CYTRX CORP
Form 10-Q
May 09, 2013

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

Form 10-Q

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

For the quarterly period ended March 31, 2013

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

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

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 R No £

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

R 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 R	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 R

Number of shares of CytRx Corporation common stock, $.001 par value, outstanding as of May 9, 2013: 30,517,370 shares exclusive of treasury shares.

CYTRX CORPORATION

FORM 10-Q

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PART I — FINANCIAL INFORMATION

Item 1. — Financial Statements

CYTRX CORPORATION
CONDENSED BALANCE SHEETS
(Unaudited)

	March 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$11,429,671	$14,344,088
Short-term investments	21,000,000	24,000,000
Receivables	10,294	109,802
Interest receivable	40,168	26,517
Investment in Mast Therapeutics, at market	62,945	—
Prepaid expenses and other current assets	1,462,098	1,212,041
Total current assets	34,005,176	39,692,448
Equipment and furnishings, net	226,975	253,277
Goodwill	183,780	183,780
Other assets	102,271	102,271
Total assets	$34,518,202	$40,231,776
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,851,300	$3,060,516
Accrued expenses and other current liabilities	2,989,712	3,033,189
Warrant liabilities	6,067,450	3,972,230
Total current liabilities	10,908,462	10,065,935
Commitments and contingencies		
Stockholders' equity		
Preferred Stock, $.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, $.001 par value, 250,000,000 shares authorized; 30,607,916 shares issued and outstanding at March 31, 2013 and December 31, 2012	30,608	30,608
Additional paid-in capital	261,626,646	261,318,638
Treasury stock, at cost (90,546 shares)	(2,279,238)	(2,279,238)
Accumulated deficit	(235,768,276)	(228,904,167)
Total stockholders' equity	23,609,740	30,165,841
Total liabilities and stockholders' equity	$34,518,202	$40,231,776

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

CYTRX CORPORATION
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Revenue:		
License revenue	$—	$—
Expenses:		
Research and development	3,188,759	4,401,515
General and administrative	1,817,325	1,914,715
	5,006,084	6,316,230
Loss before other income (loss)	(5,006,084)	(6,316,230)
Other income (loss):		
Interest income	40,258	35,458
Other income, net	196,937	34,059
Loss on warrant derivative liability	(2,095,220)	(3,888,166)
Net loss	$(6,864,109)	$(10,134,879)
Basic and diluted net loss per share	$(0.23)	$(0.49)
Basic and diluted weighted average shares outstanding	30,417,370	21,203,867

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

CYTRX CORPORATION
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net loss	$(6,864,109)	$(10,134,879)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	29,539	26,184
Retirement of fixed assets	—	2,187
Stock compensation and warrant expense	308,008	321,614
Fair value adjustment on warrant liability	2,095,220	3,888,166
Net foreign exchange gain	(132,244)	—
Income from receipt of Mast Therapeutics, Inc. shares	(62,945)	—
Changes in assets and liabilities:		
Receivables	99,508	172,325
Interest receivable	(13,651)	29,720
Prepaid expenses and other current assets	(250,057)	211,020
Accounts payable	(1,210,009)	534,804
Accrued expenses and other current liabilities	88,767	916,530
Net cash used in operating activities	(5,911,973)	(4,032,329)
Cash flows from investing activities:		
Proceeds from sale of short-term investments	3,000,000	2,989,902
Purchases of equipment and furnishings	(2,444)	(29,467)
Net cash provided by investing activities	2,997,556	2,960,435
Net decrease in cash and cash equivalents	(2,914,417)	(1,071,894)
Cash and cash equivalents at beginning of period	14,344,088	17,988,590
Cash and cash equivalents at end of period	$11,429,671	$16,916,696
Supplemental disclosure of cash flow information:		
Fixed assets purchased on credit	$793	$—
Cash paid for income taxes	$1,600	$—

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

NOTES TO CONDENSED FINANCIAL STATEMENTS

March 31, 2013
(Unaudited)

1. Description of Company and Basis of Presentation

CytRx Corporation ("CytRx" or the "Company") is a biopharmaceutical research and development company specializing in oncology. The CytRx oncology pipeline is focused on the clinical development of its tumor-targeting doxorubicin conjugate aldoxorubicin (formerly known as INNO-206). CytRx has initiated an international Phase 2b clinical trial as a treatment for soft tissue sarcomas, has completed its Phase 1b/2 clinical trial primarily in the same indication, and has initiated a Phase 1b pharmacokinetics clinical trial in patients with metastatic solid tumors and a Phase 1b study of aldoxorubicin in combination with doxorubicin in patients with advanced solid tumors. The Company is initiating a potential Phase 3 pivotal trial under a special protocol assessment (SPA) with aldoxorubicin as a therapy for patients with soft tissue sarcomas whose tumors have progressed following treatment with chemotherapy. CytRx is planning to expand its pipeline of oncology candidates based on its proprietary linker platform technology that can be utilized with multiple chemotherapeutic agents and could allow for greater concentration of drug at tumor sites. The Company also has rights to two additional drug candidates, tamibarotene and bafetinib. The Company completed its evaluation of bafetinib in the ENABLE Phase 2 clinical trial in high-risk B-cell chronic lymphocytic leukemia (B-CLL), and plans to seek a partner for further development of bafetinib, and is evaluating further development of tamibarotene.

The accompanying condensed financial statements at March 31, 2013 and for the three-month periods ended March 31, 2013 and 2012 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, 2012 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, 2012. 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.

Effective May 15, 2012, the Company completed a 1-for-7 reverse stock split of the Company's outstanding shares of common stock; no change was made to the per-share par value per share of the common stock or to the number of shares of authorized common stock. All share and per share amounts in the accompanying consolidated financial statements have been adjusted to reflect the reverse stock split as if it had occurred at the beginning of the earliest period presented.

2. Recent Accounting Pronouncements

We have reviewed all of the recent accounting pronouncements and have determined that they have not or will not have a material impact on our financial statements, or simply do not apply to our operations.

3. Short-term Investments

The Company held $21.0 million of short-term investments at March 31, 2013. The Company has classified these investments as available for sale. These investments are comprised of federally insured certificates of deposit as follows: $4.0 million with a maturity date of May 2, 2013; and $17.0 million with a maturity date of October 31, 2013.

4. Investment in Mast Therapeutics, Inc.

On April 8, 2011, Mast Therapeutics, Inc. (formerly 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 Mast Therapeutics, which it sold on October 11, 2011 for $112,200, and on June 6, 2012, the Company received an additional 38,196 shares of common stock of Mast Therapeutics that had been held in an escrow established in connection with the acquisition, which it sold for $17,900. In January 2013, the Company received an additional 92,566 shares, which it currently holds, at a market value of $62,945 at March 31, 2013. If all of the development milestones under the acquisition agreement were to be achieved, the Company also would be entitled to receive up to 2.8 million additional Mast Therapeutics shares. Our former interest in SynthRx had a zero carrying value.

5. Basic and Diluted Net Loss Per Common Share

Basic and diluted net loss per common share is computed based on the weighted-average number of common shares outstanding. Common share equivalents (which consist of options, warrants and restricted stock) 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 net income (loss) per share in the future, and which were excluded from the computation of diluted loss per share, totaled 11.0 million shares for the three-month period ended March 31, 2013, and 9.6 million shares for the three-month period ended March 31, 2012.

6. Warrant Liabilities

Liabilities measured at market value on a recurring basis include warrant liabilities resulting from the Company's past equity financings, including the underwritten public offering that closed on August 1, 2011. In accordance with ASC 815-40, Derivatives and Hedging – Contracts in Entity's Own Equity ("ASC 815-40"), the warrant liabilities are being marked to market until they are completely settled. The warrants are valued using the Black-Scholes method, using assumptions consistent with our application of ASC 505-50, Equity-Based Payments to Non-Employees ("ASC 505-50"). The gain or loss resulting from the marked to market calculation is shown on the Consolidated Statements of Operations as gain (loss) on warrant derivative liability. The Company recognized a loss on warrant derivative liability of $2.1 million and $3.9 million for the three-month periods ended March 31, 2013 and 2012, respectively. The following reflects the weighted-average assumptions for each of the three-month periods indicated:

	Three Months Ended March 31,			
	2013		2012	
Risk-free interest rate	0.45	%	0.74	%
Expected dividend yield	0	%	0	%
Expected lives	3.21		4.15	
Expected volatility	69.0	%	89.2	%
Warrants classified as liabilities	$ 6,067,450		$ 3,972,230	
Loss on warrant liabilities	$ (2,095,220)		$ (3,888,166)	

The dividend yield assumption of zero is based upon the fact that 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. The expected lives are based on the remaining contractual lives of the related warrants at the valuation date.

7. Stock Based Compensation

The Company has a 2000 Long-Term Incentive Plan under which 1.4 million shares of common stock were originally reserved for issuance. As of March 31, 2013, there were approximately 1.0 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 5.0 million shares of common stock were reserved for issuance. As of March 31, 2013, there were 2.3 million shares subject to outstanding stock options and 2.7 million shares available for future grant under this plan.

The Company follows ASC 718, Compensation-Stock Compensation, which requires the measurement and recognition of compensation expense for all stock-based awards made to 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 505-50.

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 March 31,	
	2013	2012
Research and development — employee	$50,172	$95,124
General and administrative — employee	184,640	174,072
Total employee stock-based compensation	$234,812	$269,196
Research and development — non-employee	$—	$—
General and administrative — non-employee	27,212	52,418
Total non-employee stock-based compensation	$27,212	$52,418

During the three-month period ended March 31, 2013, the Company issued stock options to purchase 89,176 shares of its common stock. The fair value of the stock options granted in the current three-month period was estimated using the Black-Scholes option-pricing model, based on the following assumptions:

	Three Months Ended March 31, 2013	
Risk-free interest rate	1.16	%
Expected volatility	85.4% - 85.8	%
Expected lives (years)	6	
Expected dividend yield	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 three-month period ended March 31, 2013, the Company used a calculated volatility for each grant. The Company uses historical information to compute expected lives. In the three-month period ended March 31, 2013, the contractual term of the options granted was ten years and the Company used six years as the expected life. 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 three-month period ended March 31, 2013, the Company has estimated an annualized forfeiture rate of 12% for options granted to its employees, 3% for options granted to senior management and 0% for options granted to directors and non-employees. For the comparative three-month period ended March 31, 2012, the Company had estimated an annualized forfeiture rate of 14% 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.

As of March 31, 2013, there remained approximately $1.6 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 1.25 years. Presented below is the Company's stock option activity:

	Three Months Ended March 31, 2013			
	Number of Options (Employees)	Number of Options (Non-Employees)	Total Number of Options	Weighted-Average Exercise Price
Outstanding at January 1, 2013	3,240,850	142,143	3,382,993	$ 4.17
Granted	89,176	—	89,176	$ 2.45
Forfeited or expired	(103,716)	—	(103,716)	$ 3.08
Outstanding at March 31, 2013	3,226,310	142,143	3,368,453	$ 4.16
Options exercisable at March 31, 2013	2,020,696	133,215	2,153,911	$ 5.28

A summary of the unvested stock options as of March 31, 2013, and changes during the three-month period then ended, is presented below:

	Number of Options (Employees)	Number of Options (Non-Employees)	Total Number of Options	Weighted-Average Grant Date Fair Value per Share
Non-vested at January 1, 2013	1,322,389	8,929	1,331,318	$ 1.69
Granted	89,176	—	89,176	$ 1.75
Forfeited or expired	(103,716)	—	(103,716)	$ 2.32
Vested	(102,236)	—	(102,236)	$ 1.90
Non-vested at March 31, 2013	1,205,613	8,929	1,214,542	$ 1.69

The following table summarizes significant ranges of outstanding stock options under the Company's plans at March 31, 2013:

Range of Exercise Prices	Number of Options	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number of Options Exercisable	Weighted-Average Contractual Life	Weighted-Average Exercise Price
1.83 - $3.00	2,115,545	9.26	$ 1.98	962,073	9.26	$ 2.03
$3.01 –7.00	178,512	5.02	$ 5.24	174,869	5.02	$ 5.27
$7.01 –8.50	942,110	4.88	$ 7.66	884,683	4.88	$ 7.69
8.51 – $32.55	132,286	1.58	$ 12.75	132,286	1.58	$ 12.75
	3,368,453	7.49	$ 4.16	2,153,911	7.49	$ 5.28

The aggregate intrinsic value of outstanding options as of March 31, 2013 was $4.0 million, which represents options whose exercise price was less than the closing fair market value of the Company's common stock on March 28, 2013 of $2.72.

Restricted Stock

On December 31, 2012, the Company granted to Dr. Daniel Levitt, Executive Vice President and Chief Medical Officer, 100,000 shares of CytRx Corporation restricted stock pursuant to the 2008 Plan, of which 50,000 shares will vest on June 30, 2013, and the remaining 50,000 shares will vest over the subsequent six months, provided that Dr. Levitt remains employed by the Company on each such date. The fair value of the restricted stock is based on the market price of the Company's shares on the grant date less the par value received as consideration. The fair value of these restricted shares on the grant date was $186,900. The stock-based compensation expense relating to restricted stock included in the Company's unaudited interim statements of operations for the three-months ended March 31, 2013 and 2012, respectively, was $45,984 and $0.

8. Fair Value Measurements

Assets and liabilities recorded at fair value on the 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 March 31, 2013 for assets and liabilities measured at fair value on a recurring basis:

(In thousands)	Level I	Level II	Level III	Total
Cash equivalents	$10,465	$—	$—	$10,465
Short-term investments	21,000	—	—	21,000
Warrant liability	—	—	6,067	6,067

The following table summarizes fair value measurements by level at December 31, 2012 for assets and liabilities measured at fair value on a recurring basis:

(In thousands)	Level I	Level II	Level III	Total
Cash equivalents	$13,188	$—	$—	$13,188
Short-term investments	24,000	—	—	24,000
Warrant liabilities	—	—	3,972	3,972

Liabilities measured at market value on a recurring basis include warrant liabilities resulting from the Company's July 2009 and August 2011 equity financings. In accordance with ASC 815-40, 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 March 31, 2013 or 2012.

9. Liquidity and Capital Resources

At March 31, 2013, the Company had cash and cash equivalents of approximately $11.4 million and short-term investments of $21.0 million. Management believes that the Company's current cash on hand together with its short-term investments 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 2013 and the first three months of 2014 of approximately $21.1 million, which includes approximately $7.7 million for its clinical programs for aldoxorubicin, approximately $1.8 million for its clinical program for tamibarotene, approximately $0.1 million for its clinical programs for bafetinib, approximately $4.8 million for general operation of its clinical programs, and approximately $6.8 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 the Company obtains marketing approval and successfully commercializes its product candidates, the Company anticipates it will take several years, and possibly longer, for it to generate significant recurring revenue. The Company will be dependent on future financing and possible strategic partnerships or 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, seek to 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.

10. Equity Transactions

On October 23, 2012, the Company completed a $23.0 million underwritten public offering, in which it sold and issued 9.2 million shares of common stock. Net of underwriting discounts, legal, accounting and other offering expenses, the Company received proceeds of approximately $21.5 million.

Effective May 15, 2012, the Company completed a 1-for-7 reverse stock split of the Company's outstanding shares of common stock; no change was made to the per-share par value per share of the common stock or to the number of shares of authorized common stock.

11. Income Taxes

The Company completed an analysis of changes in ownership and concluded the net operating loss ("NOL") carryforwards as of December 31, 2012 are not subject to limitation under Section 382 of the Internal Revenue Code.

12. Subsequent Event

On May 7, 2013, the Company announced it is discontinuing the Phase 2b clinical trial with tamibarotene for patients with advanced non-small-cell lung cancer, following the recommendation of an independent Data Safety Monitoring Committee. The Company is evaluating the reduction in expected costs that result from the clinical trial cessation.

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, 2012, 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 compa
specializing in oncology. Our oncology pipeline is focused on the clinical development of our tumor-targeting doxorubicin conjugate aldoxorubicin (formerly known as INNO-206). We have initiated an international Phase 2b clinical trial as a treatment for soft tissue sarcomas, have completed our Phase 1b/2 clinical trial primarily in the same indication, and have initiated a Phase 1b pharmacokinetics clinical trial in patients with metastatic solid tumors and a Phase 1b study of aldoxorubicin in combination with doxorubicin in patients with advanced solid tumors. We are initiating a potential Phase 3 pivotal trial under a special protocol assessment (SPA) with aldoxorubicin as a therapy for patients with soft tissue sarcomas whose tumors have progressed following treatment with chemotherapy. We are planning to expand our pipeline of oncology candidates based on its proprietary linker platform technology that can be utilized with multiple chemotherapeutic agents and could allow for greater concentration of drug at tumor sites. We also have rights to two additional drug candidates, tamibarotene and bafetinib. We completed our evaluation of bafetinib in the ENABLE Phase 2 clinical trial in high-risk B-cell chronic lymphocytic leukemia (B-CLL), and plan to seek a partner for further development of bafetinib, and are evaluating further development of tamibarotene.

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 U.S. 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, 2012. 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 Financial Accounting Standards Board ("FASB") Accounting Codification Standards ("ASC") ASC 605-25, Revenue Recognition – Multiple-Element Arrangements ("ASC 605-25"). 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 follow ASC 718, Compensation-Stock Compensation ("ASC 718"), which requires the measurement and recognition of compensation expense for all stock-based awards made to 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 505-50, Equity-Based Payments to Non-Employees ("ASC 505-50").

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 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 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 Loss per Share

Basic and diluted net loss per common share is computed using the weighted-average number of common shares outstanding. Potentially dilutive stock options and warrants to purchase 11.0 million shares for the three-month period ended March 31, 2013, and 9.6 million shares for the three-month period ended March 31, 2012 were excluded from the computation of diluted net loss per share, because 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 and August 2011 equity financings. In accordance with ASC 815-40, Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in a Company's Own Stock ("ASC 815-40"), 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 505-50. The gain or loss resulting from the marked to market calculation is shown on the statements of operations as a gain or loss on warrant derivative liability.

Investment in Mast Therapeutics, Inc.

On April 8, 2011, Mast Therapeutics, Inc. (formerly "ADVENTRX Pharmaceuticals") completed its acquisition of SynthRx, Inc., in which we held a 19.1% interest. As a result of the transaction, we received approximately 126,000 shares of common stock of Mast Therapeutics, which we sold on October 11, 2011 for $112,200, and on June 6, 2012, we received an additional 38,196 shares of common stock of Mast Therapeutics that had been held in an escrow established in connection with the acquisition, which we sold for $17,900. In January, 2013, we received an additional 92,566 shares, which we currently hold, with a market value of $62,945 as at March 31, 2013. If all of the development milestones under the acquisition agreement were to be achieved, we also would be entitled to receive up to 2.8 million additional Mast Therapeutics shares. At the time of the sale, our interest in SynthRx had a zero carrying value.

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 March 31, 2013, we had cash and cash equivalents of approximately $11.4 million and short term investments of $21.0 million. Management believes that our current cash on hand, together with our short-term investments, 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 2013 and the first three months of 2014 of approximately $21.1 million, which includes approximately $7.7 million for our clinical programs for aldoxorubicin, approximately $1.8 million for

our clinical program for tamibarotene, approximately $0.1 million for our clinical programs for bafetinib, approximately $4.8 million for general operation of our clinical programs, and approximately $6.8 million for other general and administrative expenses. The 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 several years and possibly longer, for us to generate significant recurring revenue. We will be dependent on future financing and possible strategic partnerships or 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 recorded a net loss in the quarter ended March 31, 2013 of $6.9 million as compared to a net loss in the quarter ended March 31, 2012 of $10.1 million, or a decrease of $3.2 million, due principally to a reduction of $1.8 million in the loss on the warrant derivative liability attributable primarily to the warrants issued in connection with the August 2011 equity financing. There was also a reduction in our research and development expenditures in the current quarter as compared to the quarter ended March 31, 2012 of approximately $1.2 million, due to the timing of expenses.

We received $3.0 million of cash from investing activities in both the 2013 and 2012 three-month periods ended March 31, from net proceeds from the sale of marketable securities. We utilized approximately $2,000 for capital expenditures in the three-month period ended March 31, 2013 as compared to approximately $29,000 in the comparable 2012 period. We do not expect any significant capital spending during the next 12 months.

There was no cash provided by or used in financing activities in either of the three-month periods ended March 31, 2013 or 2012. 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. Even if we become profitable, we may not be able to sustain that profitability.

Results of Operations

We recorded a net loss of approximately $6.9 million for the three-month period ended March 31, 2013, as compared to a net loss of approximately $10.1 million for the three-month period ended March 31, 2012. The decrease in our net loss during the current three-month period resulted from a reduction in the loss on warrant derivative liability of $1.8 million and a reduction in research and development expenses of $1.2 million.

We recognized no service revenue for either of the three-month periods ended March 31, 2013 and March 31, 2012. All future licensing fees under our current licensing agreements are dependent upon successful development milestones being achieved by the licensor. During 2013, we do not anticipate receiving any significant licensing fees.

Research and Development

	Three-Month Period Ended March 31,	
	2013	2012
	(In thousands)	
Research and development expenses	$3,084	$4,303
Employee stock option expense	96	95
Depreciation and amortization	9	4
	$3,189	$4,402

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 $3.1 million for the three-month period ended March 31, 2013, and $4.3 million for the same period in 2012.

Research and development expenses incurred during the three-month period ended March 31, 2013 relate to our various development programs. In the three-month period ended March 31, 2013, the development expenses of our program for aldoxorubicin were $1.6 million and the expenses of our program for tamibarotene were $0.9 million. The remainder of our research and development expenses primarily related to research and development support costs.

We recorded $96,000 of employee stock option expense during the three-month period ended March 31, 2013, and $95,000 for the same period in 2012.

General and Administrative Expenses

	Three-Month Period Ended March 31,	
	2013	2012
	(In thousands)	
General and administrative expenses	$1,584	$1,666
Non-cash general and administrative expenses	27	52
Employee stock option expense	185	174
Depreciation and amortization	21	22
	$1,817	$1,914

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 for the three-month period ended March 31, 2013, and $1.7 million for the same period in 2012.

Employee stock option expense relates to options granted to recruit and retain directors, officers and other employees. We recorded approximately $185,000 of employee stock option expense in the three-month period ended March 31, 2013, as compared to $174,000 for the same period in 2012. We recorded approximately $27,000 of non-employee stock option expense in the three-month period ended March 31, 2013, as compared to $52,000 for the same period in 2012.

Depreciation and Amortization

Depreciation expense reflects the depreciation of our equipment and furnishings.

Interest Income

Interest income was $40,000 for the three-month period ended March 31, 2013, as compared to $35,000 for the same period in 2012. This was as a result of higher cash balances in the current 2012 periods.

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 March 31, 2013, 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 our 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 our 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 March 31, 2013 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 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: May 9, 2013	By:	/s/ JOHN Y. CALOZ John Y. Caloz Chief Financial Officer

INDEX TO EXHIBITS

Exhibit Number	Description
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.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document