

CYTRX CORP  
Form 10-Q  
August 09, 2011

---

---

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

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.

---

---

---

CYTRX CORPORATION

FORM 10-Q

TABLE OF CONTENTS

	Page
<b>PART I. — FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	1
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	11
Item 3. Quantitative and Qualitative Disclosures About Market Risk	16
Item 4. Controls and Procedures	17
<b>PART II. — OTHER INFORMATION</b>	
Item 5. Other Information	17
Item 6. Exhibits	17
<b>SIGNATURES</b>	18
<b>INDEX TO EXHIBITS</b>	19

## PART I — FINANCIAL INFORMATION

## Item 1. — Financial Statements

CYTRX CORPORATION  
CONDENSED BALANCE SHEETS  
(Unaudited)

	June 30, 2011	December 31, 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		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
<b>Revenue:</b>				
License revenue	150,000	—	150,000	—
<b>Expenses:</b>				
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 )
<b>Other income:</b>				
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
<b>Other comprehensive income (net of tax)</b>				
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	2011