

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

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

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

For the quarterly period ended September 30, 2005

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 (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 an accelerated filer (as defined in Rule 12(b)-2 of the Exchange Act).

Yes No

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, issued and outstanding as of November 9, 2005: 58,90,792.

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EXPLANATORY NOTE

CytRx Corporation (the Company) is amending in certain respects its Quarterly Report on Form 10-Q for the quarter year ended September 30, 2005. The purpose of this amendment is to restate our condensed consolidated financial statements for the quarter ended September 30, 2005 as described below.

The restatement of our condensed consolidated financial statements is related to the pro forma amounts disclosed in accordance with Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, which were calculated incorrectly as set forth in the stock-based compensation footnote contained our original Form 10-Q. The restatement also includes a correction in the accounting for antidilution features in certain of our outstanding warrants.

On May 20, 2006, the Audit Committee of our Board of Directors approved management's recommendation to restate our condensed consolidated financial statements for the quarter ended September 30, 2005 to reflect the corrected disclosures in our stock-based compensation footnote and the correction in the accounting for antidilution features in certain of our outstanding warrants.

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

Part I Item 1. Financial Statements (unaudited)

Part I Item 4. Controls and Procedures

Part II Item 6. Exhibits

Exhibit 31.1 Certification of Chief Executive Officer

Exhibit 31.2 Certification of Chief Financial Officer

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

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CYTRX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

| | September 30, 2005 | December 31, 2004 |
|--|-------------------------------|------------------------------|
| | (restated) | |
| ASSETS | | |
| Current assets: | | |
| Cash and short term investments | \$ 11,212,309 | \$ 2,999,409 |
| Prepaid and other current assets | 459,361 | 956,146 |
| Total current assets | 11,671,670 | 3,955,555 |
| Property and equipment, net | 380,048 | 447,579 |
| Molecular library, net | 395,352 | 447,567 |
| Goodwill | 183,780 | |
| Prepaid insurance and other assets | 103,118 | 198,055 |
| Total assets | \$ 12,733,968 | \$ 5,048,756 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 551,433 | \$ 1,661,104 |
| Accrued expenses and other current liabilities | 1,240,243 | 1,074,146 |
| Total current liabilities | 1,791,676 | 2,735,250 |
| Accrued loss on facility abandonment | | 206,833 |
| Deferred gain on sale of building | | 65,910 |
| Deferred revenue | 275,000 | 275,000 |
| Total liabilities | 2,066,676 | 3,282,993 |
| Minority interest in subsidiary | | 170,671 |
| Commitments and contingencies | | |
| Stockholders equity: | | |
| Preferred stock, \$.01 par value, 5,000,000 shares authorized, including 5,000 shares of Series A Junior Participating Preferred Stock; no shares issued and outstanding | | |
| Common stock, \$.001 par value, 125,000,000 shares authorized; 58,825,000 and 40,190,000 shares issued at September 30, 2005 and December 31, 2004, respectively | 58,825 | 40,190 |
| Additional paid-in capital | 131,685,555 | 110,028,327 |
| Treasury stock, at cost (633,816 shares, at cost, held at September 30, 2005 and December 31, 2004) | (2,279,238) | (2,279,238) |
| Accumulated deficit | (118,797,850) | (106,194,187) |

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| | | |
|--|---------------|--------------|
| Total stockholders' equity | 10,667,292 | 1,595,092 |
| Total liabilities and stockholders' equity | \$ 12,733,968 | \$ 5,048,756 |

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

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CYTRX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|----------------|--------------------------|-----------------|
| | September 30, | | September 30, | |
| | 2005 | 2004 | 2005 | 2004 |
| Revenues: | | | | |
| License fees | \$ | \$ | \$ 1,500 | \$ 328,164 |
| Other | 10,000 | | 10,000 | |
| | 10,000 | | 11,500 | 328,164 |
| Expenses: | | | | |
| Research and development (includes \$32,000 and \$122,000 of non-cash stock-based expense for the three and nine month periods ended September 30, 2005, respectively, and \$40,000 and \$1,334,000 of non-cash stock-based expense for the three and nine-month periods ended September 30, 2004, respectively) | 1,990,963 | 1,326,566 | 6,820,952 | 4,968,446 |
| Depreciation and amortization | 58,074 | 31,828 | 158,486 | 73,636 |
| Common stock, stock options and warrants issued for general and administrative services | 26,497 | 134,314 | 342,561 | 939,601 |
| Selling, general and administrative | 1,467,356 | 1,360,343 | 4,423,198 | 5,143,042 |
| | 3,542,890 | 2,853,051 | 11,745,197 | 11,124,725 |
| Loss before other income | (3,532,890) | (2,853,051) | (11,733,697) | (10,796,561) |
| Other income: | | | | |
| Interest income | 40,420 | 10,995 | 124,150 | 50,748 |
| Minority interest in losses of subsidiary | | 46,353 | 81,452 | 115,610 |
| Net loss | \$ (3,492,470) | \$ (2,795,703) | \$ (11,528,095) | \$ (10,630,203) |
| Basic and diluted: | | | | |
| Loss per common share | \$ (0.06) | \$ (0.08) | \$ (0.20) | \$ (0.30) |
| Weighted average shares outstanding | 58,190,792 | 35,306,313 | 56,367,717 | 34,865,315 |

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

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CYTRX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Nine Months Ended September | |
|---|------------------------------------|------------------|
| | 30, | |
| | 2005 | 2004 |
| Cash flows from operating activities: | | |
| Net loss | \$ (11,528,095) | \$ (10,630,203) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 158,486 | 73,636 |
| Minority interest in losses of subsidiary | (81,452) | (115,610) |
| Gain on Atlanta lease termination | (163,000) | |
| Common stock, stock options and warrants issued for services | 485,230 | 2,273,574 |
| Net change in operating assets and liabilities | (461,594) | 802,760 |
| Total adjustments | (62,330) | 3,034,360 |
| Net cash used in operating activities | (11,590,425) | (7,595,843) |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (38,740) | (321,371) |
| Net cash used in investing activities | (38,740) | (321,371) |
| Cash flows from financing activities: | | |
| Net proceeds from exercise of stock options and warrants | 251,619 | 525,689 |
| Net proceeds from issuances of common stock | 19,590,446 | 184,000 |
| Net cash provided by financing activities | 19,842,065 | 709,689 |
| Net increase (decrease) in cash and cash equivalents | 8,212,900 | (7,207,525) |
| Cash and short-term investments at beginning of period | 2,999,409 | 11,644,446 |
| Cash and short-term investments at end of period | \$ 11,212,309 | \$ 4,436,921 |

Non-cash financing activities:

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

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

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CYTRX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2005
(Unaudited)

1. Description of Company and Basis of Presentation

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

On October 4, 2004, CytRx acquired all of the clinical and pharmaceutical and related intellectual property assets of Biorex Research & Development, RT, or Biorex, a Hungary-based company focused on the development of novel small molecules with broad therapeutic applications in neurology, type 2 diabetes, cardiology and diabetic complications. The acquired assets include three oral, clinical stage drug candidates and a library of 500 small molecule drug candidates. The Company recently entered the clinical stage of drug development with the initiation of a Phase II clinical trial with its lead small molecule product candidate arimoclomol for the treatment of ALS. Arimoclomol has received Orphan Drug and Fast Track designation from the U.S. Food and Drug Administration.

To date, the Company has relied primarily upon selling equity securities and, to a lesser extent, upon payments from its strategic partners and licensees and upon proceeds received upon the exercise of options and warrants, to generate the funds needed to finance its operations. Management believes the Company's cash and cash equivalents balances at September 30, 2005 are sufficient to meet projected cash requirements into the second quarter of 2006. The Company will be required to obtain significant additional funding in order to execute its long-term business plans, although it does not currently have commitments from any third parties to provide it with capital. The Company cannot assure that additional funding will be available on favorable terms, or at all. If the Company fails to obtain significant additional funding when needed, it may not be able to execute its business plans and its business may suffer, which would have a material adverse effect on its financial position, results of operations and cash flows. The inability to obtain such financing would adversely affect its ability to obtain an opinion without a going concern qualification from its independent registered public accounting firm in March 2006 with respect to its 2005 financial statements.

The accompanying condensed consolidated financial statements at September 30, 2005 and for the three and nine-month periods ended September 30, 2005 and 2004 are unaudited, but include all adjustments, consisting of normal recurring entries, which the Company's management believes to be necessary for a fair presentation of the periods presented. Interim results are not necessarily indicative of results for a full year. Balance sheet amounts as of December 31, 2004 have been derived from our audited financial statements as of that date.

The financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S. have been condensed or omitted pursuant to such rules and regulations. Certain prior year amounts have been reclassified to conform to the 2005 financial statement presentation. The financial statements should be read in conjunction with the Company's audited financial statements in its Form 10-K for the year ended December 31, 2004. 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.

Table of Contents**2. Adoption of Recently Issued Accounting Standards**

In December 2004, the Financial Accounting Standards Board (FASB) revised and issued Statement of Financial Accounting Standards (SFAS) No. 123, Share-Based Payment (SFAS 123(R)), which replaced SFAS 123 and eliminates the alternative of using the Accounting Principles Board (APB) Opinion No. 25 intrinsic value method of accounting for stock options. This revised statement will require recognition of the cost of employee services received in exchange for awards of equity instruments based on the fair value of the award at the grant date. This cost is required to be recognized over the vesting period of the award. The stock-based compensation table in Note 4 to the Company's financial statements illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation. SFAS 123(R) is effective with respect to our financial statements beginning in 2006. The adoption of SFAS 123R will have a material impact on the Company's results of operations, but will not impact the Company's financial position. Assuming that the Company grants equity awards in 2006 at similar levels to those granted in 2004 and 2005, the estimated stock-based compensation expense for 2006 will range from approximately \$1.0 million to \$2.0 million. However, the calculation of compensation cost for share-based payment transactions may differ significantly from the Company's estimates due to the uncertainty of additional equity awards which may be granted, the unpredictability of the fair value of stock options granted and the estimated expected forfeiture rates.

In March 2005, the SEC staff issued a Staff Accounting Bulletin (SAB 107), expressing the staff's views regarding the interaction between SFAS No. 123R and certain SEC rules and regulations and regarding the valuation of share-based payment arrangements for public companies. In particular, SAB 107 provides guidance related to share-based payment transactions with non-employees, the transition from nonpublic to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of SFAS No. 123R in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS No. 123R, the modification of employee share options prior to adoption of SFAS No. 123R and disclosures in Management's Discussion and Analysis subsequent to adoption of SFAS No. 123R.

SFAS 154 relates to the accounting for and reporting of a change in accounting principles and applies to all voluntary changes in accounting principles. The reporting of corrections of an error by restating previously issued financial statements is also addressed by this statement. SFAS 154 applies to pronouncements in the event they do not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. SFAS 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless the period specific effects or cumulative effects of an accounting change are impracticable to determine, in which case the new accounting principle is required to be applied to the assets and liabilities as of the earliest period practicable, with a corresponding adjustment made to opening retained earnings. Prior to SFAS 154, most accounting changes were recorded effective at the beginning of the year of change, with the cumulative effect at the beginning of the year of change recorded as a charge or credit to earnings in the period a change was adopted. SFAS 154 will be effective for us for accounting changes and corrections of errors beginning in 2006. SFAS 154 does not change the transition provisions of any existing accounting pronouncements, including those that are in the transition phase as of the effective date of SFAS 154.

3. Loss Per Share

Basic and diluted loss per common share are computed based on the weighted average number of common shares outstanding. Common share equivalents (which may consist of options and warrants) are excluded from the computation of diluted loss per share since the effect would be anti-dilutive. Common share equivalents that were excluded from the computation of diluted loss per share totaled approximately 25.0 million and 11.3 million shares at September 30, 2005 and 2004, respectively.

4. Stock Based Compensation

The Company uses the intrinsic value method of APB Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), in accounting for its employee stock options, and presents disclosure of pro forma information required

under Statement of Financial Accounting Standards No. 123, *Accounting for Stock-based Compensation* (SFAS 123), as amended by Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure* (SFAS 148).

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

| | (restated) | | (restated) | |
|---|---------------------------|-------------|--------------------------|-------------|
| | Three Months Ended | | Nine Months Ended | |
| | September 30, | | September 30, | |
| | 2005 | 2004 | 2005 | 2004 |
| Net loss, as reported | \$ (3,492) | \$ (2,796) | \$ (11,528) | \$ (10,630) |
| Add: Stock-based employee compensation expense included in reported net loss | | | | |
| Deduct: Total stock-based employee compensation expense determined under fair-value based method for all awards | (369) | (293) | (1,027) | (1,105) |
| Pro forma net loss | \$ (3,861) | \$ (3,089) | \$ (12,555) | \$ (11,735) |
| Loss per share, as reported (basic and diluted) | \$ (0.06) | \$ (0.08) | \$ (0.20) | \$ (0.30) |
| Loss per share, pro forma (basic and diluted) | \$ (0.07) | \$ (0.09) | \$ (0.22) | \$ (0.33) |

5. Liquidity and Capital Resources

Based on the Company's currently planned level of expenditures, management believes that it has adequate working capital to allow it to operate at its currently planned levels into the second quarter of 2006. The Company is pursuing several sources of potential capital, although it does not currently have commitments from any third parties to provide capital. The Company will be required to obtain significant additional funding in order to maintain its operations, including its Phase II clinical program with arimoclomol for ALS, its planned levels of operations for its obesity and type 2 diabetes laboratory and its ongoing research and development efforts related to its other small molecule drug candidates, and in order to continue to meet its obligations under its existing licensing arrangements. The possibility that the Company's shares will be delisted from Nasdaq if the Company continues not to satisfy Nasdaq's minimum bid price requirement may adversely affect the Company's ability to obtain its required financing or the terms or timing of securing that financing.

6. Equity Events

On January 20, 2005, the Company completed a \$21.3 million private equity financing in which it issued 17,334,494 shares of its common stock and warrants to purchase an additional 8,667,247 shares of its common stock at an exercise price of \$2.00 per share. Net of investment banking commissions, legal, accounting and other fees related to the transaction, the Company received proceeds of approximately \$19.4 million. In connection with the financing, the Company adjusted the price and number of underlying shares of warrants to purchase approximately 2.8 million shares that had been issued in prior equity financings in May and September 2003. The adjustment was made as a result of antidilution provisions in those warrants that were triggered by the Company's issuance of common stock in that financing at a price below the closing market price on the date of the transaction. Consistent with Emerging Issues Task Force Issue (EITF) No. 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*, and EITF 00-27, *Application of 98-5 to Certain Convertible Instruments*, the Company accounted for the antidilution adjustments as deemed dividends, which were recorded as an approximately \$1.1 million charge to retained earnings and a corresponding credit to additional paid-in capital.

On June 30, 2005, the Company issued 650,000 shares of its common stock to Dr. Michael Czech as part of a transaction in which the Company purchased Dr. Czech's 5% interest in CytRx Laboratories, which has subsequently been merged with and into CytRx. The purchase of Dr. Czech's interest in CytRx Laboratories was consummated pursuant to the terms of a Stockholders Agreement dated September 17, 2003, by and among CytRx, CytRx Laboratories and Dr. Czech, 300,000 of the shares of CytRx common stock issued to Dr. Czech were unrestricted and

in exchange for his 5% interest in CytRx Laboratories. That stock was valued at \$0.91 per share for financial statement purposes. The transaction was accounted for using purchase accounting, and resulted in \$184,000 of goodwill for financial statement purposes, which represents the difference between the market value of the 300,000 unrestricted shares issued to Dr. Czech and the fair value of the minority interest at June 30, 2005. The remaining 350,000 shares of CytRx common stock issued to Dr. Czech are restricted and will vest subject to the occurrence of certain events set forth in a Restricted Stock Agreement dated June 30, 2005, by and between Dr. Czech and CytRx.

In July 2005, the Company amended its Certificate of Incorporation to increase the authorized number of shares of its common stock from 100,000,000 to 125,000,000 shares.

During the quarter ended September 30, 2005, the Company did not receive any funds from the exercise of stock options or warrants.

Table of Contents**7. Termination of Atlanta Facility Lease**

Subsequent to the Company's merger with Global Genomics in 2002, it recorded a loss of \$563,000 associated with the closure of its Atlanta headquarters and its relocation to Los Angeles. This loss represented the total remaining lease obligations and estimated operating costs through the remainder of the lease term, less estimated sublease rental income and deferred rent at the time. In August 2005, the Company entered into a lease termination agreement pursuant to which it was released from all future payment obligations on the lease in exchange for a one-time \$110,000 cash payment and the forfeiture of a \$49,000 security deposit. As a result of this agreement, the Company realized a \$163,000 offset against its current period general and administrative expenses, and its future minimum lease commitments decrease by \$200,000 for each of 2006 and 2007 and by \$75,000 for 2008.

Item 4 Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Securities Exchange Act Rule 13a-15(e)) as of September 30, 2005, the end of the period covered by our original Form 10-Q. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer previously concluded that our disclosure controls and procedures were effective as of September 30, 2005 to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There was no change in our internal control over financial reporting that occurred during the quarter ended September 30, 2005 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Subsequently, in conjunction with the preparation of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, identified deficiencies, discussed below, that it considered to be material weaknesses in the effectiveness of our internal controls over footnote disclosures of stock-based compensation and accounting for certain antidilution adjustments to our outstanding warrants. Pursuant to standards established by the Public Company Accounting Oversight Board, a material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be presented or detected.

In calculating pro forma amounts relating to our stock-based compensation for inclusion in our stock-based compensation footnote, we inadvertently utilized data relating to stock options granted to non-employees, rather than employee stock option data as called for by SFAS No. 123, *Accounting for Stock-Based Compensation*. In March 2006, we purchased new, more sophisticated software for accounting for stock options, which we first implemented in connection with the preparation of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2006. With the help of the new software, we were able to discover required adjustments in our historical calculations of these pro forma amounts.

Certain of our outstanding warrants to purchase common stock contain provisions for antidilution adjustments based upon sales of our common stock or common stock equivalents at an effective price per share below the prevailing market price of our common stock at the time of the sale. In January 2005 and recently in March 2006, we completed private placement transactions which triggered these antidilution adjustments to the warrants in question.

We accounted for these antidilution adjustments in accordance with SFAS No. 150, *Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity*. In connection with the preparation of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, management reevaluated our historical accounting for these antidilution adjustments. Based upon our reevaluation, management determined that these antidilution adjustments should be accounted for by analogy to the guidance provided by Emerging Issues Task Force (EITF) 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*, and EITF 00-27, *Application of 98-5 to Certain Convertible Instruments*, rather than under SFAS No. 150. Under the guidance provided in EITF 98-5 and EITF 00-27, these adjustments are treated as a deemed dividend and recorded as a decrease in retained earnings (i.e., an increase in our retained deficit) and a corresponding

increase in additional paid-in capital.

As required by Exchange Act Rule 13a-15(b), as of the end of March 31, 2006, the period covered by our Quarterly Report on Form 10-Q, management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures. Based on this evaluation, and solely because of the corrections referred to

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above, our Chief Executive Officer and Chief Financial Officer concluded in retrospect that our disclosure controls and procedures over the disclosure of stock-based compensation in accordance with SFAS No. 123 and accounting for antidilution adjustments to our outstanding warrants were not effective as of December 31, 2005 and as of the end of each quarter since the first quarter of 2005.

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

1. Fully implement our new software for accounting for stock options;
2. Re-assign certain duties related to the input and maintenance of stock options records; and
3. Enhanced internal review of all stock-based compensation awards and other equity transactions.

We are continuing our efforts to improve and strengthen our control processes and procedures to fully remedy this material deficiency and to ensure that all of our controls and procedures are adequate and effective. Any failure to implement and maintain improvements in the controls over our financial reporting could cause us to fail to meet our reporting obligations under the Securities and Exchange Commission's rules and regulations. Any failure to improve our internal controls to address the weakness we have identified could also cause investors to lose confidence in our reported financial information, which could have a negative impact on the trading price of our common stock.

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PART II OTHER INFORMATION

Item 6. Exhibits

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

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SIGNATURES

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

CYTRX CORPORATION
(Registrant)

Date: May 19, 2006

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

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INDEX TO EXHIBITS

| Exhibit Number | Description |
|---------------------------|---|
| 10.1* | (x)Employment Agreement dated October 6, 2005 between CytRx Corporation and Dr. Mark A. Tepper |
| 10.2 | (y)First Amendment to Office Lease dated October 14, 2005, by and between CytRx Corporation and Douglas Emmett 1993, LLC |
| 10.3* | (z)Schedule of Non-Employee Director Compensation adopted on October 24, 2005 |
| 31.1 | Certification of Chief Executive Officer Pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer Pursuant to Section 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 |
| 32.1 | (z)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 | (z)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 |

- * Indicates a management contract or compensatory plan or arrangement.
- (x) Incorporated by reference to the Company s Current Report on Form 8-K filed on October 7, 2005.
- (y) Incorporated by reference to the Company s Current Report on Form 8-K filed on October 20, 2005.
- (z) Previously filed.