

CYTRX CORP  
Form 10-Q  
August 09, 2011

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

Form 10-Q

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-15327

CytRx Corporation  
(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

58-1642740

(I.R.S. Employer Identification No.)

11726 San Vicente Blvd., Suite 650  
Los Angeles, CA  
(Address of principal executive offices)

90049  
(Zip Code)

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

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

Indicate by check mark whether the Registrant: (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

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days. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐  
(Do not check if a smaller reporting company)

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

Number of shares of CytRx Corporation common stock, \$.001 par value, outstanding as of August 8, 2011: 149,057,885 million shares exclusive of treasury shares.

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CYTRX CORPORATION

FORM 10-Q

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## PART I — FINANCIAL INFORMATION

## Item 1. — Financial Statements

CYTRX CORPORATION  
CONDENSED BALANCE SHEETS  
(Unaudited)

|   | June 30, 2011 | December 31,<br>2010 |
|---|---------------|----------------------|
| <b>ASSETS</b>   |               |                      |
| Current assets:   |               |                      |
| Cash and cash equivalents   | \$7,023,176   | \$6,324,430          |
| Marketable securities   | 19,076,620    | 20,567,861           |
| Proceeds from sale of RXi, received January 6, 2011   | —             | 6,938,603            |
| Receivable  | 107,907       | 259,006              |
| Investment in Adventrx Pharmaceuticals, at market   | 379,260       | —                    |
| Income taxes recoverable  | —             | 519,158              |
| Interest receivable   | 105,334       | 117,624              |
| Prepaid expenses and other current assets   | 1,803,333     | 1,247,145            |
| Total current assets  | 28,495,630    | 35,973,827           |
| Equipment and furnishings, net  | 294,873       | 319,191              |
| Goodwill  | 183,780       | 183,780              |
| Other assets  | 214,729       | 220,292              |
| Total assets  | \$29,189,012  | \$36,697,090         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |               |                      |
| Current liabilities:  |               |                      |
| Accounts payable  | \$1,433,782   | \$1,027,924          |
| Accrued expenses and other current liabilities  | 4,130,042     | 2,663,910            |
| Warrant liabilities   | 1,259,518     | 2,437,281            |
| Total current liabilities   | 6,823,342     | 6,129,115            |
| Commitment and contingencies  |               |                      |
| Stockholders' equity:   |               |                      |
| Preferred Stock, \$.01 par value, 5,000,000 shares authorized, including 15,000 shares of Series A Junior Participating Preferred Stock; no shares issued and outstanding     | —             | —                    |
| Common stock, \$.001 par value, 175,000,000 shares authorized; 109,857,885 and 109,840,445 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively | 109,858       | 109,840              |
| Additional paid-in capital  | 230,066,850   | 229,253,122          |
| Accumulated comprehensive income, net of tax  | 379,260       | —                    |
| Treasury stock, at cost (633,816 shares)  | (2,279,238 )  | (2,279,238 )         |
| Accumulated deficit   | (205,911,059) | (196,515,749)        |
| Total stockholders' equity  | 22,365,670    | 30,567,975           |
| Total liabilities and stockholders' equity  | \$29,189,012  | \$36,697,090         |

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

CYTRX CORPORATION  
CONDENSED STATEMENTS OF OPERATIONS  
(Unaudited)

|   | Three Months Ended<br>June 30, |              | Six Months Ended<br>June 30, |              |
|---|--------------------------------|--------------|------------------------------|--------------|
|   | 2011                           | 2010         | 2011                         | 2010         |
| Revenue:  |                                |              |                              |              |
| License revenue   | 150,000                        | —            | 150,000                      | —            |
| Expenses:   |                                |              |                              |              |
| Research and development                                | 1,886,652                      | 3,073,059    | 6,707,360                    | 5,118,868    |
| General and administrative                              | 2,026,602                      | 2,060,266    | 4,174,061                    | 4,705,376    |
|   | 3,913,254                      | 5,133,325    | 10,881,421                   | 9,824,244    |
| Loss before other income                                | (3,763,254 )                   | (5,133,325 ) | (10,731,421 )                | (9,824,244 ) |
| Other income:   |                                |              |                              |              |
| Interest income   | 50,270                         | 79,687       | 105,699                      | 172,718      |
| Other income, net                                       | 15,619                         | 28,530       | 52,650                       | 35,696       |
| Gain on warrant derivative liability                    | 577,290                        | 1,278,884    | 1,177,762                    | 1,411,577    |
| Gain on sale of affiliate's shares – RXi Pharmaceutical | —                              | 5,040,114    | —                            | 8,887,614    |
| Income (loss) before provision for income taxes         | (3,120,075 )                   | 1,293,890    | (9,395,310 )                 | 683,361      |
| Provision for income taxes                              | —                              | —            | —                            | —            |
| Net income (loss)                                       | \$(3,120,075 )                 | \$1,293,890  | \$(9,395,310 )               | \$683,361    |
| Other comprehensive income (net of tax)                 |                                |              |                              |              |
| Unrealized gain on available-for-sale securities        | 379,260                        | 8,044,091    | 379,260                      | 8,044,091    |
| Comprehensive income (loss)                             | \$(2,740,815 )                 | \$9,337,981  | \$(9,016,050 )               | \$8,727,452  |
| Basic net income (loss) per share                       | \$(0.03 )                      | \$0.01       | \$(0.09 )                    | \$0.01       |
| Basic weighted average shares outstanding               | 109,227,069                    | 109,121,022  | 109,226,683                  | 109,016,952  |
| Diluted net income (loss) per share                     | \$(0.03 )                      | \$0.01       | \$(0.09 )                    | \$0.01       |
| Diluted weighted average shares outstanding             | 109,227,069                    | 111,587,896  | 109,226,683                  | 111,934,617  |

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

CYTRX CORPORATION  
CONDENSED STATEMENTS OF CASH FLOWS  
(Unaudited)

|  | Six Months Ended June 30, |              |
|--|---------------------------|--------------|
|  | 2011                      | 2010         |
| Cash flows from operating activities:  |                           |              |
| Net Income (Loss)  | \$(9,395,310)             | \$683,361    |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: |                           |              |
| Depreciation and amortization  | 45,670                    | 58,843       |
| Retirement of fixed assets   | 4,372                     | 30,171       |
| Non-cash gain on transfer of RXi common stock  | —                         | (8,887,614 ) |
| Stock option and warrant expense   | 827,987                   | 1,103,232    |
| Fair value adjustment on warrant liability   | (1,177,762)               | (1,411,577 ) |
| Changes in assets and liabilities:   |                           |              |
| Receivable   | 151,061                   | 80,365       |
| Interest receivable  | 12,290                    | 3,882        |
| Prepaid expenses and other current assets  | (564,867 )                | 279,549      |
| Income taxes recoverable   | 519,158                   | —            |
| Accounts payable   | 405,858                   | (477,254 )   |
| Accrued expenses and other current liabilities                                       | 1,466,170                 | 584,001      |
| Net cash used in operating activities  | (7,705,373)               | (7,953,041 ) |
| Cash flows from investing activities:  |                           |              |
| Net proceeds from sale of marketable securities                                      | 1,491,241                 | 1,726,260    |
| Proceeds from sale of assets held for sale   | —                         | 40,131       |
| Proceeds from sale of unconsolidated subsidiary shares                               | 6,938,603                 | 8,887,614    |
| Purchases of equipment and furnishings   | (25,725 )                 | (289,283 )   |
| Net cash provided by investing activities  | 8,404,119                 | 10,364,722   |
| Cash flows from financing activities:  |                           |              |
| Net proceeds from exercise of stock options  | —                         | 147,243      |
| Net cash provided by financing activities  | —                         | 147,243      |
| Net increase in cash and cash equivalents  | 698,746                   | 2,558,924    |
| Cash and cash equivalents at beginning of period                                     | 6,324,430                 | 9,893,590    |
| Cash and cash equivalents at end of period   | \$7,023,176               | \$12,452,514 |
| Supplemental disclosure of cash flow information:                                    |                           |              |
| Cash received during the period as interest income                                   | \$117,988                 | \$52,962     |

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





NOTES TO CONDENSED FINANCIAL STATEMENTS

June 30, 2011  
(Unaudited)

1. Description of Company and Basis of Presentation

CytRx Corporation (“CytRx” or the “Company”) is a biopharmaceutical research and development company engaged in the development of high-value human therapeutics, specializing in oncology. CytRx’s drug development pipeline includes clinical development of three product candidates for cancer indications, including a planned Phase 2 clinical trial for INNO-206 as a treatment for soft tissue sarcomas following an open-label Phase 1b safety and dose escalation clinical trial in patients with advanced solid tumors, clinical trials with tamibarotene for the treatment of non-small-cell lung cancer and acute promyelocytic leukemia, or APL, two Phase 2 proof-of-concept clinical trials with bafetinib in patients with advanced prostate cancer and high-risk B-cell chronic lymphocytic leukemia, or B-CLL, and an additional pharmacokinetic clinical trial with bafetinib in patients with brain cancer.

The accompanying condensed financial statements at June 30, 2011 and for the three-month and six-month periods ended June 30, 2011 and 2010 are unaudited, but include all adjustments, consisting of normal recurring entries, that management believes to be necessary for a fair presentation of the periods presented. Prior period figures have been reclassified, wherever necessary, to conform to current presentation. Interim results are not necessarily indicative of results for a full year. Balance sheet amounts as of December 31, 2010 have been derived from the Company’s 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 United States of America 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 contained in its Annual Report on Form 10-K for the year ended December 31, 2010. 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.

2. Recent Accounting Pronouncements

In June 2011, the FASB issued a final standard requiring entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. The new standard eliminates the option to present items of other comprehensive income in the statement of changes in equity. The new requirements do not change which components of comprehensive income are recognized in net income or other comprehensive income, or when an item of other comprehensive income must be reclassified to net income. Also, earnings per share computations do not change. The new requirements are effective for interim and annual periods beginning after December 15, 2011, with early adoption permitted. Full retrospective application is required. As this standard relates only to the presentation of other comprehensive income, the adoption of this accounting standard will not have an impact on the Company’s consolidated financial statements.

In May 2011, the Financial Accounting Standards Board (“FASB”) issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standard (“IFRS”), to converge fair value measurement and disclosure guidance in U.S. GAAP with the guidance in the International Accounting Standards Board’s (“IASB”) concurrently issued IFRS 13, Fair Value Measurement. The amendments in ASU 2011-04 do not modify the requirements for when fair value measurements apply; rather, they

generally represent clarifications on how to measure and disclose fair value under ASC 820, Fair Value Measurement. The amendments in the ASU 2011-04 are effective prospectively for interim and annual periods beginning after December 15, 2011. Early adoption is not permitted for public entities. The Company is currently assessing the impact of ASU 2011-04 on its financial statements. Adoption of this standard is not expected to have a material impact on the financial statements.

In April 2010, the FASB issued Accounting Standard Update (“ASU”) No. 2010-17, Milestone Method of Revenue Recognition, which provides guidance on applying the milestone method to milestone payments for achieving specified performance measures when those payments are related to uncertain future events. However, the FASB clarified that, even if the requirements in this ASU are met, entities would not be precluded from making an accounting policy election to apply another appropriate accounting policy that results in the deferral of some portion of the arrangement consideration. The ASU is effective for periods beginning on or after June 15, 2010. Entities can apply this guidance retrospectively as well as prospectively to milestones achieved after adoption. This update had no impact on the Company’s financial statements.

### 3. Marketable Securities

The Company held \$19.1 million of marketable securities at June 30, 2011. The Company has classified these investments as available for sale. These investments are comprised of federally insured certificates of deposit as follows: \$3 million with a maturity date of July 14, 2011; \$8.1 million with a maturity date of July 28, 2011; and \$6 million with a maturity date of March 29, 2012.

### 4. Investment in ADVENTRX Pharmaceuticals

On April 8, 2011, ADVENTRX Pharmaceuticals completed its acquisition of SynthRx, Inc., in which the Company held a 19.1% interest. As a result of the transaction, the Company received approximately 126,000 shares of common stock of ADVENTRX. The Company will be entitled to receive an additional 37,000 shares of common stock of ADVENTRX, which shares are currently held in an escrow account established in connection with the acquisition, except to the extent the shares are applied to satisfy potential indemnification obligations to ADVENTRX. If all of the development milestones under the acquisition agreement were to be achieved, the Company also would be entitled to receive up to 2.9 million additional ADVENTRX shares. The Company's ADVENTRX shares are "restricted" securities within the meaning of the federal securities laws and are subject to certain transfer and voting restrictions under a Stockholders' Voting and Transfer Restriction Agreement. The 126,000 shares of common stock are marked to market, based on the closing price at June 30, 2011 of \$3.01 per share.

### 5. Investment in RXi Pharmaceuticals

In March 2010, the Company received proceeds from the redemption of 675,000 shares of common stock of its former subsidiary, RXi Pharmaceuticals Corporation, or RXi, for a total of \$3.8 million. In June 2010, the Company sold 2.0 million common shares of RXi and in December 2010, disposed of its remaining RXi shares for approximately \$6.9 million.

### 6. Basic and Diluted Loss Per Common Share

Basic and diluted net income (loss) per common share is 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 net income (loss) per common share where the effect would be anti-dilutive. Common share equivalents that could potentially dilute basic earnings per share in the future and that were excluded from the computation of diluted net income (loss) per share totaled approximately 19.1 million shares for each of the three-month and six-month periods ended June 30, 2011 and 13.3 million shares and 11.3 million shares, respectively, for the three-month and six-month periods ended June 30, 2010.

### 7. Warrant Liabilities

Liabilities measured at market value on a recurring basis include warrant liabilities resulting from the Company's past equity financing. In accordance with ASC 815-40 (formerly EITF (Emerging Issues Task Force) 00-19, Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in a Company's Own Stock, the warrant liabilities are being marked to market each quarter-end until they are completely settled. The warrants are valued using the Black-Scholes method. The warrants do not contain any down round provisions. The gain or loss resulting from the marked to market calculation is shown on the Consolidated Statements of Operations as Gain or Loss on warrant derivative liability. The Company recognized a gain of \$0.6 million and \$1.3 million for the three-month periods ended June 30, 2011 and 2010, respectively, and \$1.2 million and \$1.4 million for the six-month periods ended June 30, 2011 and 2010, respectively.

## 8. Stock Based Compensation

The Company has a 2000 Long-Term Incentive Plan under which 10.0 million shares of common stock were originally reserved for issuance. As of June 30, 2011, there were approximately 7.2 million shares subject to outstanding stock options. This plan expired on August 6, 2010, and thus no further shares are available for future grant under this plan.

The Company also has a 2008 Stock Incentive Plan under which 10.0 million shares of common stock were originally reserved for issuance. As of June 30, 2011, there were 2.8 million shares subject to outstanding stock options and 7.2 million shares available for future grant under this plan.

The Company has adopted the provisions of ASC 718, which requires the measurement and recognition of compensation expense for all stock-based awards made to employees and non-employees.

For stock options and stock warrants paid in consideration of services rendered by non-employees, the Company recognizes compensation expense in accordance with the requirements of ASC 718, Accounting for Equity Instruments that are Issued to other than Employees for Acquiring, or in Conjunction with Selling Goods or Services and ASC 505, Accounting Recognition for Certain Transactions involving Equity Instruments Granted to Other Than Employees, as amended.

Non-employee option grants that do not vest immediately upon grant are recorded as an expense over the vesting period. At the end of each financial reporting period, the value of these options, as calculated using the Black-Scholes option-pricing model, is determined, and compensation expense recognized or recovered during the period is 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 common stock options are fully vested.

The following table sets forth the total stock-based compensation expense resulting from stock options and warrants included in the Company's unaudited interim statements of operations:

|   | Three Months Ended June 30, |           | Six Months Ended June 30, |           |
|---|-----------------------------|-----------|---------------------------|-----------|
|   | 2011                        | 2010      | 2011                      | 2010      |
| Research and development — employee         | \$87,890                    | \$45,261  | \$171,321                 | \$87,895  |
| General and administrative — employee       | 343,682                     | 338,456   | 541,274                   | 483,404   |
| Total employee stock-based compensation     | \$431,572                   | \$383,717 | \$712,595                 | \$571,299 |
| Research and development — non-employee     | \$19,576                    | \$24,990  | \$41,484                  | \$53,312  |
| General and administrative — non-employee   | 42,908                      | -         | 88,305                    | 478,621   |
| Total non-employee stock-based compensation | \$62,484                    | \$24,990  | \$129,789                 | \$531,933 |

During the six-month period ended June 30, 2011, the Company issued stock options to purchase 250,000 shares of its common stock. The fair value of the stock options granted in the six-month period listed in the table below was estimated using the Black-Scholes option-pricing model, based on the following assumptions:

|                         | Six Months Ended June 30, 2011 |   | Six Months Ended June 30, 2010 |   |
|-------------------------|--------------------------------|---|--------------------------------|---|
| Risk-free interest rate | 2.13                           | % | 2.37% - 2.97                   | % |
| Expected volatility     | 87.69                          | % | 92.5% - 99.4                   | % |
| Expected lives (years)  | 10                             |   | 5 - 10                         |   |
| Expected dividend yield | 0.00                           | % | 0.00                           | % |

The Company's computation of expected volatility is based on the historical daily volatility of its publicly traded stock. For option grants issued during the six-month periods ended June 30, 2011 and 2010, the Company used a calculated volatility for each grant. The Company uses historical information to compute expected lives. In the six-month period ended June 30, 2011, the contractual term of the options granted was ten years and in the comparative 2010 period the contractual terms was 5 to 10 years; the Company used 6 years as the expected life in the 2010 period. 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, for the

six-month periods ended June 30, 2011 and 2010, the Company has estimated an annualized forfeiture rate of 13% and 14%, respectively, for options granted to its employees, 2% for options granted to senior management and 0% for options granted to directors and non-employees. Compensation costs will be adjusted for future changes in estimated forfeitures. 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. No amounts relating to employee stock-based compensation have been capitalized.

At June 30, 2011, there remained approximately \$2.5 million of unrecognized compensation expense related to unvested stock options granted to current and former employees, directors and consultants, to be recognized as expense over a weighted-average period of 1.02 years. Presented below is the Company's stock option activity:

|                                      | Six Months Ended June 30, 2011      |   |                               |                                    |
|--------------------------------------|-------------------------------------|---|-------------------------------|------------------------------------|
|                                      | Number of<br>Options<br>(Employees) | Number of<br>Options<br>(Non-Employees) | Total<br>Number of<br>Options | Weighted-Average<br>Exercise Price |
| Outstanding at January 1, 2011       | 8,877,460                           | 995,000                                 | 9,872,460                     | \$ 1.05                            |
| Granted                              | 250,000                             | —                                       | 250,000                       | 0.72                               |
| Exercised                            | —                                   | —                                       | —                             | —                                  |
| Forfeited or expired                 | (88,870 )                           | —                                       | (88,870 )                     | \$ 1.03                            |
| Outstanding at June 30, 2011         | 9,038,590                           | 995,000                                 | 10,033,590                    | \$ 1.04                            |
| Options exercisable at June 30, 2011 | 6,697,633                           | 757,521                                 | 7,455,154                     | \$ 1.06                            |

A summary of the unvested stock options as of June 30, 2011, and changes during the six-months then ended, is presented below:

|                               | Number of<br>Options<br>(Employees) | Number of<br>Options<br>(Non-Employees) | Total<br>Number of<br>Options | Weighted-Average<br>Grant Date Fair<br>Value per Share |
|-------------------------------|-------------------------------------|---|-------------------------------|--|
| Non-vested at January 1, 2011 | 3,175,514                           | 287,459                                 | 3,462,973                     | \$ 0.81  |
| Granted                       | —                                   | —                                       | —                             | \$ —   |
| Forfeited or expired          | (71,000 )                           | —                                       | (71,000 )                     | \$ 0.75  |
| Vested                        | (763,556 )                          | (49,980 )                               | (813,536 )                    | \$ 0.77  |
| Non-vested at June 30, 2011   | 2,340,958                           | 237,479                                 | 2,578,437                     | \$ 0.90  |

The following table summarizes significant ranges of outstanding stock options under the Company's plans at June 30, 2011:

| Range of<br>Exercise<br>Prices | Number of<br>Options | Weighted-Average<br>Remaining<br>Contractual Life<br>(years) | Weighted-Average<br>Exercise Price | Number of<br>Options<br>Exercisable | Weighted-Average<br>Contractual Life | Weighted-Average<br>Exercise Price |
|--------------------------------|----------------------|--|------------------------------------|-------------------------------------|--------------------------------------|------------------------------------|
| 0.30 -                         |                      |  |                                    |                                     |                                      |                                    |
| \$1.00                         | 2,392,607            | 7.06   | \$ 0.61                            | 2,103,357                           | 7.06                                 | \$ 0.61                            |
| \$1.01 -1.50                   | 7,112,983            | 6.50   | \$ 1.10                            | 4,823,797                           | 6.50                                 | \$ 1.13                            |
| 1.51 -                         |                      |  |                                    |                                     |                                      |                                    |
| \$3.33                         | 528,000              | 3.05   | \$ 2.27                            | 528,000                             | 3.05                                 | \$ 2.27                            |
|                                | 9,808,590            | 6.45   | \$ 1.04                            | 7,455,154                           | 6.45                                 | \$ 1.06                            |

The aggregate intrinsic value of outstanding options as of June 30, 2011 was \$0.5 million, which represents the difference between the fair market value of the underlying shares based on the closing price of the Company's common stock on June 30, 2011 of \$0.72 and the aggregate exercise price of the options.

## 9. Fair Value Measurements

Assets and liabilities recorded at fair value in balance sheets are categorized based upon the level of judgment associated with the inputs used to measure the fair value. Level inputs are as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities.

Level 2 – other significant observable inputs for the assets or liabilities through corroboration with market data at the measurement date.

Level 3 – significant unobservable inputs that reflect management’s best estimate of what market participants would use to price the assets or liabilities at the measurement date.

The following table summarizes fair value measurements by level at June 30, 2011 for assets and liabilities measured at fair value on a recurring basis:

| (In thousands)                         | Level I  | Level II | Level III | Total   |
|--|----------|----------|-----------|---------|
| Cash and cash equivalents              | \$ 7,023 | \$ —     | \$ —      | 7,023   |
| Marketable securities                  | 19,077   | —        | —         | 19,077  |
| Investment in Adventrx Pharmaceuticals | 379,260  | —        | —         | 379,260 |
| Warrant liability                      | —        | 1,260    | —         | 1,260   |

The following table summarizes fair value measurements by level at December 31, 2010 for assets and liabilities measured at fair value on a recurring basis:

| (In thousands)            | Level I  | Level II | Level III | Total  |
|---------------------------|----------|----------|-----------|--------|
| Cash and cash equivalents | \$ 6,324 | \$ —     | \$ —      | 6,324  |
| Marketable securities     | 20,568   | —        | —         | 20,568 |
| Warrant liability         | —        | 2,437    | —         | 2,437  |

Liabilities measured at market value on a recurring basis include warrant liabilities resulting from the Company’s July 2009 equity financing. In accordance with ASC 815-40, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock, the warrant liabilities are being marked to market each quarter-end until they are completely settled. The warrants are valued using the Black-Scholes method, using assumptions consistent with the Company’s application of ASC 505-50. See Warrant Liabilities above.

The Company considers carrying amounts of accounts receivable, accounts payable and accrued expenses to approximate fair value due to the short-term nature of these financial instruments.

The Company’s non-financial assets are measured at fair value when there is an indicator of impairment and recorded at fair value only when an impairment charge is recognized. The Company’s non-financial assets were not material at June 30, 2011 or June 30, 2010.



## 10. Sale of Assets

On May 13, 2011, the Company entered into an Asset Purchase Agreement with Orphazyme ApS (“Orphazyme”) pursuant to which it sold to Orphazyme certain pre-clinical and clinical data, intellectual property rights and other assets relating to its compounds associated with molecular chaperone regulation technology, which are designed to repair or degrade mis-folded proteins associated with disease. Under the Asset Purchase Agreement, the Company received a cash payment of \$150,000 and is entitled to receive various future payments that will be contingent upon the achievement of specified regulatory and business milestones, as well as royalty payments based on a specified percentage of any eventual net sales of products derived from the assets. The Company also will be entitled to a percentage-based fee from any licensing agreement entered into by Orphazyme with respect to the sold assets within 18 months after entering into the asset purchase agreement.

## 11. Liquidity and Capital Resources

At June 30, 2011, the Company had cash and cash equivalents of approximately \$7.0 million and marketable securities of approximately \$19.1 million. Management believes that the Company’s current cash on hand, together with its marketable securities, and approximately \$19.0 million of net proceeds of the Company’s underwritten public offering on July 27, 2011 described in Note 14, below, will be sufficient to fund its operations for the foreseeable future. The estimate is based, in part, upon the Company’s currently projected expenditures for the remainder of 2011 and the first six months of 2012 of approximately \$23.4 million, which includes approximately \$6.7 million for its clinical programs for INNO-206, approximately \$1.3 million for its clinical programs for bafetinib, approximately \$6.6 million for its clinical program for tamibarotene, approximately \$2.2 million for general operation of its clinical programs, and approximately \$6.6 million for other general and administrative expenses. These projected expenditures are also based upon numerous other assumptions and subject to many uncertainties, and actual expenditures may be significantly different from these projections. The Company will be required to obtain additional funding in order to execute its long-term business plan. The Company cannot assure that additional funding will be available on favorable terms, or at all. If the Company fails to obtain 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 condition.

If the Company obtains marketing approval as currently planned and successfully commercializes its product candidates, the Company anticipates it will take a minimum of several years and possibly longer, for it to generate significant recurring revenue. The Company will be dependent on future financing and possible asset sales until such time, if ever, as it can generate significant recurring revenue. The Company has no commitments from third parties to provide any additional financing, and it may not be able to obtain future financing on favorable terms, or at all. If the Company fails to obtain sufficient funding when needed, it may be forced to delay, scale back or eliminate all or a portion of its development programs or clinical trials, license to other companies its product candidates or technologies that it would prefer to develop and commercialize itself, or seek to sell some or all of its assets or merge with or be acquired by another company. For example, the Company intends to assess periodically the costs and potential commercial value of its molecular chaperone programs, and depending on these assessments, the Company may determine to enter into one or more strategic partnerships to pursue the development of this technology or an outright sale of the assets.

## 12. Equity Transactions

During the six-month period ended June 30, 2011, the Company issued 17,400 shares of its common stock to a warrant holder in connection with the cashless exercise of 318,123 outstanding common stock purchase warrants with an exercise price of \$1.00 per share. There were no exercises of outstanding stock options during the period.

### 13. Income Taxes

Utilization of the net operating losses (“NOL”) carry forwards may be subject to a substantial annual limitation due to ownership change limitations that may have occurred or that could occur in the future, as required by Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”), as well as similar state and foreign provisions. These ownership changes may limit the amount of NOL carryforwards that can be utilized annually to offset future taxable income and tax, respectively. In general, an “ownership change” as defined by Section 382 of the Code results from a transaction or series of transactions over a three-year period resulting in an ownership change of more than 50 percentage points of the market value of a company by certain stockholders or public groups. As a result of the underwritten public offering on July 27, 2011, as fully described in Note 14 below, an ownership change will occur, as defined under IRC Section 382. The Company is performing this study to determine the extent of the limitation. Due to the existence of the valuation allowance, future changes in the Company’s unrecognized tax benefits will not impact its effective tax rate. Any carry forwards that may expire prior to utilization as a result of such limitations will be removed, if applicable, from deferred tax assets with a corresponding reduction of the valuation allowance.

### 14. Subsequent events

On July 27, 2011, the Company undertook a \$20.4 million underwritten public offering, which closed on August 1, 2011. In the offering, the Company sold and issued 39.2 million shares of common stock at a price of \$0.51 per share and warrants at a price of \$0.01 per warrant to purchase up to approximately 45.1 million shares of common stock at an exercise price of \$0.64 per share. Net of underwriting discounts, legal, accounting and other offering expenses, the Company received proceeds of approximately \$19.0 million (without giving effect to any proceeds that may in the future be received by the Company upon the underwriters’ exercise of their option to purchase up to an additional 5,880,000 shares of common stock to cover over-allotments). Immediately after the sale, the Company had approximately 149.1 million shares of common stock outstanding, without giving effect to the possible exercise of the warrants sold in the offering or any of our other outstanding warrants or stock options.

On July 8, 2011, the Company effected an increase in the authorized shares of common stock to from 175,000,000 to 250,000,000 shares and an increase in the designated number of shares of Series A Preferred Stock associated with the Company's rights plan from 15,000 to 25,000 shares.

The following selected pro forma balance sheet data is derived from our balance sheet as of June 30, 2011 and gives retroactive effect to the completion of the underwritten offering and the increase in our authorized shares, but does not give effect to other events that occurred since June 30, 2011 and thus may not be indicative of our current financial condition. The information should be read in conjunction with our balance sheet as of June 30, 2011 and related notes.

|  | Actual as of<br>June 30, 2011<br>(Unaudited) | Adjustments<br>Related to<br>July 2011<br>Financing<br>(Unaudited) | Pro Forma as<br>of June 30,<br>2011<br>(Unaudited) |
|--|--|--|--|
| <b>ASSETS</b>  |  |  |  |
| Current assets:  |  |  |  |
| Cash and cash equivalents  | \$7,023,176                                  | \$19,000,000   | \$26,023,176                                       |
| Short-term investments   | 19,076,620                                   | —  | 19,076,620   |
| Prepaid and other current assets   | 2,395,834                                    | —  | 2,395,834  |
| Total current assets   | 28,495,630                                   | 19,000,000   | 47,495,630   |
| Non-current assets   | 693,382                                      | —  | 693,382  |
| Total assets   | \$29,189,012                                 | \$19,000,000   | \$48,189,012                                       |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |  |  |  |
| Total current liabilities  | \$6,823,342                                  | \$13,720,000   | \$20,543,342                                       |
| Commitments and contingencies  |  |  |  |
| Stockholders' equity:  |  |  |  |
| Preferred Stock, \$0.01 par value, 5,000,000 shares authorized, including 25,000 shares of Series A Junior Participating Preferred Stock; no shares issued and outstanding | —  | —  | —  |
| Common stock, \$0.001 par value, 250,000,000 shares authorized; 149,057,885 shares issued at June 30, 2011   | 109,858                                      | 39,200   | 149,058  |
| Additional paid-in-capital   | 230,066,850                                  | 5,240,800  | 235,307,650  |
| Accumulated comprehensive income, net of tax   | 379,260                                      | —  | 379,260  |
| Treasury stock, at cost (633,816 shares)   | (2,279,238 )                                 | —  | (2,279,238 )                                       |
| Accumulated deficit  | (205,911,059)                                | —  | (205,911,059)                                      |
| Total stockholders' equity   | 22,365,670                                   | 5,280,000  | 27,645,670   |
| Total liabilities and stockholders' equity   | \$29,189,012                                 | \$19,000,000   | \$48,189,012                                       |

## 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 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, as well as those made in our other filings with the SEC.

All statements in this Quarterly Report, including statements in this section, other than statements of historical fact are forward-looking statements for purposes of these provisions, including statements of our current views with respect to the recent developments regarding our business strategy, business plan and research and development activities, our future financial results, and other future events. These statements include forward-looking statements both with respect to us, specifically, and the biotechnology industry, in general. In some cases, forward-looking statements can be identified by the use of terminology such as “may,” “will,” “expects,” “plans,” “anticipates,” “estimates,” “potential” or “the negative thereof or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained herein 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.

All forward-looking statements involve inherent risks and uncertainties, and there are or will be important factors that could cause actual results to differ materially from those indicated in these statements. We believe that these factors include, but are not limited to, those factors discussed in this section and under the caption “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2010, all of which should be reviewed carefully. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we anticipate. Please consider our forward-looking statements in light of those risks as you read this Quarterly Report. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

#### Overview

CytRx Corporation (“CytRx,” the “Company,” “we,” “us” or “our”) is a biopharmaceutical research and development company engaged in the development of high-value human therapeutics, specializing in oncology. Our drug development includes clinical development of three product candidates for cancer indications, including a planned Phase 2 clinical trial for INNO-206 as a treatment for soft tissue sarcomas following an open-label Phase 1b safety and dose escalation clinical trial in patients with advanced solid tumors, clinical trials with tamibarotene for the treatment of non-small-cell lung cancer and acute promyelocytic leukemia, or APL, two Phase 2 proof-of-concept clinical trials with bafetinib in patients with advanced prostate cancer and high-risk B-cell chronic lymphocytic leukemia, or B-CLL, and an additional pharmacokinetic clinical trial with bafetinib in patients with brain cancer.

#### Critical Accounting Policies and Estimates

Management’s discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. 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, impairment of long-lived assets, including finite lived intangible assets, research and development expenses and clinical trial expenses and stock-based compensation expense.

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 for the year ended December 31, 2010. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements:

## Revenue Recognition

Revenue consists of license fees from strategic alliances with pharmaceutical companies as well as service and grant revenues. Service revenue consists of contract research and laboratory consulting. Grant revenues consist of government and private grants.

Monies received for license fees are deferred and recognized ratably over the performance period in accordance with Staff Accounting Bulletin (“SAB”) No. 104, Revenue Recognition. Milestone payments will be recognized upon achievement of the milestone as long as the milestone is deemed substantive and we have no other performance obligations related to the milestone and collectability is reasonably assured, which is generally upon receipt, or recognized upon termination of the agreement and all related obligations. Deferred revenue represents amounts received prior to revenue recognition.

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. Once all conditions of the grant are met and no contingencies remain outstanding, the revenue is recognized as grant fee revenue and an earned but unbilled revenue receivable is recorded.

#### 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, including licenses, that are utilized in research and development and that have no alternative future use are expensed when incurred. Technology developed for use in its products is expensed as incurred until technological feasibility has been established.

#### 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. If our estimates are incorrect, clinical trial expenses recorded in any particular period could vary.

#### Stock-Based Compensation

Our stock-based employee compensation plans are described in Note 7 of the Notes to Condensed Financial Statements included in this Quarterly Report. We have adopted the provisions of ASC 718, Share-Based Payment, which requires the measurement and recognition of compensation expense for all stock-based awards made to employees and non-employees.

For stock options and stock warrants paid in consideration of services rendered by non-employees, we recognize compensation expense in accordance with the requirements of ASC 718, ASC 505-50, Accounting for Equity Instruments that are Issued to other than Employees for Acquiring, or in Conjunction with Selling Goods or Service, as amended.

Non-employee option grants that do not vest immediately upon grant are recorded as an expense over the vesting period. At the end of each financial reporting period prior to performance, the value of these options, as calculated using the Black-Scholes option-pricing model, is determined, and compensation expense recognized or recovered during the period is 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 common stock options or warrants are fully vested.

The fair value of each CytRx common stock option grant is estimated using the Black-Scholes option-pricing model, which uses certain assumptions related to risk-free interest rates, expected volatility, expected life of the common stock options and future dividends. Compensation expense is recorded based upon the value derived from the Black-Scholes option-pricing model, based on an expected forfeiture rate that is adjusted for actual experience. If our Black-Scholes option-pricing model assumptions or our actual or estimated forfeiture rate are different in the future, that could materially affect compensation expense recorded in future periods.

### 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. If our estimates used in the determination of either discounted future cash flows or other appropriate fair value methods are not accurate as compared to actual future results, we may be required to record an impairment charge.

### Net Income (Loss) Per Share

Basic net income (loss) per common share is computed using the weighted-average number of common shares outstanding. Diluted net income (loss) per common share computed using the weighted-average number of common share and common share equivalents outstanding. Potentially dilutive stock options and warrants to purchase 19.1 million shares for the three-month and six-month periods ended June 30, 2011, respectively, and 13.3 million shares and 11.3 million shares for the three-month and six-month periods ended June 30, 2010, respectively, were excluded from the computation of diluted net income (loss) per share, where the effect would be anti-dilutive.



## Warrant Liabilities

Liabilities measured at market value on a recurring basis include warrant liabilities resulting from our July 2009 equity financing. In accordance with ASC 815-40, Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in a Company's Own Stock, the warrant liabilities are being marked to market each quarter-end until they are completely settled. The warrants are valued using the Black-Scholes method, using assumptions consistent with our application of ASC 718. The gain or loss resulting from the marked to market calculation is shown on the Statements of Operations as gain on warrant derivative liability.

## Investment in Adventrx Pharmaceuticals

On April 8, 2011, ADVENTRX Pharmaceuticals completed its acquisition of SynthRx, Inc., in which the Company held a 19.1% interest. As a result of the transaction, the Company received approximately 126,000 shares of common stock of ADVENTRX. The Company will be entitled to receive an additional 37,000 shares of common stock of ADVENTRX, which shares are currently held in an escrow account established in connection with the acquisition, except to the extent the shares are applied to satisfy potential indemnification obligations to ADVENTRX. If all of the development milestones under the acquisition agreement were to be achieved, the Company also would be entitled to receive up to 2.9 million additional ADVENTRX shares. The Company's ADVENTRX shares are "restricted" securities within the meaning of the federal securities laws and are subject to certain transfer and voting restrictions under a Stockholders' Voting and Transfer Restriction Agreement. The 126,000 shares of common stock are marked to market, based on the closing price at June 30, 2011 of \$3.01 per share.

## Liquidity and Capital Resources

We have relied primarily upon proceeds from sales of our equity securities and the exercise of options and warrants, and to a much lesser extent upon payments from our strategic partners and licensees, to generate funds needed to finance our business and operations.

At June 30, 2011, we had cash and cash equivalents of approximately \$7.0 million and marketable securities of approximately \$19.1 million. Management believes that our current cash on hand, together with our marketable securities, and approximately \$19.0 million of net proceeds of our underwritten public offering on July 27, 2011, will be sufficient to fund our operations for the foreseeable future. The estimate is based, in part, upon our currently projected expenditures for the remainder of 2011 and the first six months of 2012 of approximately \$23.4 million, which includes approximately \$6.7 million for our clinical programs for INNO-206, approximately \$1.3 million for our clinical programs for bafetinib, approximately \$6.6 million for our clinical program for tamibarotene, approximately \$2.2 million for general operation of our clinical programs, and approximately \$6.6 million for other general and administrative expenses. These projected expenditures are also based upon numerous other assumptions and subject to many uncertainties, and actual expenditures may be significantly different from these projections.

If we obtain marketing approval and successfully commercialize one or more of our product candidates, we anticipate it will take a minimum of several years and possibly longer, for us to generate significant recurring revenue. We will be dependent on future financing and possible asset sales until such time, if ever, as we can generate significant recurring revenue. We have no commitments from third parties to provide us with any additional financing, and we may not be able to obtain future financing on favorable terms, or at all. If we fail to obtain sufficient funding when needed, we may be forced to delay, scale back or eliminate all or a portion of our development programs or clinical trials, seek to license to other companies our product candidates or technologies that we would prefer to develop and commercialize ourselves, or seek to sell some or all of our assets or merge with or be acquired by another company.

We realized a net loss in the quarter ended June 30, 2011 of \$2.7 million as compared to a \$9.3 million net profit in the quarter ended June 30, 2010, or a difference of \$12.1 million. We recognized \$150,000 of licensing revenue in the quarter ended June 30, 2011 and \$0 in the comparative 2010 period. Our research and development expenditures were approximately \$1.2 million lower in the current quarter as compared to the quarter ended June 30, 2010, due to additional initial set-up expenses and early stage costs of one of our oncology clinical trials in the 2010 comparative period. In the quarter ended June 30, 2010, we recognized a gain of \$5.0 million resulting from the sale of 2 million RXi shares. There was no appreciable change in our general and administrative expenditures in the current quarter as compared to the quarter ended June 30, 2010.

In the six-month period ended June 30, 2011, we received \$8.4 million of cash from investing activities, as compared to \$10.4 million of cash from investing activities in the comparable 2010 period. In the current six-month period, we received proceeds from the sale of RXi shares for a total of \$6.9 million; in the comparative 2010 period, we received \$8.9 million from the sale of other RXi shares. We received net proceeds from the sale of marketable securities of \$1.5 million in the six-month period ended June 30, 2011; in the comparable 2010 period, net purchase of marketable securities was \$1.7 million. We utilized approximately \$26,000 for capital expenditures in the six-month period ended June 30, 2011 as compared to approximately \$289,000 in the comparable 2010 period. We do not expect any significant capital spending during the next 12 months.

In the six-month period ended June 30, 2010, we received \$147,000 from the exercise of stock options. There was no cash provided by or used in financing activities in the six-month period ended June 30, 2011. We continue to evaluate potential future sources of capital, as we do not currently have commitments from any third parties to provide us with additional 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, grants or otherwise is subject to market conditions and our 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 our future operating results or future financial condition.

As a development company that is primarily engaged in research and development activities, we expect to incur significant losses and negative cash flow from operating activities for the foreseeable future. There can be no assurance that we will be able to generate revenues from our product candidates and become profitable.

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

## Results of Operations

We recorded a net loss of approximately \$3.1 million and \$9.4 million for the three-month and six-month periods ended June 30, 2011, respectively, as compared to a net profit of approximately \$1.3 million and \$0.7 million for the three-month and six-month periods ended June 30, 2010, respectively. Our net income during the three-month and six-month periods ended June 30, 2011 resulted solely from gains on the sale of RXI of \$5.0 million and \$8.9 million, respectively.

We recognized licensing revenue of \$150,000 for the three-month and six-month periods ended June 30, 2011, as compared to no revenues in the comparative 2010 periods. All future licensing fees under our current licensing agreements are dependent upon successful development milestones being achieved by the licensor. During 2011, we do not anticipate receiving any significant licensing fees.

## Research and Development

|  | Three-Month Period<br>Ended June 30, |         | Six-Month Period Ended<br>June 30, |         |
|--|--------------------------------------|---------|------------------------------------|---------|
|  | 2011                                 | 2010    | 2011                               | 2010    |
|  | (In thousands)                       |         | (In thousands)                     |         |
| Research and development expenses          | \$1,777                              | \$3,002 | \$6,491                            | \$4,975 |
| Non-cash research and development expenses | 20                                   | 25      | 41                                 | 53      |
| Employee stock option expense              | 88                                   | 45      | 171                                | 88      |
| Depreciation and amortization              | 2                                    | 1       | 4                                  | 3       |

|         |         |         |         |
|---------|---------|---------|---------|
| \$1,887 | \$3,073 | \$6,707 | \$5,119 |
|---------|---------|---------|---------|

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, excluding stock option expense, non-cash expenses, and depreciation expense, were \$1.8 million and \$6.5 million for the three-month and six-month periods ended June 30, 2011, respectively, and \$3.0 million and \$5.0 million, respectively, for the same periods in 2010.

Research and development expenses incurred during the three-month and six-month periods ended June 30, 2011 relate to our various development programs. In the three-month period ended June 30, 2011, the development expenses of our program for INNO-206 were \$0.9 million, the expenses of our program for bafetinib were \$0.1 million, and the expenses of our program for tamibarotene were \$0.3 million. The remainder of our research and development expenses primarily related to research and development support costs.

We sometimes issue equity securities as compensation to our consultants and in connection with the acquisition of technologies. For financial statement purposes, we record these transactions based on the fair value of the securities, or of the services received, whichever can be measured more reliably. The value of non-employee options and warrants are marked to market using the Black-Scholes option-pricing model and most of the compensation expense recognized or recovered during the period is adjusted accordingly. We recorded \$0.1 million and \$0.2 million of employee stock option expense during the three-month and six-month periods ended June 30, 2011, respectively, and \$45,000 and \$0.1 million, respectively, for the same periods in 2010.

#### General and Administrative Expenses

|  | Three-Month Period<br>Ended June 30, |         | Six-Month Period Ended<br>June 30, |         |
|--|--------------------------------------|---------|------------------------------------|---------|
|  | 2011                                 | 2010    | 2011                               | 2010    |
|  | (In thousands)                       |         | (In thousands)                     |         |
| General and administrative expenses          | \$1,618                              | \$1,689 | \$3,504                            | \$3,687 |
| Non-cash general and administrative expenses | 43                                   | 0       | 88                                 | 479     |
| Employee stock option expense                | 344                                  | 338     | 541                                | 483     |
| Depreciation and amortization                | 21                                   | 33      | 41                                 | 56      |
|  | \$2,026                              | \$2,060 | \$4,174                            | \$4,705 |

General and administrative expenses include all administrative salaries and general corporate expenses, including legal expenses associated with the prosecution of our intellectual property. Our general and administrative expenses, excluding stock option expense, non-cash expenses and depreciation expense, were \$1.6 million and \$3.5 million for the three-month and six-month periods ended June 30, 2011, respectively, and \$1.7 million and \$3.7 million, respectively, for the same periods in 2010.

Employee stock option expense relates to options granted to recruit and retain directors, officers and other employees. We recorded approximately \$0.3 million and \$0.5 million of employee stock option expense in the three-month and six-month periods ended June 30, 2011, respectively, as compared to \$0.3 million and \$0.5 million, respectively, for the same periods in 2010. We recorded approximately \$43,000 and \$88,000 of non-employee stock option expense in the three-month and six-month periods ended June 30, 2011, respectively, as compared to \$0 and \$0.5 million, respectively, for the same periods in 2010.

#### Depreciation and Amortization

Depreciation expense reflects the depreciation of our equipment and furnishings.

#### Interest Income

Interest income was \$50,000 and \$106,000 for the three-month and six-month periods ended June 30, 2011, respectively, as compared to \$80,000 and 173,000, respectively, for the same periods in 2010.

#### Item 3. — 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 U.S. 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. 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 the three-month period ended June 30, 2011, it would not have had a material effect on our results of operations or cash flows for that period.

#### Item 4. — Controls and Procedures

##### Evaluation 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 the end of the quarterly period covered by this Quarterly Report. 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.

##### Changes in Controls over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended June 30, 2011 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We continually seek to assure 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 SEC's rules and regulations. Any failure to improve our internal controls to address the weaknesses 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.

## PART II — OTHER INFORMATION

#### Item 5. — Other Information

##### Frequency of Future Advisory Votes on Executive Compensation

In connection with the results of the non-binding advisory vote on the frequency of future advisory votes on the compensation of CytRx's named executive officers at the Annual Meeting of Stockholders held on June 30, 2011, the Board of Directors has decided that a non-binding advisory vote to approve the compensation of the named executive officers of CytRx will be conducted annually. Accordingly, CytRx will include in its proxy materials relating to future Annual Meetings a proposal with respect to an advisory vote on executive compensation until the next advisory vote on the frequency of such votes, or until the Board of Directors of CytRx otherwise determines that a different frequency for such advisory votes is in the best interests of CytRx stockholders.

The results of the advisory vote at the recent Annual Meeting were disclosed in a Current Report on Form 8-K filed on July 5, 2011. As permitted by SEC rules, the information contained in this Item 5 is in lieu of an amendment to that Form 8-K.

#### Item 6. — Exhibits

The exhibits listed in the accompanying Index to Exhibits are filed as part of this Quarterly Report and incorporated herein by reference.

SIGNATURES

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

CytRx Corporation

Date: August 8, 2011

By: /s/ JOHN Y. CALOZ  
John Y. Caloz  
Chief Financial Officer



## INDEX TO EXHIBITS

| Exhibit<br>Number | Description   |
|-------------------|---|
| 10.1†             | Asset Purchase Agreement dated May 13, 2011 by and between CytRx Corporation and Orphazyme ApS  |
| 31.1              | Certification of Chief Executive Officer Pursuant to 17 CFR 240.13a-14(a)   |
| 31.2              | Certification of Chief Financial Officer Pursuant to 17 CFR 240.13a-14(a)   |
| 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 |
| 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 |
| 101.INS           | XBRL Instance Document  |
| 101.SCH           | XBRL Schema Document  |
| 101.CAL           | XBRL Calculation Linkbase Document  |
| 101.LAB           | XBRL Label Linkbase Document  |
| 101.PRE           | XBRL Presentation Linkbase Document   |

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†This exhibit was filed separately with the Commission pursuant to an application for confidential treatment. The confidential portions of the exhibit have been omitted and have been marked by an asterisk.

