prospective method. Under this method, compensation for all share based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original

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provisions of SFAS 123(R), Accounting for Stock-based Compensation (123(R)), and compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R), is recognized as an expense in the first nine-months of 2006. Such amounts have been reduced by the Company s estimate of forfeitures of all unvested awards. Results for prior periods have not been restated to retrospectively apply SFAS No. 123(R).

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

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

Deferred compensation for non-employee option grants that do not vest immediately upon grant are recorded as an expense over the vesting period of the underlying stock options, using the method prescribed by FASB Interpretation 28. At the end of each financial reporting period prior to vesting, the value of these options, as calculated using the Black Sholes option pricing model, will be re-measured using the fair value of the Company s common stock and deferred compensation and the non-cash compensation recognized during the period will be adjusted accordingly. Since the fair market value of options granted to non-employees is subject to change in the future, the amount of the future compensation expense is subject to adjustment until the stock options are fully vested. The Company recognized $26,000 and $228,000 of stock based compensation expense related to non-employee stock options for the three and nine-month periods ended September 30, 2006, respectively.

The following table illustrates the pro forma effect on net loss and net loss per share assuming the Company had applied the fair value recognition provisions of SFAS 123(R) to options granted under the Company s stock option plans for the three and nine-month periods ended September 30, 2005. For purposes of this presentation, the value of the options is estimated using a Black Sholes option-pricing model and recognized as an expense on a straight-line basis over the options vesting periods.

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005 (restated)
Net loss allocable to common stockholders	$ (3,492)	$ (12,604)
Total stock-based employee compensation expense determined under fair-value based method for all awards	(369)	(1,027)
Pro forma net loss	$ (3,861)	$ (13,631)
Loss per share, as originally reported (basic and diluted)	$ (0.06)	$ (0.20)
Loss per share, as restated (basic and diluted)	$ (0.06)	$ (0.22)

Loss per share, pro forma (basic and diluted)	$ (0.07)	$ (0.24)

The fair value of stock options at the date of grant was estimated using the Black-Sholes option-pricing model, based on the following assumptions: The Company s expected stock price volatility assumption is based upon the historical daily volatility of our publicly traded stock. For option grants issued during the nine-month period ended

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September 30, 2006 the Company used a calculated volatility for each grant. The expected life assumptions is based upon the simplified method provided for under SAB 107, which averages the contractual term of the Company s options of ten years with the average vesting term of three years for an average of six years. The dividend yield assumption of zero is based upon the fact the Company has never paid cash dividends and presently has no intention of paying cash dividends. The risk-free interest rate used for each grant is equal to the U.S. Treasury rates in effect at the time of the grant for instruments with a similar expected life. Based on historical experience, the Company has estimated an annualized forfeiture rate of 10% for options granted to its employees and 3% for its senior management and director stock options. The Company will record additional expense if the actual forfeitures are lower than estimated and will record a recovery of prior expense if the actual forfeiture rates are higher than estimated. Under provisions of SFAS 123(R), the Company recorded $379,000 and $1,075,000 of stock-based compensation for the three and nine-month periods ended September 30, 2006, respectively. No amounts relating to employee stock-based compensation have been capitalized.

	Nine-Months Ended	
	September 30, 2006	**September 30, 2005**
Risk-free interest rate	4.27% - 5.23%	3.63% - 4.33%
Expected volatility	111.1%	131.0%
Expected lives (years)	6	6
Expected dividend yield	0.00%	0.00%

At September 30, 2006, there remained approximately $3.5 million of unrecognized compensation expense related to unvested employee stock options to be recognized as expense over a weighted-average period of 8.64 years. Presented below is the Company s stock option activity:

	Stock Options Nine-Months Ended September 30, 2006	
	Number of Shares	**Weighted Average Exercise Price per Share**
Outstanding at beginning of year	6,205,542	$ 1.71
Granted	971,500	$ 1.27
Exercised	(62,500)	$ 0.96
Forfeited	(152,500)	$ 2.00
Outstanding at end of year	6,962,042	$ 1.65
Shares exercisable at end of period	4,465,683	$ 1.79

A summary of the activity for nonvested stock options as of September 30, 2006 and changes during the nine-month period is presented below:

	Number of Shares	**Weighted Average Grant Date Fair Value per Share**
Nonvested at January 1, 2006	2,767,385	$ 1.47
Granted	971,500	$ 1.25

Vested	(1,242,526)	$ 1.45
Nonvested at September 30, 2006	2,496,359	$ 1.39

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The following table summarizes significant ranges of outstanding stock options under the three plans at September 30, 2006:

Range of Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Contractual Life	Weighted Average Exercise Price
$0.25 1.00	1,236,043	7.67	$ 0.82	622,898	7.03	$ 0.82
$1.01 1.50	1,825,500	8.96	1.25	844,115	6.40	1.24
$1.51 2.00	2,237,500	7.32	1.86	1,495,837	6.69	1.86
$2.01 3.00	1,662,999	6.86	2.43	1,502,834	6.76	2.44
	6,962,042	7.70	$ 1.65	4,465,683	6.71	$ 1.79

The aggregate intrinsic value of outstanding options as of September 30, 2006, was $674,000 of which $325,000 is related to exercisable options. The aggregate intrinsic value was calculated based on the positive difference between the closing fair market value of the Company s common stock on September 30, 2006 ($1.27) and the exercise price of the underlying options. The intrinsic value of options exercised was $0 and $55,550 for the three and nine-month periods ended September 30, 2006 and the intrinsic value of options vested was $78,000 and $158,000 during these same periods.

5. Liquidity and Capital Resources

Based on the Company s currently planned level of expenditures, it believes that it will have adequate working capital to allow it to operate at its currently planned levels through the fourth quarter of 2008.

In August 2006, the Company received approximately $24.5 million in marketable securities (which were sold by the Company for approximately $24.3 million in cash) from the privately-funded ALS Charitable Remainder Trust in exchange for a one percent royalty in the worldwide sales of arimoclomol. The Company retains the right to market arimoclomol for indications other than ALS without paying a royalty. The royalty agreement provides that the proceeds of the transaction are non-refundable and will be used by the Company to continue development of arimoclomol and other potential treatments for ALS, and that the ALS Charitable Remainder Trust has no obligation to provide any further funding to the Company. Management has recorded this as service revenue consistent with the contractual services tenants of SFAS No. 68, *Research and Development Arrangements*, using the proportional performance method of revenue recognition, meaning that service revenue is incurred as a percentage of actual expense. As of September 30, 2006, the Company recognized approximately $775,000 of service revenue related to this transaction.

We believe that the $24.5 million received from the ALS Charitable Remainder Trust in August 2006 together with the $12.4 million equity financing (net of expenses) that we completed in March 2006, that we have adequate working capital to support our currently planned level of operations through the fourth quarter of 2008, including our current and planned clinical trials for arimoclomol and drug discovery efforts related to additional product candidates. Included in our planned expenses are approximately $0.7 million for our Phase II clinical program with arimoclomol for ALS during the remainder of 2006, and an additional $4.9 million in 2007 and $18.8 million in 2008 and beyond. The cost of our clinical program for ALS, which we estimate will total approximately $30.6 million from inception to completion, could vary significantly from our current projections due to any additional requirements imposed by the FDA in connection with our clinical program, 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.

The Company will be required to obtain significant additional funding in order to execute its long-term business plans. The Company plans to evaluate several potential sources of capital, including potential strategic alliances, although it does not currently have commitments from any third parties to provide it with capital.

6. Equity Transactions

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

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

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

During the nine-month period ended September 30, 2006, the Company issued 683,903 shares of its common stock and received $339,193 upon the exercise of stock options and warrants. The Company did not issue any shares of its common stock and did not receive any proceeds upon the exercise of stock options or warrants in the three-month period ended September 30, 2006. In addition to the warrants issued in the March 2006 financing described above, the Company issued 418,000 and 971,500 options in the three and nine-month periods ended September 30, 2006.

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

Forward Looking Statements

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

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

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Our future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including but not limited to the risk factors set forth under the heading Risk Factors in this Quarterly Report. These risks and uncertainties include: the risk that the results and achievements described herein related to our clinical testing of our drug candidate arimoclomol for the treatment of amyotrophic lateral sclerosis (ALS or Lou Gehrig s disease) may not be supported by further analysis of the Phase IIa trial data or by the results of any subsequent clinical trials; uncertainties related to the scope of the clinical testing that may be required by regulatory authorities for our molecular chaperone co-induction drug candidates, including arimoclomol, 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 the sufficiency of our existing cash and cash equivalents to meet our projected cash requirements and our ability to obtain capital to fund our ongoing working capital needs, including capital required to fund RNAi development activities that we plan to conduct through the creation of a new subsidiary; and risks relating to the enforceability of any patents covering our products and to the possible infringement of third party patents by those products.

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

Overview

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

In 2004, we began a development program based on molecular chaperone co-induction technology through the acquisition of novel small molecules with broad therapeutic applications in neurology, type 2 diabetes, cardiology and diabetic complications. The acquired assets included three oral, clinical stage drug candidates and a library of 500 small molecule drug candidates. In September 2005, we entered the clinical stage of drug development with the initiation of a Phase II clinical program with our lead small molecule product candidate arimoclomol for the treatment of amyotrophic lateral sclerosis (ALS or Lou Gehrig s disease). Arimoclomol has received Orphan Drug and Fast Track designation from the U.S. Food and Drug Administration, or FDA.

The initial Phase II clinical trial that we recently completed for arimoclomol for ALS (which we refer to as the Phase IIa trial) was a multicenter, double-blind, placebo-controlled study of approximately 80 ALS patients enrolled at ten clinical centers across the U.S. Patients received 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 was followed by a one-month period without drug. The primary endpoints of this Phase IIa trial were safety and tolerability. Secondary

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endpoints included a preliminary evaluation of efficacy using two widely accepted surrogate markers, the revised ALS Functional Rating Scale (ALSFRS-R), which were used to determine patients capacity and independence in 13 functional activities, and Vital Capacity (VC), an assessment of lung capacity. The trial was powered to monitor only extreme responses in these two categories.

In September 2006, we announced results of the Phase IIa trial for arimoclomol for ALS, reporting that arimoclomol had met the trial s primary endpoints of safety and tolerability at all three doses tested, and that the trial results indicated a non-statistically-significant trend of improvement in functional capacity as measured by the Revised ALS Functional Ration Scale in the arimoclomol high dose group as compared with untreated patients.

We have also 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 completed the Phase IIa study and who still met the eligibility criteria were given the opportunity to take arimoclomol, at the highest investigative dose, for as long as an additional 6 months. We anticipate completing the open label extension of the trial in the first quarter of 2007.

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 in the third quarter of 2007. Although this second trial is still in the planning stages and will be subject to FDA approval, it is expected to include approximately 400 ALS patients recruited from approximately 30 clinical sites, and will take approximately 18 months after initiation to complete.

Our molecular chaperone co-induction technology represents a continuation of our business strategy, adopted subsequent to our merger with Global Genomics, in July 2002, to conduct further research and development efforts for our pre-merger adjuvant and co-polymer technologies, including Flocor and Tranzfect, through strategic relationships with other pharmaceutical companies, and to focus our efforts on acquiring and developing new technologies and products to serve as the foundation for the future of the company.

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

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

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

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agreements with larger pharmaceutical or biotechnology companies to fund the early stage development work for other gene silencing product applications and for subsequent development of those potential products where we fund the early stage development work.

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

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

Restatement

The accompanying condensed financial statements have been restated to reflect a reclassification of certain expenses related to the operations of our Massachusetts laboratory and a correction of the accounting for our historical anti-dilution adjustments in certain of its outstanding warrants. The statement of operations was restated to include deemed dividends of $1,075,568 and $488,429 in the first quarters of 2005 and 2006, respectively, in arriving at the net loss applicable to common stockholders of $12,603,663 and $13,092,287 for the nine-month periods ended September 30, 2005 and 2006, respectively. The restated net loss applicable to common stockholders resulted in an increase in net loss per share from $0.20 to $0.22 for the nine-month period ended September 30, 2005, but did not change the net loss per share of $0.19 for the same period in 2006. The statement of operations was also restated to reflect $434,599 and $1,316,721 of expenses that were reclassified from general and administrative expense to research and development expense for the three and nine-month periods ended September 30, 2006, respectively.

Critical Accounting Policies and Estimates

Management s discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates its estimates, including those related to revenue recognition, bad debts, impairment of long-lived assets, including finite lived intangible assets, accrued liabilities and certain expenses. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions.

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

Revenue Recognition

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

amounts of future revenue.

In August 2006, the Company received approximately $24.5 million in marketable securities (which were sold by the Company for approximately $24.3 million in cash) from the privately-funded ALS Charitable Remainder Trust (ALSCT) in exchange for the commitment to continue research and development of arimoclomol and other potential treatments for ALS and a one percent royalty in the worldwide sales of arimoclomol. Under the

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arrangement, the Company retains the rights to any developments funded by the arrangement and the proceeds of the transaction are non-refundable. Further, the ALS Charitable Remainder Trust has no obligation to provide any further funding to the Company. Management has analyzed the transaction and concluded that due to the research and development components of the transaction that it is properly accounted for under SFAS No. 68, *Research and Development Arrangements* (SFAS No. 68). Accordingly, the Company has recorded the value received under the arrangement as deferred service revenue and will recognize service revenue using the proportional performance method of revenue recognition, meaning that service revenue is recognized as a percentage of actual research and development expense. As of September 30, 2006, the Company recognized approximately $775,000 of service revenue related to this transaction.

Research and Development Expenses

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

Stock-based Compensation

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

Impairment of Long-Lived Assets

We review long-lived assets, including finite lived intangible assets, for impairment on an annual basis, as of December 31, or on an interim basis if an event occurs that might reduce the fair value of such assets below their carrying values. An impairment loss would be recognized based on the difference between the carrying value of the asset and its estimated fair value, which would be determined based on either discounted future cash flows or other appropriate fair value methods.

Facility Abandonment

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

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Liquidity and Capital Resources

At September 30, 2006, we had cash and cash equivalents of $33.7 million and total assets of $35.1 million, compared to $8.3 million and $9.9 million, respectively, at December 31, 2005. Working capital totaled $31.5 million at September 30, 2006, compared to $6.3 million at December 31, 2005.

To date, we have relied primarily upon sales of equity securities and a sale of a royalty interest in arimoclomol 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 and our execution of the royalty and research and development agreement for $24.5 million of marketable securities (which were converted into approximately $24.3 million in cash) to the privately-funded ALS Charitable Remainder Trust of a one percent royalty interest in worldwide sales of arimoclomol for ALS, we believe that we have adequate working capital to support our currently planned level of operations through the fourth quarter of 2008, including our current and planned clinical trials for arimoclomol and drug discovery efforts related to additional product candidates. Included in our planned expenses are approximately $0.7 million for our Phase II clinical program with arimoclomol for ALS during the remainder of 2006, and an additional $4.9 million in 2007 and $18.8 million in 2008 and beyond. The cost of our clinical program for ALS, which we estimate will total approximately $30.6 million from inception to completion, could vary significantly from our current projections due to any additional requirements imposed by the FDA in connection with our clinical program, 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 completion of the clinical development arimoclomol for ALS, our planned levels of operations for our obesity and type 2 diabetes research laboratory and our ongoing research and development efforts related to our other small molecule drug candidates, and in order to continue to meet our obligations to UMMS. Additionally, we expect to spend approximately an additional $150,000 related to our efforts to comply with the requirements of Section 404 of the Sarbanes Oxley Act of 2002 during the fourth quarter of 2006.

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 in the future, we would be forced to scale back, or terminate, our operations, or to seek to merge with or to be acquired by another company.

In the nine-month periods ended September 30, 2006 and 2005, net cash used in investing activities consisted of approximately $82,000 and $39,000, respectively, for the purchase of equipment. We expect capital spending during the fourth quarter to be comparable to the first three quarters of 2006.

Cash provided by operating activities included $24.5 million in marketable securities (which were sold by the Company for approximately $24.3 million in cash) received upon the execution of the royalty and research and development agreement with the privately-funded ALS Charitable Remainder Trust of a one percent royalty in the worldwide sales of arimoclomol less the royalty revenue recognized during the third quarter of $775,000. The royalty agreement provides that the proceeds of the transaction will be used by the Company to continue development of arimoclomol and other potential treatments for ALS.

Cash provided by financing activities in the nine-month period ended September 30, 2006 was $12.7 million. The cash provided includes approximately $339,000 received from the exercise of stock options and warrants.

Additionally, we received approximately $12.4 million, net of expenses, through a private equity financing that closed in March 2006. Cash provided by financing activities in the nine-month period ended September 30, 2005 was $19.8 million. During that period, we raised $19.6 million, net of expenses,- from the issuance of common stock in a private equity financing in January 2005, and we received proceeds from the exercise of stock options and warrants totaling $252,000.

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Our net loss for the nine-month period ended September 30, 2006 was $12.6 million, which resulted in net cash provided from operating activities of $12.7 million. Adjustments to reconcile net loss to net cash provided from operating activities for the nine-month period ended September 30, 2006 were primarily $1.1 million from the employee stock option expense incurred related to our implementation of SFAS 123(R); $228,000 of common stock, options and warrants expense issued in lieu of cash for general and administrative services and research and development services, respectively, and $192,000 of depreciation and amortization expense, which was off-set by a $23.8 million change in operating assets and liabilities (including the $24.3 million of deferred revenue received upon the sale of a royalty interest to the ALS Charitable Remainder Trust less the royalty revenue recognized of $775,000). Our net loss for the nine-month period ended September 30, 2005 was $11.5 million, which resulted in net cash used in operating activities of $11.6 million. Adjustments to reconcile net loss to net cash used in operating activities for the nine-month period ending September 30, 2005 include $485,000 of common stock, options and warrants issued in lieu of cash for research and development and selling, general and administrative services, as well as a net change in assets and liabilities of $462,000, the recording of $158,000 depreciation and amortization expense, $81,000 of minority interest and $163,000 gain on the termination of the Atlanta lease.

We believe that we have adequate working capital to allow us to operate at our currently planned levels through the fourth quarter of 2008. 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 during 2006 was approximately $1.0 million; all of which had been expensed through September 30, 2006. At this time, we have no future commitments to fund research, however we are in discussions regarding future licensing and commitments.

We will require significant additional capital in order to fund the completion of our clinical program with our lead small molecule product candidate arimoclomol for the treatment of ALS, which commenced in September 2005, and the other ongoing research and development related to our other molecular chaperone co-induction drug candidates. We incurred $3.4 million on the arimoclomol clinical program in the first nine months of 2006, and we estimate that the overall program, including the ongoing open label trial and the planned Phase IIb trial that we expect to initiate in 2007 subject to FDA approval, will require us to expend an additional $0.7 million in the remainder of 2006, and an additional $23.7 million for 2007 and beyond. However, we may incur substantial additional expense and the trial may be delayed if the FDA requires us to generate additional pre-clinical or clinical data in connection with the clinical trial, or the FDA requires us to revise significantly our planned protocol for the Phase IIb.

Additional capital may be provided by potential milestones payments pursuant to our license with Vical, which relates to Tranzfect, or our license with SynthRx related to Flocor, or by potential payments from future strategic alliance partners or licensees of our technologies. As Vical is currently only in Phase II development of a product using TransFect it is likely to be a substantial period of time, if ever, before we receive any further significant payments from Vical.

We are evaluating other potential future 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, royalty sales, 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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Results of Operations

We recorded a net loss of $3.0 and $12.6 million for the three and nine-month periods ended September 30, 2006, respectively, as compared to $3.5 million and $11.5 million for the same periods in 2005.

We recognized $775,000 of revenue from our $24.5 million sale of marketable securities (which were sold by the Company for approximately $24.3 million in cash) to the ALS Charitable Remainder Trust of a royalty interest in worldwide sales of arimoclomol, and earned an immaterial amount of service revenue during the three and nine-month periods ended September 30, 2006. We earned an immaterial amount of licensing fees during the three and nine-month periods ended September 30, 2005. All future licensing fees under our current licensing agreements are dependent upon successful development milestones being achieved by the licensor. During fiscal 2006, we are not anticipating receiving any significant licensing fees. We will continue to recognize the balance of the deferred revenue recorded from the royalty transaction with the ALS Charitable Remainder Trust over the life of our arimoclomol research (the development period).

In 2006, we expect our research and development expenses to increase primarily as a result of our ongoing Phase II clinical program with arimoclomol and related studies for the treatment of ALS. We incurred $3.4 million on the arimoclomol clinical program in the first nine months of 2006, and we estimate that the overall program, including the ongoing open label trial and the planned Phase IIb trial that we expect to initiate subject to FDA approval, will require us to expend an additional $0.7 million in the remainder of 2006, and an additional $23.7 million for 2007 and beyond. Additionally, we estimate that our costs related to the activities of our Massachusetts laboratory will remain consistent with 2005 expenditures.

Research and development expenses were $1.6 million and $6.8 million, respectively, during the three and nine-month periods ended September 30, 2006, as compared to $2.0 million and $6.8 million for the same periods in 2005. Research and development expenses incurred during the first nine months of 2006 and 2005 related primarily to (i) the preparation for and initiation of our Phase II clinical program for arimoclomol in ALS, (ii) our ongoing research and development related to our other molecular chaperone co-induction drug candidates, (iii) our research and development activities conducted at UMMS related to the technologies covered by the UMMS license agreements, (iv) our collaboration and invention disclosure agreement pursuant to which UMMS has agreed to disclose certain inventions to us and provide us with the right to acquire an option to negotiate exclusive licenses for those disclosed technologies, and (v) the on-going small molecule drug discovery operations at our Massachusetts laboratory. Although our future research and development activities could vary substantially, our research and development activities will remain substantial in the future as a result of commitments related to the foregoing activities.

In each of the periods presented in the accompanying condensed consolidated statements of operations, certain vesting criteria of stock options issued to consultants were achieved, resulting in aggregate non-cash charges for research and development activities of $92,000 and $197,000 during the three and nine-month periods ended September 30, 2006 and $32,000 and $122,000 for the same periods ended September 30, 2005.

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

Depreciation and amortization expense was $53,000 and $192,000 during the three and nine-month periods ended September 30, 2006, as compared to $58,000 and $158,000 for the same periods in 2005. The amounts in 2006 and 2005 primarily relate to depreciation of fixed assets located at our Massachusetts laboratory and the amortization of the molecular screening library acquired in 2004, which was put into service in March of 2005.

From time to time, we issue shares of our common stock or options and warrants to purchase shares of our common stock to consultants and other service providers in exchange for services. For financial statement purposes, we value these shares of common stock, stock options, or warrants at the fair market value of the common stock,

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stock options or warrants granted, or the services received, whichever is more reliably measurable, and we recognize the expense in the period in which a performance commitment exists or the period in which the services are received, whichever is earlier. During each of the periods presented in the accompanying condensed consolidated statements of operations, certain vesting criteria of stock options and warrants issued to consultants were achieved, resulting in aggregate non-cash charges for general and administrative activities of $(66,000) and $32,000 for the three and nine-month periods ended September 30, 2006, respectively, and $26,000 and $342,000 for the three and nine-month periods ended September 30, 2005. In addition, for the nine-month period ended September 30, 2006, we recorded $1,075,000 of employee stock option expense in accordance with SFAS 123(R), for which there was no corresponding expense recorded in prior periods.

General and administrative expenses incurred were $1.9 and $5.8 million for the three and nine-month periods ended September 30, 2006, as compared to $1.5 and $4.8 million for the same periods in 2005. The expenses incurred during the three and nine-month periods ended September 30, 2006 were higher in the third quarter due to increases in salary and benefits of $117,000 and professional fees of $330,000. We anticipate general and administrative expenses to increase over the remainder of 2006 as a result of, among other things, our efforts to comply with the requirements of Section 404 of the Sarbanes Oxley Act of 2002, and continuing employee stock option expense as a result of our implementation of SFAS 123(R).

Interest income was $296,000 and $580,000 for the three and nine-month periods ended September 30, 2006, as compared to $40,000 and $124,000 for the same period in 2005. The increase in interest income was due to the larger balances maintained and the higher rates on our cash and investments that were held during 2006 compared to the lower rates in the same period in 2005.

For 2006, we did not record any minority interest share of our losses because, on September 30, 2005, we repurchased the outstanding 5% interest in CytRx Laboratories from Dr. Michael Czech, and on September 30, 2005, we completed our merger with CytRx Laboratories. For the Nine-Months ended September 30, 2005, we recorded a $81,000 reduction to our losses as a result of the minority interest share in the losses of CytRx Laboratories. This amount is reported as a separate line item in the accompanying condensed consolidated statements of operations.

Related Party Transactions

Dr. Michael Czech, a 5% minority shareholder of CytRx Laboratories until September 30, 2005 and a member of our Scientific Advisory Board, is an employee of UMMS and is the principal investigator for a sponsored research agreement between CytRx and UMMS. During the nine-month periods ended September 30, 2006 and 2005, we incurred expenses to UMMS related to Dr. Czech s sponsored research agreement of $201,000 and $604,000, respectively. Additionally, we paid $60,000 to Dr. Czech for his services on the Scientific Advisory Board for each of these periods.

Item 4 Controls and Procedures

Evaluations of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Securities Exchange Act Rule 13a-15(e)) as of September 30, 2006, the end of the period covered by our original Form 10-Q. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to ensure 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 rules and forms of the SEC. There were no changes made during the period covered by our original Form 10-Q in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Subsequently, in conjunction with the preparation of our Annual Report on Form 10-K for the year ended December 31, 2006, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, identified other deficiencies, discussed below, that it considered to be material weaknesses (a) in the effectiveness of our internal controls over financial reporting related to the application of generally accepted accounting principles arising from our accounting for historical warrant anti-dilution adjustments as deemed dividends, and (b) in the effectiveness of our internal controls over quarterly and annual financial statement reporting arising from our accounting for research and development expenses related to our laboratory facility in Worcester, Massachusetts. 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 May and September of 2003, we completed private placements of securities that included warrants to purchase approximately 2.8 million shares of our common stock. These warrants contain provisions for anti-dilution adjustments based upon future 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. We subsequently completed private placement transactions in January 2005 and in March 2006 involving our sale of securities at prices which triggered the foregoing anti-dilution adjustments to the warrants in question, and we recorded those adjustments as deemed dividends. Based upon a reevaluation of our historical accounting for those anti-dilution adjustments, management determined that, by analogy to the guidance provided by SFAS No. 128, *Earnings Per Share*, the deemed dividends should be subtracted from our net earnings (loss) (i.e., added to our net loss) to arrive at net loss allocable to common stockholders and for the purpose of calculating our net earnings (loss) per share.

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

In the first quarter of 2006, for the sake of administrative efficiency, CytRx Labs general ledger system was integrated into our general ledger system by combining the laboratory s general ledger accounts with our identically numbered accounts. In the process, expenses of the laboratory relating to rent, payroll and related employee benefits, which should properly have been classified as research and development expenses due to the nature of our activities carried on at the laboratory, were improperly classified as general and administrative expenses and reported as such on the original Form 10-Q, because they were combined with corresponding accounts of CytRx, whose corporate offices and personnel are devoted primarily to administrative activities.

Based on that evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, and solely because of corrections referred to above, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures over our accounting for research and development expenses related to our laboratory facility and our accounting for warrant anti-dilution adjustments were not effective as of June 30, 2006.

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

We continuously seek to improve and strengthen our control processes to ensure that all of our controls and procedures are adequate and effective. Any failure to implement and maintain improvements in the controls over our

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financial reporting could cause us to fail to meet our reporting obligations under the Securities and Exchange Commission s rules and regulations. Any failure to improve our internal controls to address the weakness we have identified could also cause investors to lose confidence in our reported financial information, which could have a negative impact on the trading price of our common stock.

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PART II OTHER INFORMATION

Item 6. Exhibits

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

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SIGNATURES

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

CYTRX CORPORATION
(Registrant)

Date: April 2, 2007

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

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INDEX TO EXHIBITS

Exhibit Number		Description
10.1	x	Royalty Agreement dated August 28, 2006 between CytRx Corporation and Kenneth Council, as Trustee of the ALS Charitable Remainder Trust
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 Section 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002
32.1	x	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	x	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

x Previously filed.