

CYTRX CORP  
Form 10-K  
March 13, 2012

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

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2011  
or

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
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, California  
(Address of principal executive offices)

90049  
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, \$0.001 par value per share	The NASDAQ Capital Market
Series A Junior Participating Preferred Stock Purchase Rights	

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Securities Registered Pursuant to Section 12(g) of the Act:  
None

Indicate by check mark if the Registrant is a well-known seasoned issuer (as defined in Securities Act Rule 405). Yes  No  R

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes  No  T

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 and (2) has been subject to such filing requirements for the past 90 days. Yes  T No  F

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  T No  F

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.  T

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 12b-2 of the Act). Yes  No  T

Based on the closing price of the Registrant's common stock as reported on The Nasdaq Capital Market, the aggregate market value of the Registrant's common stock held by non-affiliates on June 30, 2011 (the last business day of the Registrant's most recently completed second fiscal quarter) was approximately \$75.8 million. Shares of common stock held by directors and executive officers and any ten percent or greater stockholders and their respective affiliates have been excluded from this calculation, because such stockholders may be deemed to be "affiliates" of the Registrant. This is not necessarily determinative of affiliate status for other purposes. The number of outstanding shares of the Registrant's common stock as of March 12, 2012 was 148,427,069, exclusive of treasury shares.

CYTRX CORPORATION  
2011 ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

	Page
“SAFE HARBOR” STATEMENT	3
PART I	
Item 1. BUSINESS	4
Item 1A. RISK FACTORS	14
Item 1B. UNRESOLVED STAFF COMMENTS	23
Item 2. PROPERTIES	23
Item 3. LEGAL PROCEEDINGS	23
Item 4. MINE SAFETY DISCLOSURES	23
PART II	
Item 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	24
Item 6. SELECTED FINANCIAL DATA	26
Item 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	27
Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	36
Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	37
Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	37
Item 9A. CONTROLS AND PROCEDURES	37
Item 9B. OTHER INFORMATION	37
PART III	
Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	38
Item 11. EXECUTIVE COMPENSATION	42
Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	58
Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	59
Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES	60
PART IV	
Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES	61
SIGNATURES	65

“SAFE HARBOR” STATEMENT

Some of the information contained in this Annual Report may include forward-looking statements that reflect our current views with respect to our research and development activities, business strategy, business plan, financial performance and other future events. These statements include forward-looking statements both with respect to us, specifically, and the biotechnology sector, in general. We make these statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Statements that include the words “expect,” “intend,” “plan,” “believe,” “project,” “estimate,” “may,” “should,” “anticipate,” “will” and similar statements of a future or forward nature identify forward-looking statements for purposes of the federal securities laws or otherwise.

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 set forth in the sections entitled “Business,” “Risk Factors,” “Legal Proceedings,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Quantitative and Qualitative Disclosures About Market Risk” and “Controls and Procedures” in this Annual Report, all of which you should review carefully. Please consider our forward-looking statements in light of those risks as you read this Annual 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, except as required by law.

If one or more of these or other risks or uncertainties materializes, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we anticipate. All subsequent written and oral forward-looking statements attributable to us or individuals acting on our behalf are expressly qualified in their entirety by this Statement.

## PART I

## Item 1. BUSINESS

In this Annual Report, we sometimes refer to CytRx Corporation as “CytRx,” to our former subsidiary, RXi Pharmaceuticals Corporation, as “RXi,” and to Innovive Pharmaceuticals, Inc., which we acquired in September 2008, as “Innovive.” References in this Annual Report to the “company,” “we,” “us” or “our” refer to CytRx, alone, unless otherwise indicated.

## COMPANY OVERVIEW

We are a biopharmaceutical research and development company specializing in oncology. Our oncology pipeline includes three programs in clinical development for cancer indications: INNO-206, tamibarotene and bafetinib. With our tumor-targeted doxorubicin conjugate INNO-206, we have initiated an international Phase 2b clinical trial as a treatment for soft tissue sarcomas, are completing our ongoing Phase 1b/2 clinical trial for primarily the same indication and plan to initiate a Phase 2 trial for an undisclosed solid tumor indication in the first half of 2012. Our pipeline also includes tamibarotene, which we are testing in a double-blind, placebo-controlled, international Phase 2b clinical trial in patients with non-small-cell lung cancer, and which is in a clinical trial as a treatment for acute promyelocytic leukemia (APL). We are evaluating 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. In 2011, we completed our strategy of monetizing our non-core assets through the sale of our molecular chaperone technology to Denmark-based Orphazyme ApS in a transaction valued at up to \$120 million, and the sale of our 19% interest in SynthRx to ADVENTRX Pharmaceuticals.

We are a Delaware corporation, incorporated in 1985. Our corporate offices are located at 11726 San Vicente Boulevard, Suite 650, Los Angeles, California 90049, and our telephone number is (310) 826-5648.

## OUR PRODUCT CANDIDATE PIPELINE

The following table summarizes our product candidates and their current or impending stages of development:

Technology	Product Candidate	Indication(s)	Stage of Development
Doxorubicin conjugate	INNO-206	Soft tissue sarcomas	Phase 1b/2
		Undisclosed solid tumor indication	Phase 2b
Synthetic retinoid	Tamibarotene	Non-small-cell lung cancer	Phase 2 (2Q12)
		APL (acute promyelocytic leukemia)	Phase 2
Tyrosine kinase inhibitor	Bafetinib	B-CLL (B-cell chronic lymphocytic leukemia)	Phase 2

## OUR CLINICAL DEVELOPMENT PROGRAMS

Our current clinical development programs are discussed below.

## INNO-206

INNO-206 (formerly DOXO-EMCH) is a tumor-targeted conjugate of the commonly prescribed chemotherapeutic agent doxorubicin. Specifically, it is the (6-Maleimidocaproyl) hydrazone of doxorubicin. Essentially, this chemical is doxorubicin (DOXO) attached to an acid sensitive linker (EMCH).

INNO-206 for the Treatment of Cancer. Anthracyclines are a class of drugs that are among the most commonly used agents in the treatment of cancer. Doxorubicin, the first anthracycline to gain FDA approval, has demonstrated efficacy in a wide variety of cancers including breast cancer, lung cancer, sarcomas, and lymphomas. However, due to the uptake of doxorubicin by various parts of the body, it is associated with side effects such as cumulative cardiotoxicity, myelosuppression (decreased production of blood cells by bone marrow), gastrointestinal disorders, mucositis (inflammation of the mucous membranes lining the digestive tract, including the mouth), stomatitis (inflammation of the mouth's soft tissue), and extravasation (the leakage of intravenous drugs from the vein into the surrounding tissue).

We believe INNO-206 has attributes that improve on native doxorubicin, including reduction of adverse events, improvement in efficacy and the ability to target the tumor more accurately than native doxorubicin.

Our anticipated mechanism of action for INNO-206 is as follows:

- after administration, INNO-206 rapidly binds circulating albumin through the EMCH linker;
- circulating albumin preferentially accumulates in tumors, bypassing concentration in other non-tumor sites, including the heart, liver and the gastrointestinal tract;
- once albumin-bound INNO-206 reaches the tumor, the acidic environment of the tumor causes cleavage of the acid sensitive linker; and
  - free doxorubicin is released at the site of the tumor and is taken up by the cancer cells.

Pre-clinical data. In a variety of preclinical models, INNO-206 was superior to doxorubicin at equitoxic doses in its ability to allow an increase in the total doxorubicin dose, its antitumor efficacy, and its safety, including a reduction in cardiotoxicity. Animal studies conducted by INNO-206 inventor Dr. Felix Kratz, Department of Medical Oncology, Clinical Research, at the Tumor Biology Center in Freiburg, Germany, demonstrated statistically significant efficacy compared to either placebo or native doxorubicin against breast, ovarian, pancreatic and small cell lung cancers growing in immunodeficient mice.

Clinical data. A Phase 1 study of INNO-206 that demonstrated safety and objective clinical responses in several tumor types was completed in 2005 and presented at the March 2006 Krebskongress meeting in Berlin. In this study, doses were administered every 3 weeks at up to six times the standard dose of doxorubicin without an increase in side effects over those historically observed with native doxorubicin. Twenty-three of 35 evaluable patients had either an objective clinical (partial) response or stable disease. Objective clinical responses were observed in patients with sarcoma, breast, and small cell lung cancers.

We are conducting a Phase 1b/2 clinical trial with INNO-206 in patients with advanced solid tumors, and have initiated a Phase 2b international clinical trial in patients with advanced soft tissue sarcomas. Initial results in six patients who have completed four cycles with INNO-206 at the maximum tolerated dose in the Phase 1b/2 clinical trial, two patients have exhibited a partial tumor response (greater than 30% tumor shrinkage) and four patients have stable disease. Treatment is continuing and we expect to announce further results at the American Society for Clinical Oncology (ASCO) Meeting in June, 2012. Common side effects reported to date from the Phase 1b/2 trial include low neutrophil (white blood cell) and platelet counts, minor mouth ulcers and mild nausea, which are expected side effects of doxorubicin.

Development Plan. In December 2011, we initiated our international Phase 2b clinical trial to evaluate the preliminary efficacy and safety of INNO-206 as a first-line therapy in patients with advanced soft tissue sarcoma who are ineligible for surgery. The Phase 2b clinical trial will provide the first direct clinical trial comparison of INNO-206 with native doxorubicin, the only approved chemotherapy agent for the treatment of soft tissue sarcomas, which is dose-limited due to toxicity, as a first-line therapy.

The Phase 2b clinical trial with INNO-206 in patients with soft tissue sarcomas is an international trial under the direction of world-renowned expert in soft tissue sarcoma treatment Sant P. Chawla, M.D., F.R.A.C.P., Director of the Sarcoma Oncology Center in Santa Monica, Calif. Dr. Chawla also is acting as principal investigator for our ongoing Phase 1b/2 clinical trial with INNO-206.

The Phase 2b clinical trial's primary objectives are to measure the progression-free survival, tumor response and overall survival of patients with advanced soft tissue sarcomas treated with INNO-206. This clinical trial also will assess the safety of INNO-206 compared to doxorubicin in this patient population through a number of indicators, including the frequency and severity of adverse events. The open-label trial will enroll 105 patients with metastatic, locally advanced or unresectable soft tissue sarcoma at approximately 30 study centers in the U.S., Hungary, Romania, Ukraine, Russia, India and Australia.

In addition, we have announced plans to initiate a Phase 2 clinical trial with INNO-206 in an undisclosed solid tumor indication in the first half of 2012.



## Tamibarotene

Tamibarotene is an orally available, synthetic retinoid rationally designed to overcome resistance and reduce the toxic side effects of differentiation therapy with all-trans retinoic acid, or ATRA, a component of the current first-line treatment for APL.

Tamibarotene for the treatment of NSCLC. More than 220,000 new cases of lung cancer occur in the U.S. each year, and more than 1.5 million occur annually worldwide. Deaths due to lung cancer account for the majority of cancer-related deaths and the five-year survival ranges between 8%-15%. Non-small cell-lung cancer, or NSCLC, accounts for approximately 85% of all lung cancers, with the subsets adenocarcinoma representing 35%-40%, squamous cell carcinoma accounting for 25%-30% and large cell carcinoma accounting for 10%-15%.

A Phase 2 clinical trial conducted by Arrieta et al. and published in the peer-reviewed Journal of Clinical Oncology (2010; 28: 3463-3471) compared ATRA added to a regimen of paclitaxel plus cisplatin to a regimen of paclitaxel plus cisplatin alone as a treatment for patients with advanced NSCLC. The group administered ATRA plus the chemotherapy agents showed improved response rates of 55.8% versus 25.4%, and increased progression-free survival of 8.9 months versus 6.0 months. Median overall survival was increased from 9.5 months to 23.5 months when ATRA was added to the above chemotherapy regimen, representing a 14-month median extension of life.

Tamibarotene was developed to overcome resistance to ATRA. In vitro, tamibarotene is approximately ten times more potent than ATRA, and tamibarotene has a lower affinity for cellular retinoic acid binding protein, or CRABP, which we believe should allow increased cellular exposure after administration. This may enhance tamibarotene's potential efficacy, because patients may be able to experience benefits from the drug for a more prolonged period. Tamibarotene does not bind the RAR- $\gamma$  receptor, the major retinoic acid receptor in the dermal epithelium, which should lessen the occurrence of skin toxicities.

Development Plan. We have initiated an international, randomized Phase 2b clinical trial, in which patients with stage IIIB (with pleural effusions, or fluid in the chest cavity) or stage IV NSCLC will be treated with up to six cycles of paclitaxel plus carboplatin and either tamibarotene or placebo. The primary objective of the clinical trial is to determine the objective response rate (complete and partial responses) and progression-free survival. Secondly, the study will evaluate overall survival, quality-of-life and the pharmacokinetics of tamibarotene in this population. The clinical trial, which is expected to enroll approximately 140 patients, is being conducted in several clinical sites in the U.S., Mexico, Eastern Europe and India.

Tamibarotene for the treatment of APL. Acute promyelocytic leukemia, or APL, is a specific type of acute myeloid leukemia characterized by the t(15;17) translocation, which fuses the promyelocytic leukemia, or PML, gene on chromosome 15 to the retinoic acid receptor, or RAR $\alpha$  gene on chromosome 17. This fusion causes abnormal cell growth.

Differentiation therapy with ATRA, is the basis for the treatment of APL. Differentiation therapy causes leukemic promyelocytes to mature and undergo cell death. Patients typically receive ATRA in combination with chemotherapy as the initial therapy, followed by anthracycline-based consolidation therapy designed to produce complete remission. The majority of patients treated this way experience a complete remission of disease. Current National Comprehensive Cancer Network guidelines recommend that patients then undergo one to two years of maintenance therapy with ATRA to prevent a recurrence. ATRA therapy is associated with several toxicities, the most serious of which, retinoic acid syndrome, or RAS. RAS, which occurs in up to 25% of patients treated with ATRA, is a serious and potentially fatal complication characterized by fever, dyspnea (breathing difficulties), weight gain, pulmonary infiltrates (abnormal accumulation in the lungs), and pleural or pericardial effusions (excess fluid around the lungs or heart).

Patients that initially respond to front-line therapy with ATRA plus chemotherapy sometimes relapse, and some of these patients fail to respond to a second course of treatment with ATRA. Currently, patients who fail ATRA-based therapy are treated with arsenic trioxide, a compound administered intravenously and associated with significant toxicity, including irregular heartbeat. There currently is no standard of care for patients who do not respond to ATRA and arsenic trioxide, or who respond but subsequently relapse. In 2007, the FDA granted Orphan Drug Designation and Fast Track Designation for the use of tamibarotene in patients with APL who relapse after treatment with ATRA and chemotherapy, then ATRA plus arsenic trioxide.

Pre-clinical data. In preclinical models, tamibarotene was superior to ATRA in its ability to cause APL cells to differentiate and die. In the clinical setting, in vitro response to tamibarotene appeared predictive of clinical response, including activity in patients who had a poor response to ATRA.

Clinical data. Tamibarotene is approved in Japan under the brand name Amnolake for use in relapsed or refractory APL. The approval was based on data from two studies in Japanese patients. In the pivotal study, the effectiveness of orally administered tamibarotene was administered to 42 patients with APL, 39 of whom were evaluable for response. Patients included individuals who had never received treatment for APL and patients who had been previously treated with ATRA. Tamibarotene was administered orally at a dose of 6 mg/m<sup>2</sup>/day for eight weeks. The overall complete response rate in these patients was 61.5%. In patients who had a recurrence of APL following ATRA therapy, the response rate was 81%. RAS was reported in three patients, or 7.3% of the patient group.

Development Plan. There is currently a Special Protocol Assessment (SPA) in place with the FDA for a Phase 2 registration clinical trial, known as STAR-1, which is evaluating the efficacy and safety of tamibarotene as a third-line treatment for APL. The STAR-1 trial is ongoing at one clinical site in the U.S. We have reported that, of the 11 patients enrolled in the STAR-1 trial to date, three (27%) achieved a hematologic complete response, and four (36%) a morphologic leukemia-free state. We also treated a patient with a rare form of APL called sarcomatous acute promyelocytic leukemia or chloromas. This patient had relapsed after treatment with 5 different courses of chemotherapies that included ATRA plus chemotherapy, ATRA plus arsenic trioxide and hematopoietic stem cell transplantation, and had over 30 solid tumors when his physician contacted CytRx. Within 4 months after initiating treatment with tamibarotene the patient had a complete response to therapy which is ongoing for almost two years.

#### Bafetinib

Bafetinib (formerly INNO-406) is an orally bioavailable, rationally designed, inhibitor of several Src kinases developed by the Japanese pharmaceutical company Nippon Shinyaku, to overcome some of the limitations of Gleevec and other tyrosine kinase inhibitors in resistant chronic myelogenous leukemia, or CML. In addition to its Bcr-Abl inhibitory properties, bafetinib is a potent and specific inhibitor of Lyn and Fyn kinases. These kinases are reported to be involved in both solid and hematological cancers. Lyn kinase's involvement in the B-cell signaling pathway led us to evaluate bafetinib in B-cell malignancies such as chronic lymphocytic leukemia (CLL). We hold rights to bafetinib in all territories except Japan.

Phase 1 Study. In November 2008, we announced that bafetinib demonstrated clinical responses in patients with CML in a Phase 1 clinical trial conducted in patients with CML and other leukemias that have a certain mutation called the Philadelphia Chromosome (Ph+) and are intolerant of or resistant to Gleevec and, in some cases, second-line tyrosine kinase inhibitors such as dasatinib (Sprycel®) and nilotinib (Tasigna®). The clinical trial was designed to identify the optimal dose for possible future studies by escalating doses from 30 mg once per day to up to 480 mg twice per day in a total of 56 patients with Ph+ leukemias. Of the patients, 31 had CML in chronic phase (CML-CP), nine were in accelerated phase (CML-AP), seven were in blast phase (CML-BP), and nine had Ph+ acute lymphocytic leukemia. The clinical trial was conducted at seven clinical sites in the US, Germany, and Israel, with Hagop Kantarjian, M.D., Professor & Chairman, Department of Leukemia, The University of Texas, M.D. Anderson Cancer Center, serving as the Principal Investigator. In the 31 patients with CMP-CP, a major cytogenetic response rate of 19.4% was seen.

The maximum tolerated dose was determined to be 240-360 mg given twice per day, based on evidence of increasing potential liver toxicity at higher doses. Common adverse events (observed in greater than 20% of patients in the 240 mg twice per day dose group) were gastrointestinal toxicity, swelling, and fatigue. There was no evidence of fluid accumulating around the lungs, or significant changes in a certain heart rhythm called QTc prolongation, which are serious side effects known to occur in patients treated with approved drugs for this indication. Approximately 13% of patients across all dose groups discontinued dosing due to unacceptable toxicity.

Bafetinib for B-CLL. B-CLL is the most common form of leukemia in adults in Western countries. More than 16,000 new cases of B-CLL are reported in the United States, alone, each year; however up to an estimated 40% of cases may

not be reported due to under-diagnosis and lack of placement in cancer registries. Virtually all patients are older than 55 years at presentation, with an average age of 70 years. Patients in the high-risk B-CLL classification have a median overall survival period of one to five years.

Our Phase 2 proof-of-concept clinical trial to evaluate the preliminary efficacy and safety of its oncology drug candidate bafetinib in patients with high-risk B-cell chronic lymphocytic leukemia (B-CLL) was initiated in May 2010. In that clinical trial, high-risk B-CLL patients who had failed treatment with first-line agents were self-administered oral doses of bafetinib twice daily. We have announced that results from that clinical trial demonstrated bafetinib's clinical activity and preliminary safety in patients with relapsed or refractory B-CLL.

We plan to seek a partner for any further development of bafetinib.

### Disposition of Molecular Chaperone Assets

Until 2011, we owned the rights to two drug candidates, arimoclomol and irovanadine, based on molecular chaperone regulation technology that were designed to repair or degrade mis-folded proteins associated with disease. On May 13, 2011, we sold all pre-clinical and clinical data, intellectual property rights and other assets relating to those compounds to Orphazyme ApS in exchange for a cash payment of \$150,000 and the right to receive various future payments that are contingent upon the achievement of specified regulatory and business milestones, as well as royalty payments based on a specified percentage of any eventual net sales of products derived from the assets.

### Our Separation from RXi Pharmaceuticals Corporation

We formed RXi Pharmaceuticals Corporation in 2006 to develop our assets related to RNA interference technology. A dividend to of shares of RXi to our stockholders in 2008 reduced our ownership of RXi shares to less than 50%, and we reflected our investment in RXi based on the equity method of accounting. In 2009, the investment balance in RXi was reduced to zero, and we stopped recording our share of losses from RXi. On June 30, 2010, we sold 2.0 million common shares of RXi and our ownership in RXi was reduced to approximately 3.1 million shares of common stock. We thereafter began to account for those shares as available for sale, and increases or decreases in the value of these shares were included as part of comprehensive income or loss. This investment was shown on the balance sheet at market value, based on RXi's closing stock price as reported on The Nasdaq Capital Market. We sold our remaining number of shares of RXi common stock in December 2010 for approximately \$6.9 million.

### Innovive Acquisition Agreement

On September 19, 2008, we completed our merger acquisition of Innovive Pharmaceuticals, Inc., or Innovive, and its clinical-stage cancer product candidates, including INNO-206 and tamibarotene. Under the merger agreement by which we acquired Innovive, we agreed to pay the former Innovive stockholders up to \$1.01 per Innovive share of future earnout merger consideration, subject to our achievement of specified net sales under the Innovive license agreements. The earnout merger consideration, if any, will be payable in shares of our common stock, subject to specified conditions, or, at our election, in cash or by a combination of shares of our common stock and cash. Our common stock will be valued for purposes of any future earnout merger consideration based upon the trading price of our common stock at the time the earnout merger consideration is paid.

### Research and Development

Expenditures for research and development activities related to continuing operations were \$15.5 million, \$8.5 million and \$7.5 million for the years ended December 31, 2011, 2010 and 2009, or approximately 67%, 50% and 44%, respectively, of our total expenses. For further information regarding our research and development activities, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" below.

### Manufacturing

We have no capability to manufacture supplies of any of our products, and rely on third-party manufacturers to produce materials needed for research and clinical trials. We have contracted with various contract manufacturing facilities for supply of our product candidates, including INNO-206 and tamibarotene, and we additionally have an arrangement with TMRC Co., Ltd., or TMRC, our licensor of tamibarotene, relating to supply of tamibarotene.

To be commercialized, our products also must be capable of being manufactured in commercial quantities in compliance with stringent regulatory requirements and at an acceptable cost. We intend to rely on third-party manufacturers to produce commercial quantities of any products for which we are able to obtain marketing approval.

We have not commercialized any product, and so we also have not demonstrated that any of our product candidates can be manufactured in commercial quantities in accordance with regulatory requirements or at an acceptable cost.

If our product candidates cannot be manufactured in suitable quantities and in accordance with regulatory standards, our clinical trials, regulatory approvals, and marketing efforts for such products may be delayed. Such delays could adversely affect our competitive position and our chances of generating significant recurring revenues. If our products are not able to be manufactured at an acceptable cost, the commercial success of our products may be adversely affected.

## Marketing

Our tentative plan is to establish our own sales force and marketing capability in order to commercialize our oncology drug candidates, including INNO-206, tamibarotene and bafetinib, in the U.S. and to seek a marketing partner for commercialization in other territories.

## Patents and Proprietary Technology

We actively seek patent protection for our technologies, processes, uses, and ongoing improvements and consider our patents and other intellectual property to be critical to our business. We regularly evaluate the patentability of new inventions and improvements developed by us or our collaborators, and, whenever appropriate, will endeavor to file U.S. and international patent applications to protect these new inventions and improvements. We cannot be certain that any of the current pending patent applications we have filed or licensed, or any new patent applications we may file or license, will ever be issued in the U.S. or any other country. There also is no assurance that any issued patents will be effective to prevent others from using our products or processes. It is also possible that any patents issued to us, as well as those we have licensed or may license in the future, may be held invalid or unenforceable by a court, or third parties could obtain patents that we would need to either license or to design around, which we may be unable to do. Current and future competitors may have licensed or filed patent applications or received patents, and may acquire additional patents and proprietary rights relating to compounds, products or processes that may be competitive with ours.

In addition to patent protection, we attempt to protect our proprietary products, processes and other information by relying on trade secrets and non-disclosure agreements with our employees, consultants and certain other persons who have access to such products, processes and information. Under the agreements, all inventions conceived by employees are our exclusive property, but there is no assurance that these agreements will afford significant protection against misappropriation or unauthorized disclosure of our trade secrets and confidential information.

As of March 12, 2012, our exclusive license to INNO-206 and related technologies includes two granted U.S., one allowed U.S. and 31 granted foreign patents or allowed applications, and one pending U.S. and 20 pending foreign applications. Patents and applications that cover pharmaceutical compositions of INNO-206, processes for their production, and their use in treatment methods (e.g., cancer, viral diseases, autoimmune diseases, and acute or chronic inflammatory diseases) have an unextended patent term until June 2020.

As of March 12, 2012, we hold exclusive licenses in one U.S. patent, one Canadian patent, one European patent and one pending U.S. and two pending European applications covering various crystal forms of tamibarotene, pharmaceutical compositions comprising these crystal forms, and methods for their production, as well as pharmaceutical compositions comprising combinations of tamibarotene with other anti-cancer drugs. We also hold exclusive licenses in one pending U.S. patent application, one pending Canadian patent application, one European patent application and one Mexican patent application covering a capsule preparation of tamibarotene and its use for blood cancer and solid cancer

As of March 12, 2012, our exclusive license to bafetinib and related technologies includes two granted U.S. and 29 granted foreign patents or allowed applications, and five pending foreign applications. Patents and applications that cover bafetinib, pharmaceutical compositions of bafetinib, and their use in treating leukemia have an unextended patent term until June 2023 or December 2024.

## LICENSE AGREEMENTS

### INNO-206

We have an agreement with KTB Tumorforschungs GmbH, or KTB, for the license of patent rights held by KTB for the worldwide development and commercialization of INNO-206. The license is exclusive and worldwide, applies to all product that may be subject to the licensed intellectual property and may be used in all fields of use. We may sublicense the intellectual property in our sole discretion. The agreement also grants us an option to include within the license any technology that is claimed or disclosed in the licensed patents and patent applications for use in the field of oncology and the right of first refusal on any license that KTB wishes to make to a third party regarding any technology that is claimed or disclosed in the licensed patents and patent applications for use in the field of oncology.



Under the agreement, we must make payments to KTB in the aggregate of \$7.5 million upon meeting clinical and regulatory milestones up to and including the product's second final marketing approval. We also agreed to pay:

- commercially reasonable royalties based on a percentage of net sales (as defined in the agreement);
- a percentage of non-royalty sub-licensing income (as defined in the agreement); and
- milestones of \$1 million for each additional final marketing approval that we obtain.

In the event that we must pay a third party in order to exercise our rights to the intellectual property under the agreement, we will deduct a percentage of those payments from the royalties due KTB, up to an agreed upon cap. This deduction includes a percentage of any payments that might be required to be made by us to Bristol-Myers Squibb. Bristol-Myers Squibb holds a patent on technology that might be considered to block the patents and patent applications that are the subject of the agreement with KTB.

Under the agreement with KTB, we must use commercially reasonable efforts to conduct the research and development activities we determine are necessary to obtain regulatory approval to market the product in those countries that we determine are commercially feasible. Under the agreement, KTB is to use its commercially reasonable efforts to provide us with access to suppliers of the API of the product on the same terms and conditions as may be provided to KTB by those suppliers.

The agreement will expire on a product-by-product basis upon the expiration of the subject patent rights. We have the right to terminate the agreement on 30 days notice, provided we pay a cash penalty to KTB. KTB may terminate the agreement if we are in breach and the breach is not cured within a specified cure period or if we fail to use diligent and commercial efforts to meet specified clinical milestones.

#### Tamibarotene

We have agreements with TMRC for the license of patent rights held by TMRC for North American and European development and commercialization of tamibarotene. The license is exclusive, applies to all products that may be subject to the licensed intellectual property and may be used in the treatment of APL and NSCLC. We may sublicense the intellectual property in our sole discretion. The agreement also grants us an option to include within the license the use of the drug in certain other cancers.

Under the agreement for North American rights, we must pay TMRC royalties based on net sales and make payments to TMRC in the aggregate of up to ¥ 490 million upon meeting clinical, regulatory, and sales milestones up to and including the first commercial sale of the product for the treatment of APL. Further milestone payments may become due upon certain events related to other indications.

Under the agreement for European rights, we must pay TMRC royalties based on net sales and make payments to TMRC in the aggregate of ¥ 480 million upon meeting clinical, regulatory and sales milestones up to and included the first commercial sale of the product for treatment of APL. Further milestone payments may become due upon certain events related to other indications.

Under the agreements, we must use commercially reasonable efforts to conduct the research and development activities we determine are necessary to obtain regulatory approval to market the product in those countries in North America and Europe that we determine are commercially feasible.

#### Bafetinib

We are party to an exclusive, worldwide (with the exception of Japan) royalty-bearing license agreement with Nippon Shinyaku, including the right to grant sublicenses, for the intellectual property relating to bafetinib in all fields. The license agreement will continue so long as we sell products subject to the license in any country. The bafetinib license covers two Patent Cooperation Treaty, or PTC, applications filed in 2003 and 2004, respectively.

Under the agreement, we are obliged to pay Nippon Shinyaku an aggregate of \$13.35 million (including \$5 million upon the product's initial final marketing approval) upon the achievement of clinical and regulatory milestones up to and including approvals in the U.S. and Europe. We also will be obliged to pay:

- commercially reasonable royalties based on a percentage of net sales (as defined in the Nippon Shinyaku license agreement), dependent on reaching certain revenue thresholds;
  - annual minimum payments if sales of bafetinib do not meet specified levels; and
  - a percentage of non-royalty sub-licensing income (as defined in the license agreement).

The agreement includes covenants that require us to, among other things, file an NDA by a specific date and use our commercially reasonable efforts to bring a licensed product to market. In the event that we breach a material term of the Nippon Shinyaku license agreement, Nippon Shinyaku has the option to terminate the agreement following the giving of notice and an opportunity to cure any such breach.

### Competition

INNO-206 is a tumor-targeted conjugate of doxorubicin, a widely used anti-cancer drug. Doxorubicin is part of the anthracycline class of chemotherapy agents. Anthracyclines, many of which are generic including doxorubicin, have been used throughout the world to treat various cancers for several decades. Due to their track record of broad anti-cancer activity, new types of anthracyclines and modified or reformulated versions continue to be developed to overcome toxicities which limit the use of these drugs.

INNO-206 is a chemically modified version of doxorubicin that incorporates an acid sensitive linker technology to improve targeting to the tumor. We believe that the albumin-binding ability of INNO-206 will allow the compound to overcome many of the side effect issues typically associated with anthracyclines. We also believe that using albumin as a targeted carrier will allow for higher dosing and greater efficacy.

Soft tissue sarcoma patients are typically treated with surgery followed by radiation therapy. Doxorubicin is the only approved drug for treating soft tissue sarcoma and is often used in combination with radiation. The National Comprehensive Cancer Network also includes the use of ifosfamide, epirubicin, gemcitabine, dacarbazine and liposomal doxorubicin marketed in the U.S. as Doxil by Johnson & Johnson. For patients ineligible for surgery, radiation and/or chemotherapy is the only option. Other approaches to treating soft tissue sarcoma are in late stage clinical development. These include ridaforolimus being developed by Ariad Pharmaceuticals and Merck & Co., Cell Therapeutics' brostallicin, GlaxoSmithKline's pazopanib, Sanofi-Aventis' AVE8062, Threshold Pharmaceuticals' TH-302, trabectedin being co-developed by Johnson and Johnson and PharmaMar and ZIOPHARM Oncology's palifosfamide.

Non-small-cell lung cancer, or NSCLC, is a competitive indication in which patients are treated with a variety of agents. The standard regimen for first-line locally advanced or metastatic NSCLC is a doublet comprised of a platinum agent combined with a taxane, vinka alkaloid or antimetabolite. The addition of Genentech/Roche's Avastin to the standard treatment doublet has resulted significant improvements in survival and rates of remission. Tarceva by OSI and Genentech/Roche and Iressa by AstraZeneca have shown benefit in second-line regimens for specific patients but have not conferred survival benefit. In 2011, Pfizer's Xalkori was approved for the treatment of advanced NSCLC patients with a specific and rare gene mutation. In addition, there are several drugs in late-stage development including Eisai's eribulin, Eli Lilly & Co.'s necitumumab and Pfizer's axitinib.

To our knowledge, there are no competitors in clinical development for refractory APL. Currently, treatment of APL is based on induction and maintenance therapy with ATRA and chemotherapy (typically idarubicin). ATRA and idarubicin are both generic compounds. Arsenic trioxide, currently marketed by Teva Pharmaceuticals, is approved for use in patients who have relapsed after ATRA-based therapy in APL. There are no FDA-approved therapies for patients who have failed arsenic trioxide. In practice, it appears that patients who fail arsenic trioxide are retreated

with ATRA.

There are currently three marketed competitors to bafetinib (formerly INNO-406) in the CML market, Gleevec®, Sprycel® and Tasigna. Gleevec is approved for treatment of newly diagnosed adult patients with Philadelphia chromosome–positive chronic myeloid leukemia (Ph+ CML) in the chronic phase and patients with Ph+ CML in blast crisis (BC), accelerated phase (AP), or in the chronic phase (CP) after failure of interferon-alpha therapy. Sprycel® and Tasigna® are approved for Gleevec-resistant CML and have since been approved for the treatment of newly diagnosed adult patients with Ph+ CML. Because of the highly competitive nature of the CML market including drug candidates in development, we have not pursued development for that indication. We selected B-CLL due to the potent and specific inhibitory properties of bafetinib against Lyn and Fyn kinases. Lyn and Fyn kinases are members of the Src family of kinases which are known to be involved in cell growth, and those kinases are overexpressed in B-CLL.

There are several drugs approved for the treatment of CLL. First-line therapy for CLL includes a variety of combination therapies including fludarabine, cyclophosphamide, Rituxan® and Campath®. Treatment for relapsed or refractory CLL includes several chemotherapy regimens including CHOP, CFAR, hyperCFAD and OFAR in addition to single agents including GlaxoSmithKline's Arzerra™ and Sanofi-Aventis' Oforta™. Arzerra was approved in October 2009 for CLL patients who are refractory to treatment with fludarabine and Campath. Oforta, an oral tablet formulation of fludarabine, was approved in December 2008 as a second-line treatment for CLL. Several drugs are in clinical trials for CLL including Gilead's GS-1101 (formerly CAL-101) and Pharmacyclics' PCI-32765.

Many companies, including large pharmaceutical and biotechnology firms with financial resources, research and development staffs, and facilities that may be substantially greater than those of ours or our strategic partners or licensees, are engaged in the research and development of pharmaceutical products that could compete with our potential products. To the extent that we seek to acquire, through license or otherwise, existing or potential new products, we will be competing with numerous other companies, many of which will have substantially greater financial resources, large acquisition and research and development staffs that may give those companies a competitive advantage over us in identifying and evaluating these drug acquisition opportunities. Any products that we acquire will be competing with products marketed by companies that in many cases will have substantially greater marketing resources than we have. The industry is characterized by rapid technological advances and competitors may develop their products more rapidly and such products may be more effective than those currently under development or that may be developed in the future by our strategic partners or licensees. Competitive products for a number of the disease indications that we have targeted are currently being marketed by other parties, and additional competitive products are under development and may also include products currently under development that we are not aware of or products that may be developed in the future.

#### Government Regulation

The U.S. and other developed countries extensively regulate the preclinical and clinical testing, manufacturing, labeling, storage, record-keeping, advertising, promotion, export, marketing and distribution of drugs and biologic products. The FDA, under the Federal Food, Drug, and Cosmetic Act, the Public Health Service Act and other federal statutes and regulations, regulates pharmaceutical and biologic products.

To obtain approval of our product candidates from the FDA, we must, among other requirements, submit data supporting safety and efficacy for the intended indication as well as detailed information on the manufacture and composition of the product candidate. In most cases, this will require extensive laboratory tests and preclinical and clinical trials. The collection of these data, as well as the preparation of applications for review by the FDA involve significant time and expense. The FDA also may require post-marketing testing to monitor the safety and efficacy of approved products or place conditions on any approvals that could restrict the therapeutic claims and commercial applications of these products. Regulatory authorities may withdraw product approvals if we fail to comply with regulatory standards or if we encounter problems at any time following initial marketing of our products.

The first stage of the FDA approval process for a new drug involves completion of preclinical studies and the submission of the results of these studies to the FDA. These data, together with proposed clinical protocols, manufacturing information, analytical data and other information submitted to the FDA, in an investigational new drug application, or IND, must become effective before human clinical trials may commence. Preclinical studies generally involve FDA regulated laboratory evaluation of product characteristics and animal studies to assess the efficacy and safety of the product candidate.

After the IND becomes effective, a company may commence human clinical trials. These are typically conducted in three sequential phases, but the phases may overlap. Phase 1 trials consist of testing of the product candidate in a small number of patients or healthy volunteers, primarily for safety at one or more doses. Phase 2 trials, in addition to

safety, evaluate the efficacy of the product candidate in a patient population somewhat larger than Phase 1 trials. Phase 3 trials typically involve additional testing for safety and clinical efficacy in an expanded population at multiple test sites. A company must submit to the FDA a clinical protocol, accompanied by the approval of the Institutional Review Boards at the institutions participating in the trials, prior to commencement of each clinical trial.

To obtain FDA marketing authorization, a company must submit to the FDA the results of the preclinical and clinical testing, together with, among other things, detailed information on the manufacture and composition of the product candidate, in the form of a new drug application, or NDA.

The amount of time taken by the FDA for approval of an NDA will depend upon a number of factors, including whether the product candidate has received priority review, the quality of the submission and studies presented, the potential contribution that the compound will make in improving the treatment of the disease in question, and the workload at the FDA.

The FDA may, in some cases, confer upon an investigational product the status of a fast track product. A fast track product is defined as a new drug or biologic intended for the treatment of a serious or life-threatening condition that demonstrates the potential to address unmet medical needs for this condition. The FDA can base approval of an NDA for a fast track product on an effect on a surrogate endpoint, or on another endpoint that is reasonably likely to predict clinical benefit. If a preliminary review of clinical data suggests that a fast track product may be effective, the FDA may initiate review of entire sections of a marketing application for a fast track product before the sponsor completes the application.

We anticipate that our products will be manufactured by our strategic partners, licensees or other third parties. Before approving an NDA, the FDA will inspect the facilities at which the product is manufactured and will not approve the product unless the manufacturing facilities are in compliance with the FDA's cGMP, which are regulations that govern the manufacture, holding and distribution of a product. Our manufacturers also will be subject to regulation under the Occupational Safety and Health Act, the National Environmental Policy Act, the Nuclear Energy and Radiation Control Act, the Toxic Substance Control Act and the Resource Conservation and Recovery Act. Following approval, the FDA periodically inspects drug and biologic manufacturing facilities to ensure continued compliance with the good manufacturing practices regulations. Our manufacturers will have to continue to comply with those requirements. Failure to comply with these requirements subjects the manufacturer to possible legal or regulatory action, such as suspension of manufacturing or recall or seizure of product. Adverse patient experiences with the product must be reported to the FDA and could result in the imposition of marketing restrictions through labeling changes or market removal. Product approvals may be withdrawn if compliance with regulatory requirements is not maintained or if problems concerning safety or efficacy of the product occur following approval.

The labeling, advertising, promotion, marketing and distribution of a drug or biologic product also must be in compliance with FDA and Federal Trade Commission requirements which include, among others, standards and regulations for off-label promotion, industry sponsored scientific and educational activities, promotional activities involving the internet, and direct-to-consumer advertising. We also will be subject to a variety of federal, state and local regulations relating to the use, handling, storage and disposal of hazardous materials, including chemicals and radioactive and biological materials. In addition, we will be subject to various laws and regulations governing laboratory practices and the experimental use of animals. In each of these areas, as above, the FDA has broad regulatory and enforcement powers, including the ability to levy fines and civil penalties, suspend or delay issuance of product approvals, seize or recall products, and deny or withdraw approvals.

We will also be subject to a variety of regulations governing clinical trials and sales of our products outside the U.S. Whether or not FDA approval has been obtained, approval of a product candidate by the comparable regulatory authorities of foreign countries and regions must be obtained prior to the commencement of marketing the product in those countries. The approval process varies from one regulatory authority to another and the time may be longer or shorter than that required for FDA approval. In the European Union, Canada and Australia, regulatory requirements and approval processes are similar, in principle, to those in the U.S.

#### Employees

As of March 12, 2012, we had 15 employees, six of whom were engaged in clinical development activities and nine of whom were involved in management and administrative operations.

Available Information

We maintain a website at [www.cytrx.com](http://www.cytrx.com) and make available there, free of charge, our periodic reports filed with the Securities and Exchange Commission, or SEC, as soon as is reasonably practicable after filing. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers such as us that file electronically with the SEC. We post on our website our Code of Business Conduct and Ethics.



## Item 1A. RISK FACTORS

### Risks Associated With Our Business

We have operated at a loss and will likely continue to operate at a loss for the foreseeable future.

We have operated at a loss due to our ongoing expenditures for research and development of our product candidates and for general and administrative purposes and lack of significant recurring revenue. We incurred a net loss of \$14.4 million for the year ended December 31, 2011, a net profit of \$0.4 million, attributable to gain from the sale of RXi shares and other marketable securities, for the year ended December 31, 2010, and a net loss of \$4.8 million for the year ended December 31, 2009, including gain from the sale of RXi shares. We had an accumulated deficit as of December 31, 2011 of approximately \$210.9 million. We are likely to continue to incur losses unless and until we are able to commercialize one or more of our product candidates. These losses, among other things, have had and will continue to have an adverse effect on our stockholders' equity and working capital. Because of the numerous risks and uncertainties associated with our product development efforts, we are unable to predict when we may become profitable, if at all. If we do not become profitable or are unable to maintain future profitability, the market value of our common stock will be adversely affected.

Our common stock may be delisted from The Nasdaq Capital Market.

On February 15, 2012, we received a written notification from The NASDAQ Stock Market LLC ("NASDAQ") stating that because we had not regained compliance with the \$1.00 minimum bid price requirement for continued listing, as set forth in NASDAQ Listing Rule 5550(a)(2), our securities would be subject to delisting from The NASDAQ Capital Market unless we requested a hearing before a NASDAQ Hearings Panel on or before February 22, 2012. We have requested and have been granted a hearing before the panel, which has stayed any delisting action in connection with the notification letter, and which allows the continued listing of our common stock on The NASDAQ Capital Market until the panel renders a decision subsequent to the hearing. At the hearing, we intend to present a plan to regain compliance with the minimum bid price requirement and request that the panel allow us additional time within which to regain compliance. There can be no assurance that the panel will grant our request for continued listing on The NASDAQ Capital Market, or that our plans to exercise diligent efforts to maintain the listing of its securities on NASDAQ will be successful. If our common stock is delisted from The NASDAQ Capital Market, we expect prices for our common stock to be quoted on the Pink Sheets LLC or the OTC Bulletin Board. There is no assurance, however, that prices for our common stock would be quoted on one of these other trading systems or that an active trading market for our common stock would thereafter exist, which would materially and adversely impact the market value of our common stock.

Because we have no source of significant recurring revenue, we must depend on financing to sustain our operations.

Developing products and conducting clinical trials require substantial amounts of capital. To date, we have relied primarily upon proceeds from sales of our equity securities, sales of our shares of common stock of our former RXi subsidiary, and the exercise of options and warrants to generate funds needed to finance our business and operations. We will need to raise additional capital to, among other things:

- fund our clinical trials and pursue regulatory approval of our existing and possible future product candidates;
- expand our research and development activities;
- finance our general and administrative expenses;

- acquire or license new technologies;
- prepare, file, prosecute, maintain, enforce and defend our patent and other proprietary rights; and
- develop and implement sales, marketing and distribution capabilities to successfully commercialize any product for which we obtain marketing approval and choose to market ourselves.

Our revenues were \$0.3 million, \$0.1 million and \$9.5 million, respectively, for the years ended December 31, 2011, 2010 and 2009. Our revenues in 2009 included \$9.4 million of deferred revenue recognized from our sale in August 2006 of a one-percent royalty interest in worldwide sales of arimoclomol for the treatment of ALS to the privately funded ALS Charitable Remainder Trust, or ALSCRT. Pursuant to an amendment signed between us and the beneficiary of the ALSCRT on August 6, 2009, we were released from all restrictions on the use of any proceeds previously paid to us in connection with the arrangement. As a result, we recognized \$6.7 million as service revenue in the third quarter of 2009, which represented the remaining deferred revenue and previously un-recognized portion of the value received. We will have no significant recurring revenue unless we are able to commercialize one or more of our product candidates in development, which may require us to first enter into license or other strategic arrangements with third parties.

At December 31, 2011, we had cash and cash equivalents of approximately \$18.0 million and marketable securities of \$18.1 million. Management believes that our current resources will be sufficient to fund our operations for the foreseeable future. The belief is based, in part, upon our currently projected expenditures for 2012 of approximately \$23.7 million, which includes approximately \$7.0 million for our clinical programs for INNO-206, approximately \$5.3 million for our clinical program for tamibarotene, approximately \$0.4 million for our clinical programs for bafetinib, approximately \$4.5 million for general operation of our clinical programs, and approximately \$6.5 million for other general and administrative expenses. These projected expenditures are based upon numerous assumptions and subject to many uncertainties, and our actual expenditures may be significantly different from these projections.

If we obtain marketing approval as currently planned and successfully commercialize our product candidates, we anticipate it will take a minimum of several years, and likely longer, for us to generate significant recurring revenue, and we will be dependent on future financing until such time, if ever, as we can generate significant recurring revenue. Our ability to raise capital may be adversely affected by the weak economic recovery in the U.S. 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. Failure to obtain adequate financing would adversely affect our ability to operate as a going concern. If we raise additional funds by issuing equity securities, dilution to stockholders may result and new investors could have rights superior to holders of the shares issued in this offering. In addition, debt financing, if available, may include restrictive covenants. If adequate funds are not available to us, we may have to liquidate some or all of our assets or to delay or reduce the scope of or eliminate some portion or all of our development programs or clinical trials. We also may have to license to other companies our product candidates or technologies that we would prefer to develop and commercialize ourselves.

If we do not achieve our projected development goals in the time frames we estimate, the commercialization of our products may be delayed and our business prospects may suffer. Our financial projections also may prove to be materially inaccurate.

From time to time, we estimate the timing of the accomplishment of various scientific, clinical, regulatory and other product development goals, which we sometimes refer to as milestones. These milestones may include the commencement or completion of scientific studies and clinical trials and the submission of regulatory filings such as the discussion in this Annual Report of the expected timing of certain milestones relating to our INNO-206, tamibarotene and bafetinib clinical development programs.

We also may disclose projected expenditures or other forecasts for future periods such as the statements above in this Annual Report supplement regarding our current projected expenditures for fiscal year 2012. These and other financial projections are based on management's current expectations and do not contain any margin of error or cushion for any specific uncertainties, or for the uncertainties inherent in all financial forecasting.

The actual timing of milestones and actual expenditures or other financial results can vary dramatically compared to our estimates, in some cases for reasons beyond our control. If we do not meet milestones or financial projections as announced from time to time, the development and commercialization of our products may be delayed and our business prospects may suffer. The assumptions management has used to produce these projections may significantly change or prove to be inaccurate. Accordingly, you should not unduly rely on any of these financial projections.

If our products are not successfully developed and approved by the FDA or foreign regulatory authorities, we may be forced to reduce or curtail our operations.

All of our product candidates in development must be approved by the U.S. Food and Drug Administration, or FDA, or corresponding foreign governmental agencies, before they can be marketed. The process for obtaining FDA and foreign government approvals is both time-consuming and costly, with no certainty of a successful outcome. This process typically includes the conduct of extensive pre-clinical and clinical testing, including post-approval testing, which may take longer or cost more than we or our licensees, if any, anticipate, and may prove unsuccessful due to numerous factors. Product candidates that may appear to be promising at early stages of development may not successfully reach the market for a number of reasons. The results of preclinical and initial clinical testing of these product candidates may not necessarily be predictive of the results that will be obtained from later or more extensive testing. Companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in advanced clinical trials, even after obtaining promising results in earlier trials.

Numerous factors could affect the timing, cost or outcome of our product development efforts, including the following:

- difficulty in enrolling patients in conformity with required protocols or projected timelines;
  - requirements for clinical trial design imposed by the FDA;
  - unexpected adverse reactions by patients in trials;
  - difficulty in obtaining clinical supplies of the product;
- changes in or our inability to comply with FDA or foreign governmental product testing, manufacturing or marketing requirements;
- regulatory inspections of clinical trials or manufacturing facilities, which may, among other things, require us or our manufacturers or licensees to undertake corrective action or suspend or terminate the affected clinical trials if investigators find them not to be in compliance with applicable regulatory requirements;
- inability to generate statistically significant data confirming the safety and efficacy of the product being tested;
  - modification of the product during testing; and
- reallocation of our limited financial and other resources to other clinical programs.

It is possible that none of the product candidates we develop will obtain the regulatory approvals necessary for us to begin selling them. The time required to obtain FDA and foreign governmental approvals is unpredictable, but often can take years following the commencement of clinical trials, depending upon the complexity of the product candidate. Any analysis we perform on data from clinical activities is subject to confirmation and interpretation by regulatory authorities, which could delay, limit or prevent regulatory approval.

Furthermore, even if we obtain regulatory approvals, our products and the manufacturing facilities used to produce them will be subject to continual review, including periodic inspections and mandatory post-approval clinical trials by the FDA and other U.S. and foreign regulatory authorities. Any delay or failure in obtaining required approvals or to comply with post-approval regulatory requirements could have a material adverse effect on our ability to generate revenue from the particular product candidate. The failure to comply with any post-approval regulatory requirements

also could result in the rescission of the related regulatory approvals or the suspension of sales of the offending product.

Our current and planned clinical trials of our product candidates may fail to show that these product candidates are clinically safe and effective, or that they are better than alternative treatments.

INNO-206 was no more toxic than free doxorubicin in a Phase 1 clinical trial and showed limited biological responses against certain tumors. However, these conclusions may not be reproducible in larger clinical trials, including the ongoing Phase 1b/2 and Phase 2b clinical trials of INNO-206 as a treatment for soft tissue sarcomas.

Tamibarotene has been shown to be safe, well-tolerated, and efficacious in the Japanese APL population. However, it is possible that the response to the drug may be different in American or European populations. Furthermore, the efficacy studies that led to approval in Japan occurred prior to the advent of the use of arsenic trioxide, or ATO, for second-line therapy. It is possible that the current use of ATO could alter the safety or efficacy of tamibarotene. The FDA might not accept the Japanese studies as a database for safety in the U.S.. The majority of patients treated with ATRA as a first-line therapy will generally experience a complete remission of disease. As a result of the limited population of patients requiring third-line treatment for APL, there is no assurance that we will be successful in recruiting a sufficient number of patients into our ongoing clinical trial of tamibarotene as a third-line treatment for APL in order to demonstrate efficacy. Any FDA-required changes to our clinical development strategy could delay or increase the cost of the trial, adversely affect our ability to demonstrate the efficacy of tamibarotene in the trial or cause us not to pursue clinical development of tamibarotene for one or more of these considerations. Tamibarotene has never been tested in human clinical trials in patients with NSCLC, and there are no assurances that it will be effective in that indication.

Bafetinib demonstrated clinical responses in patients with CML in a Phase 1 clinical trial conducted in patients with CML and other leukemias that have a certain mutation called the Philadelphia Chromosome (Ph+) and are intolerant of or resistant to Gleevec and, in some cases, second-line tyrosine kinase inhibitors. However, bafetinib has never been tested in human clinical trials in patients with B-CLL, and there are no assurances that it will be effective in that indication.

Even if our current trials are successful, subsequent trials may not yield statistically significant data indicating that these product candidates are clinically effective. Accordingly, we, or any development partners, may ultimately be unable to provide the FDA with satisfactory data on clinical safety and efficacy sufficient to obtain FDA approval of INNO-206, tamibarotene or bafetinib for any indications.

We will rely upon third parties for the manufacture of our clinical product supplies.

We do not have the facilities or expertise to manufacture supplies of any of our product candidates. Accordingly, we are dependent upon third-party manufacturers, or potential future strategic alliance partners, to manufacture these supplies. We have manufacturing supply arrangements in place with respect to a portion of the clinical supplies needed for the clinical development programs for INNO-206, tamibarotene and bafetinib. However, we have no supply arrangements for the commercial manufacture of these product candidates or any manufacturing supply arrangements for any other potential product candidates, and we may not be able to secure needed supply arrangements on attractive terms, or at all. Our failure to secure these arrangements as needed could have a materially adverse effect on our ability to complete the development of our products or to commercialize them.

If our product candidates cannot be manufactured in suitable quantities and in accordance with regulatory standards, our clinical trials, regulatory approvals and marketing efforts for such products may be delayed. Such delays could adversely affect our competitive position and our chances of generating significant recurring revenues. If our products cannot be manufactured at an acceptable cost, the commercial success of our products may be adversely affected.

We may rely upon third parties in connection with the commercialization of our products.

The completion of the development of INNO-206, tamibarotene and bafetinib, as well as the marketing of these products, may require us to enter into strategic alliances, license agreements or other collaborative arrangements with other pharmaceutical companies under which those companies will be responsible for one or more aspects of the commercial development and eventual marketing of our products.

Our products may not have sufficient potential commercial value to enable us to secure strategic arrangements with suitable companies on attractive terms, or at all. If we are unable to enter into such arrangements, we may not have the financial or other resources to complete the development of any of our products and may have to sell our rights in them to a third party or abandon their development altogether.

To the extent we enter into collaborative arrangements, we will be dependent upon the timeliness and effectiveness of the development and marketing efforts of our contractual partners. If these companies do not allocate sufficient personnel and resources to these efforts or encounter difficulties in complying with applicable FDA and other regulatory requirements, we may not obtain regulatory approvals as planned, if at all, and the timing of receipt or the amount of revenue from these arrangements may be materially and adversely affected. By entering into these arrangements rather than completing the development and then marketing these products on our own, the profitability to us of these products may decline.



We may be unable to protect our intellectual property rights, which could adversely affect our ability to compete effectively.

We believe that obtaining and maintaining patent and other intellectual property rights for our technologies and potential products is critical to establishing and maintaining the value of our assets and our business. We will be able to protect our technologies from unauthorized use by third parties only to the extent that we have rights to valid and enforceable patents or other proprietary rights that cover them. Although we have rights to patents and patent applications directed to INNO-206, tamibarotene and bafetinib, these patents and applications may not prevent third parties from developing or commercializing similar or identical technologies. In addition, our patents may be held to be invalid if challenged by third parties, and our patent applications may not result in the issuance of patents.

The patent positions of pharmaceutical and biotechnology companies can be highly uncertain and involve complex legal and factual questions for which important legal principles remain unresolved. No consistent policy regarding the breadth of claims allowed in biotechnology patents has emerged to date in the U.S. and in many foreign countries. The application and enforcement of patent laws and regulations in foreign countries is even more uncertain. Accordingly, we may not be able to effectively file, protect or defend our proprietary rights on a consistent basis. Many of the patents and patent applications on which we rely were issued or filed by third parties prior to the time we acquired rights to them. The validity, enforceability and ownership of those patents and patent applications may be challenged, and if a court decides that our patents are not valid, we will not have the right to stop others from using our inventions. There is also the risk that, even if the validity of our patents is upheld, a court may refuse to stop others on the ground that their activities do not infringe our patents.

Any litigation brought by us to protect our intellectual property rights could be costly and have a material adverse effect on our operating results or financial condition, make it more difficult for us to enter into strategic alliances with third parties to develop our products, or discourage our existing licensees from continuing their development work on our potential products. If our patent coverage is insufficient to prevent third parties from developing or commercializing similar or identical technologies, the value of our assets is likely to be materially and adversely affected.

We also rely on certain proprietary trade secrets and know-how, especially where we believe patent protection is not appropriate or obtainable. However, trade secrets and know-how are difficult to protect. Although we have taken measures to protect our unpatented trade secrets and know-how, including the use of confidentiality and invention assignment agreements with our employees, consultants and some of our contractors, it is possible that these persons may disclose our trade secrets or know-how or that our competitors may independently develop or otherwise discover our trade secrets and know-how.

If our product candidates infringe the rights of others, we could be subject to expensive litigation or be required to obtain licenses from others to develop or market them.

Our competitors or others may have patent rights that they choose to assert against us or our licensees, suppliers, customers or potential collaborators. Moreover, we may not know about patents or patent applications that our products would infringe. For example, because patent applications can take many years to issue, there may be currently pending applications, unknown to us, that may later result in issued patents that our product candidates would infringe. In addition, if third parties file patent applications or obtain patents claiming technology also claimed by us or our licensors in issued patents or pending applications, we may have to participate in interference proceedings in the U.S. Patent and Trademark Office to determine priority of invention. If third parties file oppositions in foreign countries, we may also have to participate in opposition proceedings in foreign tribunals to defend the patentability of our foreign patent applications.

If a third party claims that we infringe its proprietary rights, any of the following may occur:

- we may become involved in time-consuming and expensive litigation, even if the claim is without merit;
- we may become liable for substantial damages for past infringement if a court decides that our technology infringes a competitor's patent;
- a court may prohibit us from selling or licensing our product without a license from the patent holder, which may not be available on commercially acceptable terms, if at all, or which may require us to pay substantial royalties or grant cross licenses to our patents; and
- we may have to redesign our product candidates or technology so that it does not infringe patent rights of others, which may not be possible or commercially feasible.

If any of these events occurs, our business and prospects will suffer and the market price of our common stock will likely decline substantially.

Any drugs we develop may become subject to unfavorable pricing regulations, third-party reimbursement practices or healthcare reform initiatives, which could have a material adverse effect on our business.

We intend to sell our products primarily to hospitals which receive reimbursement for the health care services they provide to their patients from third-party payors, such as Medicare, Medicaid and other domestic and international government programs, private insurance plans and managed care programs. Most third-party payors may deny reimbursement if they determine that a medical product was not used in accordance with cost-effective treatment methods, as determined by the third-party payor, or was used for an unapproved indication. Third-party payors also may refuse to reimburse for experimental procedures and devices. Furthermore, because our programs are in the early stages of development, we are unable at this time to determine their cost-effectiveness and the level or method of reimbursement. Increasingly, the third-party payors who reimburse patients are requiring that drug companies provide them with predetermined discounts from list prices, and are challenging the prices charged for medical products. If the price we are able to charge for any products we develop is inadequate in light of our development and other costs, our profitability could be adversely affected.

We currently expect that any drugs we develop may need to be administered under the supervision of a physician. Under currently applicable law, drugs that are not usually self-administered may be eligible for coverage by the Medicare program if:

- they are “incidental” to a physician’s services,
- they are “reasonable and necessary” for the diagnosis or treatment of the illness or injury for which they are administered according to accepted standard of medical practice,
- they are not excluded as immunizations, and
- they have been approved by the FDA.

We are subject to intense competition, and we may not compete successfully

We and our strategic partners or licensees may be unable to compete successfully against our current or future competitors. The pharmaceutical, biopharmaceutical and biotechnology industries are characterized by intense competition and rapid and significant technological advancements. Many companies, research institutions and universities are working in a number of areas similar to our primary fields of interest to develop new products. There also is intense competition among companies seeking to acquire products that already are being marketed. Many of the companies with which we compete have or are likely to have substantially greater research and product development capabilities and financial, technical, scientific, manufacturing, marketing, distribution and other resources than us and at least some of our present or future strategic partners or licensees.

As a result, these competitors may:

- succeed in developing competitive products sooner than us or our strategic partners or licensees;
- obtain FDA or foreign governmental approvals for their products before we can obtain approval of any of our products;
- obtain patents that block or otherwise inhibit the development and commercialization of our product candidate candidates;

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- develop products that are safer or more effective than our products;
- devote greater resources than us to marketing or selling products;
- introduce or adapt more quickly than us to new technologies and other scientific advances;
  - introduce products that render our products obsolete;

- withstand price competition more successfully than us or our strategic partners or licensees;
- negotiate third-party strategic alliances or licensing arrangements more effectively than us; and
  - take better advantage than us of other opportunities.

For a more detailed discussion of the competition we face, see “Business – Competition,” above.

We will be required to pay substantial milestone and other payments relating to the commercialization of our products.

The agreement relating to our worldwide rights to INNO-206 provides for our payment of an aggregate of \$7.5 million upon meeting specified clinical and regulatory milestones up to and including the product’s second final marketing approval. We also will be obliged to pay:

- commercially reasonable royalties based on a percentage of net sales (as defined in the agreement);
- a percentage of non-royalty sub-licensing income (as defined in the agreement); and
- milestones of \$1,000,000 for each additional final marketing approval that we might obtain.

The agreements under which we have North American and European rights to tamibarotene provide for our payment of royalties based on net sales of any products, as well as aggregate payments of ¥ 490 million for North America and ¥ 480 million for Europe upon meeting specified clinical, regulatory and sales milestones up to and including the first commercial sale of tamibarotene for the treatment of APL.

Our agreement relating to our worldwide (except Japan) rights to bafetinib provides for our payment of an aggregate of \$13.35 million (including \$5 million upon the product’s initial final marketing approval) upon the achievement of specified clinical and regulatory milestones up to and including approvals in the U.S. and Europe. We also will be obliged to pay:

- commercially reasonable royalties based on a percentage of net sales (as defined in the agreement), dependent on reaching certain revenue thresholds;
  - annual minimum payments if sales of bafetinib do not meet specified levels; and
  - a percentage of non-royalty sub-licensing income (as defined in the agreement).

If we are required to pay any third party in order to exercise our rights under the agreement, we will deduct a percentage of those payments from the royalties due under the agreement, up to an agreed-upon cap.

Under the merger agreement by which we acquired Innovive, we agreed to pay the former Innovive stockholders a total of up to approximately \$18.3 million of future earnout merger consideration, subject to our achievement of specified net sales under the Innovive license agreements. The earnout merger consideration, if any, will be payable in shares of our common stock, subject to specified conditions, or, at our election, in cash or by a combination of shares of our common stock and cash. Our common stock will be valued for purposes of any future earnout merger consideration based upon the trading price of our common stock at the time the earnout merger consideration is paid.

We are subject to potential liabilities from clinical testing and future product liability claims.

If any of our products are alleged to be defective, they may expose us to claims for personal injury by patients in clinical trials of our products or, if we obtain marketing approval and commercialize our products, by patients using our commercially marketed products. Even if the if one or more of our products is approved by the FDA, users may claim that such products caused unintended adverse effects. We maintain clinical trial insurance for our ongoing clinical trials, and we plan to seek to obtain similar insurance for any other clinical trials that we conduct. We also would seek to obtain product liability insurance covering the commercial marketing of our product candidates. We may not be able to obtain additional insurance, however, and any insurance obtained by us may prove inadequate in the event of a claim against us. Any claims asserted against us also may divert management's attention from our operations, and we may have to incur substantial costs to defend such claims even if they are unsuccessful.

We may be unable to successfully acquire additional technologies or products. If we require additional technologies or products, our product development plans may change and the ownership interests of our shareholders could be diluted.

We may seek to acquire additional technologies by licensing or purchasing such technologies, or through a merger or acquisition of one or more companies that own such technologies. We have no current understanding or agreement to acquire any technologies, however, and we may not be able to identify or successfully acquire any additional technologies. We also may seek to acquire products from third parties that already are being marketed or have been approved for marketing, although we have not currently identified any of these products. We do not have any prior experience in acquiring or marketing products approved for marketing and may need to find third parties to market any products that we might acquire.

We have focused our product development efforts on our oncology drug candidates, which we believe have the greatest revenue potential. If we acquire additional technologies or product candidates, we may determine to make further changes to our product development plans and business strategy to capitalize on opportunities presented by the new technologies and product candidates.

We may determine to issue shares of our common stock to acquire additional technologies or products or in connection with a merger or acquisition of another company. To the extent we do so, the ownership interest of our stockholders will be diluted accordingly.

We are conducting certain of our clinical trials in foreign countries, which exposes us to additional risks.

We are conducting international clinical development of INNO-206 and tamibarotene. The conduct of clinical trials outside the United States could have a significant impact on us. Risks inherent in conducting international clinical trials include:

- foreign regulatory requirements that could restrict or limit our ability to conduct our clinical trials;
- administrative burdens of conducting clinical trials under multiple foreign regulatory schema;
  - foreign exchange fluctuations;
  - diminished protection of intellectual property in some countries; and
  - possible nationalization and expropriation.

In addition, there may be changes to our business and political position if there is instability, disruption or destruction in a significant geographic region, regardless of cause, including war, terrorism, riot, civil insurrection or social unrest; and natural or man-made disasters, including famine, flood, fire, earthquake, storm or disease, which could seriously harm the development of our current operating strategy.

In the event of a dispute regarding our international clinical trials, it may be necessary for us to resolve the dispute in the foreign country of dispute, where we would be faced with unfamiliar laws and procedures.

The resolution of disputes in foreign countries can be costly and time consuming, similar to the situation in the United States. However, in a foreign country, we face the additional burden of understanding unfamiliar laws and procedures. We may not be entitled to a jury trial, as we might be in the United States. Further, to litigate in any foreign country, we would be faced with the necessity of hiring lawyers and other professionals who are familiar with the foreign laws. For these reasons, we may incur unforeseen expenses if we are forced to resolve a dispute in a

foreign country.

21

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## Risks Associated with Our Common Stock

Our anti-takeover measures may make it more difficult to change our management, or may discourage others from acquiring us, and thereby adversely affect stockholder value.

We have a stockholder rights plan and provisions in our bylaws that are intended to protect our stockholders' interests by encouraging anyone seeking control of our company to negotiate with our board of directors. These provisions may discourage or prevent a person or group from acquiring us without the approval of our board of directors, even if the acquisition would be beneficial to our stockholders.

We have a classified board of directors, which means that at least two stockholder meetings, instead of one, will be required to effect a change in the majority control of our board of directors. This applies to every election of directors, not just an election occurring after a change in control. The classification of our board increases the amount of time it takes to change majority control of our board of directors and may cause potential acquirers to lose interest in a potential purchase of us, regardless of whether our purchase would be beneficial to us or our stockholders. The additional time and cost to change a majority of the members of our board of directors makes it more difficult and may discourage our existing stockholders from seeking to change our existing management in order to change the strategic direction or operational performance of our company.

Our bylaws provide that directors may only be removed for cause by the affirmative vote of the holders of at least a majority of the outstanding shares of our capital stock then entitled to vote at an election of directors. This provision prevents stockholders from removing any incumbent director without cause. Our bylaws also provide that a stockholder must give us at least 120 days notice of a proposal or director nomination that such stockholder desires to present at any annual meeting or special meeting of stockholders. Such provision prevents a stockholder from making a proposal or director nomination at a stockholder meeting without us having advance notice of that proposal or director nomination. This could make a change in control more difficult by providing our directors with more time to prepare an opposition to a proposed change in control. By making it more difficult to remove or install new directors, these bylaw provisions may also make our existing management less responsive to the views of our stockholders with respect to our operations and other issues such as management selection and management compensation.

We are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which may also prevent or delay a takeover of us that may be beneficial to our stockholders.

Our outstanding options and warrants and the availability for resale of our shares issued in our private financings may adversely affect the trading price of our common stock.

As of December 31, 2011, there were outstanding stock options and warrants to purchase approximately 65.1 million shares of our common stock at a weighted-average exercise price of \$0.78 per share. Our outstanding options and warrants could adversely affect our ability to obtain future financing or engage in certain mergers or other transactions, since the holders of options and warrants can be expected to exercise them at a time when we may be able to obtain additional capital through a new offering of securities on terms more favorable to us than the terms of outstanding options and warrants. For the life of the options and warrants, the holders have the opportunity to profit from a rise in the market price of our common stock without assuming the risk of ownership. The issuance of shares upon the exercise of outstanding options and warrants will also dilute the ownership interests of our existing stockholders. Many of our outstanding warrants contain anti-dilution provisions pertaining to dividends with respect to our common stock. In the event that these anti-dilution provisions are triggered by us in the future, we would likewise be required to reduce the exercise price, and increase the number of shares underlying, those warrants, which would have a dilutive effect on our stockholders.

We have registered with the SEC the resale by the holders of all or substantially all shares of our common stock issuable upon exercise of our outstanding options and warrants. The availability of these shares for public resale, as well as actual resales of these shares, could adversely affect the trading price of our common stock.

We may issue preferred stock in the future, and the terms of the preferred stock may reduce the value of our common stock.

We are authorized to issue shares of preferred stock in one or more series. Our board of directors may determine the terms of future preferred stock offerings without further action by our stockholders. If we issue preferred stock, it could affect your rights or reduce the value of our outstanding common stock. In particular, specific rights granted to future holders of preferred stock may include voting rights, preferences as to dividends and liquidation, conversion and redemption rights, sinking fund provisions, and restrictions on our ability to merge with or sell our assets to a third party.

We may experience volatility in our stock price, which may adversely affect the trading price of our common stock.

The market price of our common stock has ranged from \$0.26 to \$1.05 per share since January 1, 2011, and it may continue to experience significant volatility from time to time. Factors that may affect the market price of our common stock include the following:

- announcements of regulatory developments or technological innovations by us or our competitors;
  - changes in our relationship with our licensors and other strategic partners;
  - our quarterly operating results;
  - litigation involving or affecting us;
- shortfalls in our actual financial results compared to our guidance or the forecasts of stock market analysts;
  - developments in patent or other technology ownership rights;
  - acquisitions or strategic alliances by us or our competitors;
  - public concern regarding the safety of our products; and
  - government regulation of drug pricing.

We do not expect to pay any cash dividends on our common stock.

We have not declared or paid any cash dividends on our common stock or other securities, and we currently do not anticipate paying any cash dividends in the foreseeable future. Because we do not anticipate paying cash dividends for the foreseeable future, our stockholders will not realize a return on their investment in our common stock except to the extent of any appreciation in the value of our common stock. Our common stock may not appreciate in value, or may decline in value.

#### Item 1B. UNRESOLVED STAFF COMMENTS

None.

#### Item 2. PROPERTIES

We lease our headquarters in Los Angeles, California. The lease covers approximately 5,270 square feet of office and storage space and expires in February 2015. This lease requires us to make monthly payments of approximately \$25,610, subject to annual increases.

We also acquired a sublease to approximately 5,526 square feet of office space at 555 Madison Avenue, New York, New York, in connection with our acquisition of Innovive in September 2008. This lease currently requires us to make annual payments of approximately \$210,000, plus certain taxes and operating expenses, and it expires on August 30, 2012. On December 4, 2008, we sub-subleased the space through August 29, 2012. Under the sub-sublease, we are entitled to base annual rent of approximately \$350,000, plus certain taxes and operating expenses.

Item 3. LEGAL PROCEEDINGS

We are occasionally involved in claims arising in the normal course of business. As of March 12, 2012, there were no such claims that we expect, individually or in the aggregate, to have a material adverse effect on us.

Item 4. MINE SAFETY DISCLOSURES

Not Applicable.

## PART II

## Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

## Market Information

Our common stock is traded on The NASDAQ Capital Market under the symbol "CYTR." The following table sets forth the high and low sale prices for our common stock for the periods indicated as reported by The NASDAQ Capital Market:

	High	Low
Fiscal Year 2011:		
Fourth Quarter	\$0.40	\$0.24
Third Quarter	\$0.83	\$0.30
Second Quarter	\$1.06	\$0.68
First Quarter	\$1.06	\$0.76
Fiscal Year 2010:		
Fourth Quarter	\$1.11	\$0.73
Third Quarter	\$0.97	\$0.62
Second Quarter	\$1.29	\$0.73
First Quarter	\$1.56	\$1.07

## Holders

On March 12, 2012, there were approximately 700 holders of record of our common stock. The number of record holders does not reflect the number of beneficial owners of our common stock for whom shares are held by brokerage firms and other nominees.

## Dividends

We have not paid any cash dividends since our inception and do not contemplate paying any cash dividends in the foreseeable future.

## Equity Compensation Plans

The following table sets forth certain information as of December 31, 2011, regarding securities authorized for issuance under our equity compensation plans:

Plan Category	(a) Number of Securities to be Issued Upon Exercise of	(b) Weighted-Average Exercise Price of Outstanding Options,	Number of Securities Remaining Available for Issuance Under Equity
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	Outstanding Options, Warrants and Rights	Warrants and Rights	Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by our security holders:			
2000 Long-Term Incentive Plan	7,296,960	\$ 1.08	—
2008 Stock Incentive Plan	6,055,500	0.59	3,944,500
Equity compensation plans not approved by our security holders:			
Outstanding warrants (1)	51,781,505	0.76	—
Total	65,133,965	\$ 0.78	3,944,500

(1) The warrants shown were issued in discreet transactions from time to time as compensation for services rendered by consultants, advisors or other third parties, and do not include warrants sold in private placement transactions. The material terms of such warrants were determined based upon arm's-length negotiations with the service providers. The warrant exercise prices approximated the market price of our common stock at or about the date of grant, and the warrant terms range from one to ten years from the grant date. The warrants contain customary anti-dilution adjustments in the event of a stock split, reverse stock split, reclassification or combination of our outstanding common stock and similar events and certain of the warrants contain anti-dilution adjustments triggered by other corporate events, such as dividends.

## Comparison of Cumulative Total Returns

The following line graph presentation compares cumulative total stockholder returns of CytRx with The NASDAQ Stock Market Index and the NASDAQ Pharmaceutical Index (the “Peer Index”) for the five-year period from December 31, 2006 to December 31, 2011. The graph and table assume that \$100 was invested in each of CytRx’s common stock, the NASDAQ Stock Market Index and the Peer Index on December 31, 2006, and that all dividends were reinvested. This data was furnished by Zacks Investment Research.

## Comparison of Cumulative Total Returns

	2007	2008	December 31,		
			2009	2010	2011
CytRx Corporation	148.69	22.81	85.15	76.80	21.29
NASDAQ Stock Market Index	110.65	66.42	96.54	114.07	113.17
NASDAQ Pharmaceutical Index	105.17	97.84	109.95	119.19	127.72

## Recent Issuances of Unregistered Securities

In March 2012, we issued a warrant to purchase a total of 400,000 shares of our common stock at an exercise price of \$0.33 per share, in connection with a consulting arrangement. The issuance of this warrant was exempt from registration under the Securities Act of 1933 pursuant to Section 4(2) of the Securities Act of 1933.

## Repurchase of Shares

We did not repurchase any of our shares during the year ended December 31, 2011.

## Item 6. SELECTED FINANCIAL DATA

## General

The following selected financial data are derived from our audited financial statements. Our financial statements for 2011, 2010 and 2009 have been audited by BDO USA, LLP, our independent registered public accounting firm. These historical results do not necessarily indicate future results. When you read this data, it is important that you also read our financial statements and related notes, as well as the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors” sections of this Annual Report. Financial information provided below has been rounded to the nearest thousand.

	2011	2010	2009	2008	2007
Statement of Operations Data:					
Revenues					
Service revenue	\$—	\$—	\$9,400,000	\$6,166,000	\$7,242,000
Licensing revenue	250,000	100,000	100,000	100,000	101,000
Grant revenue	—	—	—	—	116,000
Total revenues	\$250,000	\$100,000	\$9,500,000	\$6,266,000	\$7,459,000
Deemed dividend for anti-dilution adjustments made to outstanding common stock warrants					
	—	—	—	(757,000)	—
Net profit (loss) applicable to common stockholders	\$(14,424,545)	\$408,460	\$(4,800,000)	\$(27,803,000)	\$(21,890,000)
Basic and diluted profit (loss) per share applicable to common stock	\$(0.11)	\$0.00	\$(0.05)	\$(0.30)	\$(0.26)
Balance Sheet Data:					
Cash, cash equivalents and marketable securities					
	\$17,989,000	\$26,892,000	\$32,643,000	\$25,042,000	\$60,450,000
Total assets	\$37,854,000	\$36,697,000	\$35,277,000	\$28,324,000	\$64,146,000
Total stockholders’ equity	\$24,254,000	\$30,568,000	\$28,348,000	\$15,698,000	\$40,224,000

## Factors Affecting Comparability

In August 2011, we undertook a \$20.4 million underwritten public offering in which we sold and issued 39.2 million shares of common stock at a price of \$0.51 per share and warrants at a price of \$0.01 per warrant to purchase up to approximately 45.1 million shares of common stock at an exercise price of \$0.64 per share. Net of underwriting discounts, legal, accounting and other offering expenses, we received proceeds of approximately \$18.9 million (without giving effect to any proceeds that we may receive upon future exercises of the warrants sold in the offering).

In July 2009, we completed a \$20.0 million registered direct public offering of approximately 15.3 million shares of our common stock at a price of \$1.31 per share and warrants to purchase an additional approximately 4.7 million shares of common stock at an exercise price of \$1.70 per share. Net of investment banking commissions, advisory fees, legal, accounting and other fees related to the transaction, we received proceeds of approximately \$18.3 million



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(without giving effect to any proceeds that we may receive upon future exercises of the warrants sold in the offering).

On September 19, 2008, we purchased all of the common stock of Innovive Pharmaceuticals in a transaction that for accounting purposes is considered an asset acquisition. The fair value of Innovive's assets and liabilities at September 19, 2008, in millions of dollars, are presented below:

In-process research and development	\$8.0
Leasehold interests	0.1
Prepaid expenses	0.3
Accounts payable	(6.1 )
Net assets acquired through issuance of common stock	\$2.3

As a result of the March 11, 2008 distribution by us to our stockholders of approximately 36% of the outstanding shares of RXi, we deconsolidated that previously majority-owned subsidiary. As part of the transaction, we deconsolidated \$3.7 million of total assets and \$4.6 million of total liabilities of RXi.

In connection with applicable antidilution adjustments to the price of certain outstanding warrants in March 2008, we recorded a deemed dividend of approximately \$757,000. The deemed dividend was recorded as a charge to accumulated deficit and a corresponding credit to additional paid-in capital.

In April 2007, we completed a \$37.0 million private equity financing in which we sold 8.6 million shares of our common stock at \$4.30 per share. Net of investment banking commissions, legal, accounting and other expenses related to the transaction, we received approximately \$34.2 million of sale proceeds.

In August 2006, we received marketable securities, which were subsequently sold by us for approximately \$24.3 million, from the privately-funded ALS Charitable Remainder Trust, or ALSCRT, in exchange for our commitment to continue research and development of arimoclomol and other potential treatments for ALS and a one percent royalty from worldwide sales of arimoclomol. We recorded the value received under the arrangement as deferred service revenue, which we recognize using the proportional performance method of revenue recognition. In August 2009, we were released from all restrictions on the use of any proceeds previously received by us in connection with the arrangement. As a result, we recognized in the third quarter \$6.7 million of service revenue, representing all of the remaining deferred revenue and previously un-recognized portion of the value received in the arrangement with ALSCRT. During 2009 and 2008, we recognized approximately \$9.4 million and \$6.2 million, respectively, of service revenue related to this transaction, respectively.

## Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read together with the discussion under "Selected Financial Data" and our consolidated financial statements included in this Annual Report. This discussion contains forward-looking statements, based on current expectations and related to future events and our future financial performance, that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many important factors, including those set forth under the caption "Risk Factors" and elsewhere in this Annual Report.

### Overview

#### CytRx Corporation

We are a biopharmaceutical research and development company specializing in oncology. Our oncology pipeline includes three programs in clinical development for cancer indications: INNO-206, tamibarotene and bafetinib. With our tumor-targeted doxorubicin conjugate INNO-206, we have initiated an international Phase 2b clinical trial as a treatment for soft tissue sarcomas, are completing our ongoing Phase 1b/2 clinical trial for primarily the same indication and plan to initiate a Phase 2 trial for an undisclosed solid tumor indication in the first half of 2012. Our pipeline also includes tamibarotene, which we are testing in a double-blind, placebo-controlled, international Phase 2b clinical trial in patients with non-small-cell lung cancer, and which is in a clinical trial as a treatment for acute promyelocytic leukemia (APL). We are evaluating 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. In 2011, we completed our strategy of monetizing our non-core assets through the sale of our molecular chaperone technology to Denmark-based Orphazyme ApS in a transaction valued at up to \$120 million, and the sale of our 19% interest in SynthRx to ADVENTRX Pharmaceuticals.

In order to fund our business and operations, we have relied primarily upon sales of our equity securities, including proceeds received upon the exercise of options and warrants, and sales of our shares of common stock of our former subsidiary, RXi Pharmaceuticals Corporation. We also have received limited payments from our strategic partners and licensees.

At December 31, 2011, we had cash and cash equivalents of approximately \$18.0 million and marketable securities of \$18.1 million. Management believes that our current resources will be sufficient to fund our operations for the foreseeable future. The belief is based, in part, upon our currently projected expenditures for 2012 of approximately \$23.7 million, which includes approximately \$7.0 million for our clinical programs for INNO-206, approximately \$5.3 million for our clinical program for tamibarotene, approximately \$0.4 million for our clinical programs for bafetinib, approximately \$4.5 million for general operation of our clinical programs, and approximately \$6.5 million for other general and administrative expenses. These projected expenditures are based upon numerous assumptions and subject to many uncertainties, and our actual expenditures may be significantly different from these projections. We will be required to obtain additional funding in order to execute our long-term business plans, although we do not currently have commitments from any third parties to provide us with capital. We cannot assure that additional funding will be available on favorable terms, or at all. If we fail to obtain additional funding when needed, we may not be able to execute our business plans and our business may suffer, which would have a material adverse effect on our financial position, results of operations and cash flows.

#### Our Separation from RXi Pharmaceuticals Corporation

RXi Pharmaceuticals Corporation was founded in April 2006 by us and four researchers in the field of RNAi, including Dr. Craig Mello, recipient of the 2006 Nobel Prize for Medicine for his co-discovery of RNAi. RNAi is a naturally occurring mechanism for the regulation of gene expression that has the potential to selectively inhibit the activity of any human gene. In January 2007, we transferred to RXi substantially all of our RNAi-related technologies and assets, and RXi began operating on a stand-alone basis for the purpose of accelerating the discovery of RNAi therapeutics previously sponsored by us. RXi's initial focus is on developing RNAi-based product candidates for treating neurological and metabolic disorders and cancer.

Until early 2008, we owned approximately 85% of the outstanding shares of common stock of RXi and our financial statements included the consolidated financial condition and results of operations of RXi. On February 14, 2008, our board of directors declared a dividend of one share of RXi common stock for each approximately 20.05 outstanding shares of our common stock, which was paid on March 11, 2008 and which reduced our ownership of RXi shares to less than 50%. As a result, our financial statements after March 11, 2008 no longer consolidate the financial condition and results of operation of RXi, but instead reflect our ongoing investment in RXi based on the equity method of accounting. In 2009, the investment balance in RXi was reduced to zero, and we stopped recording our share of losses from RXi. On June 30, 2010, we sold 2.0 million common shares of RXi and our ownership in RXi was reduced to approximately 3.1 million shares of common stock, approximately 17% of the outstanding shares of RXi. We thereafter began to account for those shares as available for sale, and increases or decreases were included as part of comprehensive income or loss. This investment was shown on the balance sheet at market value, based on RXi's closing stock price as reported on The NASDAQ Capital Market.

We sold our remaining shares of RXi common stock in December 2010.

#### Research and Development

Expenditures for research and development activities related to continuing operations were \$15.5 million, \$8.5 million and \$7.5 million for the years ended December 31, 2011, 2010 and 2009, or approximately 67%, 50% and 44%, respectively, of our total expenses.

Research and development expenses are further discussed below under "Critical Accounting Policies and Estimates" and "Results of Operations."

Our currently projected expenditures for 2012 include approximately \$7.0 million for our clinical programs for INNO-206, approximately \$5.3 million for our clinical program for tamibarotene, approximately \$0.4 million for our clinical programs for bafetinib, and approximately \$4.5 million for general operation of our clinical programs. The actual cost of our clinical programs could differ significantly from our current projections due to any additional requirements or delays imposed by the FDA in connection with our planned trials, or if actual costs are higher than current management estimates for other reasons, including complications with manufacturing. In the event that actual costs of our clinical program, or any of our other ongoing research activities, are significantly higher than our current estimates, we may be required to significantly modify our planned level of operations.

There is a risk that any drug discovery and development program may not produce revenue because of the risks inherent in drug discovery and development. The successful development of any product candidate is highly uncertain. We cannot reasonably estimate or know the nature, timing and costs of the efforts necessary to complete the development of, or the period in which material net cash inflows are expected to commence from any product candidate, due to the numerous risks and uncertainties associated with developing drugs, including the uncertainty of:

- our ability to advance product candidates into pre-clinical and clinical trials;
- the scope, rate and progress of our pre-clinical trials and other research and development activities;
  - the scope, rate of progress and cost of any clinical trials we commence;
- the cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights;
  - future clinical trial results;
- the terms and timing of any collaborative, licensing and other arrangements that we may establish;
  - the cost and timing of regulatory approvals;
- the cost and timing of establishing sales, marketing and distribution capabilities;
- the cost of establishing clinical and commercial supplies of our product candidates and any products that we may develop; and
  - the effect of competing technological and market developments.

Any failure to complete any stage of the development of our products in a timely manner could have a material adverse effect on our operations, financial position and liquidity. A discussion of the risks and uncertainties associated with our business is set forth in the “Risk Factors” section of this Annual Report.

#### Critical Accounting Policies and Estimates

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

Our significant accounting policies are summarized in Note 2 of the Notes to Financial Statements included in this Annual Report. We believe the following critical accounting policies are affected by our more significant judgments and estimates used in the preparation of our consolidated 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.

In August 2006, we received marketable securities, which we subsequently sold for approximately \$24.3 million, from the privately-funded ALS Charitable Remainder Trust (“ALSCRT”) in exchange for the commitment to continue research and development of arimoclomol and other potential treatments for ALS and a one percent royalty in the worldwide sales of arimoclomol. We accounted for the transaction under ASC 730-20, Research and Development Arrangements (“ASC 730-20”). Accordingly, we recorded the value received under the arrangement as deferred service revenue and recognize service revenue, using the proportional performance method of revenue recognition, on a dollar-for-dollar basis for each dollar of expense incurred for the research and development of arimoclomol and other potential ALS treatments. In August 2009, we were released from all restrictions on the use of any proceeds previously paid to us in connection with the arrangement. As a result, we recognized in the third quarter \$6.7 million of service revenue representing the remaining deferred revenue and previously un-recognized portion of the value received in the transaction with ALSCRT. For the year ended December 31, 2009, we recognized approximately \$9.4 million of service revenue related to this transaction. No service revenue related to the ALSCRT transaction was recognized in 2010 or 2011.

#### 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 its 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 15 of the Notes to our Financial Statements. We have adopted the provisions of ASC 718, Compensation - Stock Compensation (“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, we recognize compensation expense in accordance with the requirements of ASC 505-50, Equity-Base Payments to Non-Employees (“ASC 505-50”), as amended.



Non-employee option grants that do not vest immediately upon grant are recorded as an expense over the vesting period. At the end of each financial reporting period prior to performance, the value of these options, as calculated using the Black-Scholes option-pricing model, is determined, and compensation expense recognized or recovered during the period is adjusted accordingly. Since the fair market value of options granted to non-employees is subject to change in the future, the amount of the future compensation expense is subject to adjustment until the common stock options or warrants are fully vested.

#### 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. The remaining fixed assets from our San Diego laboratory have been re-allocated from Equipment and Furnishings to Assets Held for Sale and were sold as of September 30, 2010.

## Net Income (Loss) Per Share

Basic net income (loss) per common share is computed using the weighted-average number of common shares outstanding. Diluted net income (loss) per common share is computed using the weighted-average number of common share and common share equivalents outstanding. Common share equivalents that could potentially dilute basic earnings per share in the future, and that were excluded from the computation of diluted loss per share, totaled approximately 57.7 million shares, 15.4 million shares and 24.4 million shares at December 31, 2011, 2010 and 2009, respectively.

## Quarterly Financial Data

The following table sets forth unaudited consolidated statements of operations data for each quarter during our most recent two fiscal years. This quarterly information has been derived from our unaudited consolidated financial statements and, in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information for the periods covered. The quarterly financial data should be read in conjunction with our consolidated financial statements and related notes. The operating results for any quarter are not necessarily indicative of the operating results for any future period.

	Quarter Ended			
	March 31	June 30	September 30	December 31
	(In thousands, except per share data)			
2011				
Total revenues	\$—	\$150	\$—	\$100
Net loss	(6,275 )	(3,120 )	(558 )	(4,472 )
Net loss applicable to common stockholders	\$(6,275 )	\$(3,120 )	\$(558 )	\$(4,472 )
Basic and diluted loss per share applicable to common stock	\$(0.06 )	\$(0.03 )	\$(0.00 )	\$(0.03 )
2010				
Total revenues	\$—	\$—	\$—	\$100
Net profit (loss)	(611 )	1,294	(4,414 )	4,140
Net profit (loss) applicable to common stockholders	\$(611 )	\$1,294	\$(4,414 )	\$4,140
Basic and diluted loss per share applicable to common stock	\$(0.01 )	\$0.01	\$(0.04 )	\$0.04

Quarterly and yearly loss per share amounts are computed independently of each other. Therefore, the sum of the per share amounts for the quarters may not equal the per share amounts for the year. In 2011 and 2010, we incurred \$1.4 million and \$1.6 million, respectively, in employee non-cash compensation expenses.

The comparability of our quarterly financial data may be affected by the same events and items described under “Selected Financial Data” above.

## Liquidity and Capital Resources

## General

In order to fund our business and operations, we have relied primarily upon sales of our equity securities, including proceeds received upon the exercise of options and warrants, and sales of our shares of RXi common stock. We also have received limited payments from our strategic partners and licensees.

At December 31, 2011, we had cash and cash equivalents of approximately \$18.0 million and marketable securities of \$18.1 million. Management believes that our current resources will be sufficient to fund our operations for the foreseeable future. The belief is based, in part, upon our currently projected expenditures for 2012 of approximately \$23.7 million, which includes approximately \$7.0 million for our clinical programs for INNO-206, approximately \$5.3 million for our clinical program for tamibarotene, approximately \$0.4 million for our clinical programs for bafetinib, approximately \$4.5 million for general operation of our clinical programs, and approximately \$6.5 million for other general and administrative expenses. These projected expenditures are based upon numerous assumptions and subject to many uncertainties, and our actual expenditures may be significantly different from these projections. We will be required to obtain additional funding in order to execute our long-term business plans, although we do not currently have commitments from any third parties to provide us with capital. We cannot assure you that additional funding will be available on favorable terms, or at all. If we fail to obtain additional funding when needed, we may not be able to execute our business plans and our business may suffer, which would have a material adverse effect on our financial position, results of operations and cash flows.

If we obtain marketing approval as currently planned and successfully commercialize our product candidates, we anticipate it will take a minimum of several years, and possibly longer, for us to generate significant recurring revenue, and we will be dependent on future financing 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. Failure to obtain adequate financing would adversely affect our ability to operate as a going concern. If we raise additional funds by issuing equity securities, dilution to stockholders may result and new investors could have rights superior to holders of the shares issued in this offering. In addition, debt financing, if available, may include restrictive covenants. If adequate funds are not available to us, we may have to liquidate some or all of our assets or to delay or reduce the scope of or eliminate some portion or all of our development programs or clinical trials. We also may have to license to other companies our product candidates or technologies that we would prefer to develop and commercialize ourselves.

#### Discussion of Operating, Investing and Financing Activities

Net loss for the year ended December 31, 2011 was \$14.4 million, and cash used for operating activities for that period was \$16.7 million. The net loss for the year reflects \$1.4 million for stock option and warrant expense as well as a non-cash gain of \$7.9 million on the fair value adjustment of the warrant liability.

Net profit for the year ended December 31, 2010 was \$0.4 million, and cash used for operating activities for that period was \$14.6 million. The net profit for the year reflects gain of \$15.8 million from the sale of RXi shares, \$1.6 million for stock option and warrant expense and a non-cash \$0.9 million fair value adjustment of the warrant liability.

Net loss for the year ended December 31, 2009 was \$4.8 million, and cash used for operating activities for that period was \$12.1 million. The net loss for the year reflects \$9.4 million of revenue recognized under the 2006 agreement with ALSCRT, \$2.9 million for stock option and warrant expense and a non-cash \$0.7 million fair value adjustment of the warrant liability.

For the year ended December 31, 2011, \$9.4 million was provided by investing activities. This included \$2.5 million net from the proceeds of sales of marketable securities and \$6.9 million received from the sale of RXi common shares.

For the year ended December 31, 2010, \$10.8 million was provided by investing activities. This included \$8.9 million received from the sale of RXi common shares and \$2.2 million net from the proceeds of sales of marketable securities, partially offset by \$0.3 million used to purchase equipment and furnishings.

For the year ended December 31, 2009, \$21.6 million was used in investing activities. This included \$22.8 million used to purchase marketable securities, which was partially offset by proceeds of \$1.2 million from the sale of 500,000 of our shares of common stock RXi.

Cash provided by financing activities for the year ended December 31, 2011 was \$18.9 million, which was attributable to the net proceeds received from our August 2011 public offering.

Cash provided by financing activities for the year ended December 31, 2010 was \$0.1 million, which was attributable to the exercise of previously outstanding stock options and warrants.

Cash provided by financing activities for the year ended December 31, 2009 was \$18.6 million. During 2009, we raised \$18.3 million in a private placement of our common stock and an additional \$0.3 million from the exercise of previously outstanding stock options and warrants.

#### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have a material current effect or that are reasonably likely to have a material future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

## Contractual Obligations

We acquire assets still in development and enter into research and development arrangements with third parties that often require milestone and royalty payments to the third party contingent upon the occurrence of certain future events linked to the success of the asset in development. Milestone payments may be required, contingent upon the successful achievement of an important point in the development life-cycle of the pharmaceutical product (e.g., approval of the product for marketing by a regulatory agency). If required by the arrangement, we may have to make royalty payments based upon a percentage of the sales of the pharmaceutical product in the event that regulatory approval for marketing is obtained. Because of the contingent nature of these payments, they are not included in the table of contractual obligations.

These arrangements may be material individually, and in the event that milestones for multiple products covered by these arrangements were reached in the same period, the aggregate charge to expense could be material to the results of operations in any one period. In addition, these arrangements often give us the discretion to unilaterally terminate development of the product, which would allow us to avoid making the contingent payments; however, we are unlikely to cease development if the compound successfully achieves clinical testing objectives.

Our current contractual obligations that will require future cash payments are as follows (in thousands):

	Operating Leases (1)(2)	Employment Agreements (3)	Subtotal	Research and Development (4)	Total
2012	\$471	\$ 2,753	\$3,224	\$ 8,561	\$11,785
2013	332	—	332	5,521	5,853
2014	386	—	386	1,342	1,728
2015	55	—	55	—	55
2016 and thereafter	—	—	—	—	—
Total	\$ 1,244	\$ 2,753	\$3,997	\$ 15,424	\$19,421

(1) Operating leases are primarily facility lease related obligations, as well as equipment and software lease obligations with third party vendors.

(2) In 2012, we are entitled to receive \$235,000 of future rental income under subleases in place which would be offset against future operating lease obligations

(3) Employment agreements include management contracts, which have been revised from time to time, provide for minimum salary levels, adjusted annually at the discretion of our Compensation Committee, as well as for minimum bonuses that are payable.

(4) Research and development obligations relate primarily to clinical trials. Most of these purchase obligations are cancelable upon notice without liabilities to us.

We apply the disclosure provisions of ASC 460, Guarantees (“ASC 460”), to our contractual guarantees and Indemnities. We have provided contractual indemnities to investors and other parties against possible losses suffered or incurred by the indemnified parties in connection with various types of third-party claims, as well as indemnities to our officers and directors against third party claims arising from the services they provide to us. To date, we have not incurred material costs as a result of these indemnities, and we do not expect to incur material costs in the future;

further, we maintain insurance to cover certain losses arising from these indemnities. Accordingly, we have not accrued any liabilities in our consolidated financial statements related to these indemnities.

#### Net Operating Loss Carryforwards

At December 31, 2011, we had federal and state net operating loss carryforwards of \$148.0 million and \$96.0 million, respectively, available to offset against future taxable income, which expire in 2012 through 2031. As a result of a change in-control that occurred in our shareholder base in July 2002, approximately \$13.7 million in federal net operating loss carryforwards became limited in their availability to \$363,000 annually. Management currently believes that the remaining \$144.3 million in federal net operating loss carryforwards, and the \$82.3 million in state net operating loss carryforwards, are unrestricted. However, management is reviewing its recent equity transactions, including its underwritten public offering on July 27, 2011, to determine if they may have resulted in any further restrictions on our net operating loss carryforwards. As of December 31, 2011, we also had research and development and alternative minimum tax credits for federal and state purposes of approximately \$5.7 million and \$6.6 million, respectively, available for offset against future income taxes, which expire in 2022 through 2031. Based on an assessment of all available evidence including, but not limited to, our limited operating history in our core business and lack of profitability, uncertainties of the commercial viability of its technology, the impact of government regulation and healthcare reform initiatives, and other risks normally associated with biotechnology companies, we have concluded that it is more likely than not that these net operating loss carryforwards and credits will not be realized and, as a result, a 100% deferred tax valuation allowance has been recorded against these assets.

## Results of Operations

We incurred a net profit (loss) of (\$14.4 million), \$0.4 million and (\$4.8 million) for the years ended December 31, 2011, 2010 and 2009, respectively.

During 2010 and 2011, we recognized no service revenues. During 2009, we recognized \$9.4 million in service revenues relating to our \$24.3 million sale to the ALSCRT of a one-percent royalty interest in the worldwide sales of arimoclomol in August 2006. Pursuant to an amendment signed between us and the beneficiary of the ALSCRT on August 6, 2009, we were released from all restrictions on the use of any proceeds previously paid to us in connection with the arrangement. As a result, we recognized \$6.7 million as service revenue in the third quarter of 2009, which represented the remaining deferred revenue and previously un-recognized portion of the value received.

During 2011, 2010 and 2009, we earned an immaterial amount of license fees and grant revenue. All future licensing fees under our current licensing agreements are dependent upon successful development milestones being achieved by the licensor. During 2012, we are not anticipating the receipt of any significant service or licensing fees.

Our net loss may increase from current levels primarily due to expenses related to our ongoing and planned clinical trials, research and development programs, possible technology acquisitions, and other general corporate activities. We anticipate, therefore, that our operating results will fluctuate for the foreseeable future and period-to-period comparisons should not be relied upon as predictive of the results in future periods.

## Research and Development

	Years Ended December 31,		
	2011	2010	2009
	(In thousands)		
Research and development expenses	\$ 15,079	\$ 8,207	\$ 5,621
Non-cash research and development expenses	59	92	62
Impairment loss on fixed assets	—	—	1,187
Employee stock option expense	353	208	672
	\$ 15,491	\$ 8,507	\$ 7,542

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.

Research and development expenses incurred during 2011, 2010 and 2009 relate to our various development programs. In 2011, we initiated a Phase 1b/2 clinical trial with INNO-206 in patients with advanced solid tumors, a Phase 2b clinical trial with INNO-206 in patients with soft tissue sarcomas, while expanding the number of sites in our international Phase 2 clinical trial with tamibarotene in patients with non-small-cell lung cancer, or NSCLC, which resulted in an increase in research and development expenses over 2010. Research and development expenses were similarly higher in 2010 than in 2009, due to the initiation in 2010 of clinical trials with bafetinib and tamibarotene, and our preparations for the clinical trials that were initiated in 2011. In 2011, our development costs associated included approximately \$6.6 million for our clinical programs for INNO-206, approximately \$5.0 million for our clinical program for tamibarotene, approximately \$0.8 million for our clinical programs for bafetinib, and approximately \$3.1 million for general operation of our clinical programs. None of our research and development costs have ever been capitalized.





As compensation to consultants, and in connection with the acquisition of technology, we sometimes issue shares of common stock, stock options and warrants to purchase shares of common stock. For financial statement purposes, we value these shares of common stock, stock options, and warrants at the fair value of the common stock, stock options or warrants granted, or the services received, whichever is more reliably measurable. We recorded charges of \$0.1 million, \$0.1 million and \$0.1 million in this regard during 2011, 2010 and 2009, respectively. In 2011, we recorded \$0.3 million of employee stock option expense, as compared to \$0.2 million in 2010 and \$0.7 million in 2009.

In 2012, we expect our research and development expenses to increase moderately as a result of our clinical programs with INNO-206 and tamibarotene.

#### General and administrative expenses

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
General and administrative expenses	\$6,293	\$6,831	\$7,128
Stock, stock option and warrant expenses to non-employees and consultants	92	614	421
Employee stock option expense	932	791	1,579
	\$7,317	\$8,236	\$9,128

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 common stock, stock options and warrants issued, and excluding depreciation expense, were \$6.3 million in 2011, \$6.8 million in 2010 and \$7.1 million in 2009. The \$0.5 million reduction in expenses from 2011 to the prior year was partially due to a reduction in executive bonuses of \$0.3 million, and a reduction in professional fees. In 2009, we incurred recruiting fees and additional payroll costs for a Business Development Officer who left in the first quarter of 2010. This additional 2009 expense of \$0.2 million, along with additional 2009 professional fees, accounts for the reduction in 2010.

From time to time, we issue shares of our common stock or warrants or options to purchase shares of our common stock to consultants and other service providers in exchange for services. For financial statement purposes, we value these shares of common stock, stock options, and warrants at the fair value of the common stock, stock options or warrants granted, or the services received, whichever we can measure more reliably. We recorded employee stock option expense of \$0.9 million in 2011, \$0.8 million in 2010, and \$1.6 million in 2009.

#### Depreciation and amortization

Depreciation and amortization expenses for the years ended December 31, 2011, 2010 and 2009 were \$95,517, \$107,666, and \$475,316, respectively. The depreciation expense reflects the depreciation of our fixed assets and the amortization expenses related to our molecular library. In 2009, the higher depreciation included depreciation of our laboratory equipment which was disposed of during that year due to the closure of our San Diego facility.

#### Other Income

In 2011, 2010 and 2009, we recognized non-cash gains of \$7.9 million, \$0.9 million and \$0.7 million, respectively, on the valuation of our warrant derivative liabilities related to warrants issued in August 2011 and July 2009. In 2010 and 2009, we recognized gains of \$15.8 and \$1.2 million, respectively, on the sale of RXi shares.

Interest income

Interest income was \$0.2 million in 2011, \$0.3 million in 2010 and \$0.3 million in 2009. The variances between years are attributable primarily to the amount of funds available for investment each year and, to a lesser extent, changes in prevailing market rates.

## Recent Accounting Pronouncements

In May 2009 and February 2010, the FASB issued new guidance for accounting for subsequent events. The new guidance, which is now part of ASC 855-10, Subsequent Events (“ASC 855-10”), is consistent with existing auditing standards in defining subsequent events as events or transactions that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The new guidance defines two types of subsequent events: “recognized subsequent events” and “non-recognized subsequent events.” Recognized subsequent events provide additional evidence about conditions that existed at the balance sheet date and must be reflected in the company’s financial statements. Non-recognized subsequent events provide evidence about conditions that arose after the balance sheet date and are not reflected in the financial statements of a company. Certain non-recognized subsequent events may require disclosure to prevent the financial statements from being misleading. The new guidance was effective on a prospective basis for interim or annual periods ending after June 15, 2009. We adopted the provisions of ASC 855-10 as required.

In January, 2010, the FASB issued ASU 2010-06, Improving Disclosures about Fair Value Measurements. The standard amends ASC 820, Fair Value Measurements and Disclosures (“ASC 820”), to require additional disclosures related to transfers in and out of Levels 1 and 2 and for activity in Level 3 and clarifies other existing disclosures requirements. We adopted ASU 2010-06 beginning January 1, 2010. This update had no impact on our 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 our 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. 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. Adoption of this standard is not expected to have a material impact on our consolidated financial statements.

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. The adoption of this accounting standard did not have an impact on our consolidated financial statements.

Item 7A. 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 marketable securities, we believe that we are not exposed to any material market risk. We do not have any derivative financial instruments or foreign currency instruments. If interest rates had varied by 10% in the year ended December 31, 2011, it would not have had a material effect on our results of operations or cash flows for that period.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements and supplemental schedule and notes thereto as of December 31, 2011 and 2010, and for each of the three years in the period ended December 31, 2011, together with the reports thereon of our independent registered public accounting firms, are set forth on pages F-1 to F-20 of this Annual Report.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Our management, with the participation of our principal chief executive officer and principal 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 December 31, 2011, the end of the period covered by this Annual Report. Based on this evaluation, our principal chief executive officer and principal chief financial officer have concluded that our disclosure controls and procedures were effective as of December 31, 2011.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2011 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2011. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework. Based upon management's assessment using the criteria contained in COSO, our management has concluded that our internal control over financial reporting was effective as of December 31, 2011.

Our internal control over financial reporting as of December 31, 2011 has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in their report thereon set forth on page F-19, which is incorporated herein by reference.

Item 9B. OTHER INFORMATION

None.

## PART III

## Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth information concerning our directors and executive officers:

Name	Age	Class of Director(1)	Position
Max Link, Ph.D.	71	III	Director, Chairman of the Board (3) (4)
Steven A. Kriegsman	70	II	Director, Chief Executive Officer, President
Marvin R. Selter	84	II	Director, Vice Chairman of the Board (2) (3) (4)
Louis Ignarro, Ph.D.	70	I	Director
Joseph Rubinfeld, Ph.D.	79	I	Director (2) (4)
Richard L. Wennekamp	69	III	Director (2) (3) (4)
John Caloz	60	—	Chief Financial Officer
Daniel Levitt, M.D., Ph.D.	64	—	Chief Medical Officer
D. Scott Geyer	57	—	Sr. Vice President-Manufacturing
D. Scott Wieland	52	—	Sr. Vice President-Drug Development
Benjamin S. Levin	35	—	General Counsel, Vice President — Legal Affairs and Corporate Secretary
David J. Haen	33	—	Vice President – Business Development

(1) Our Class III director serves until the 2012 annual meeting of stockholders, our Class I directors serve until the 2013 annual meeting of stockholders and our Class II directors serve until the 2014 annual meeting of stockholders,

(2) Members of our Audit Committee. Mr. Selter is the Chairman of the Committee.

(3) Members of our Nominating and Corporate Governance Committee. Mr. Wennekamp is Chairman of the Committee.

(4) Members of our Compensation Committee. Dr. Rubinfeld is Chairman of the committee.

Max Link, Ph.D, our Chairman of the Board, has been a director since 1996. Dr. Link has been retired from business since 2003. From March 2002 until its acquisition by Zimmer Holdings, Dr. Link served as Chairman and CEO of Centerpulse, Ltd. From May 1993 to June 1994, Dr. Link served as the Chief Executive Officer of Corange Ltd. (the holding company for Boehringer Mannheim Therapeutics, Boehringer Mannheim Diagnostics and DePuy International). From 1992 to 1993, Dr. Link was Chairman of Sandoz Pharma, Ltd. From 1987 to 1992, Dr. Link was the Chief Executive Officer of Sandoz Pharma and a member of the Executive Board of Sandoz, Ltd., Basel. Prior to 1987, Dr. Link served in various capacities with the United States operations of Sandoz, including President and Chief Executive Officer. Dr. Link currently serves as a director of Alexion Pharmaceuticals, Inc., Celsion Corporation, Inc. and Discovery Laboratories, Inc., and has previously served on the Boards of Directors of Cell Therapeutics, Inc., Columbia Laboratories, Inc., Human Genome Sciences, Inc. and Protein Design Laboratories.

Dr. Link has extensive executive-level experience with a number of large pharmaceutical companies, including Sandoz Pharma, Ltd. In these positions, he was responsible for major strategic and other business initiatives, including new drug development, acquisitions and dispositions of new drug candidates and other technology, licensing, marketing and distribution agreements and other key contractual strategic arrangements that affect, or are likely to affect, our company's own business efforts. As an executive officer and board member of these other companies, he has experience with the regulatory schemes in foreign jurisdictions and also has been exposed to different approaches to corporate governance matters, potential conflicts of interest, and similar matters, which enables him to offer importance guidance to our Board of Directors.

Steven A. Kriegsman has been has been CytRx's President and Chief Executive Officer and a director since July 2002. He also serves as a director of Galena Biopharma and is Chairman of its Compensation and Transactions Committees. He previously served as Director and Chairman of Global Genomics from June 2000 until 2002. Mr. Kriegsman is an inactive Chairman and Founder of Kriegsman Capital Group LLC, a financial advisory firm specializing in the development of alternative sources of equity capital for emerging growth companies in the healthcare industry. During his career, he has advised such companies as SuperGen Inc., Closure Medical Corporation, Novoste Corporation, Miravant Medical Technologies, and Maxim Pharmaceuticals. In the past five years, Mr. Kriegsman has also served on the Board of Directors of Bradley Pharmaceuticals, Inc. and Hythiam, Inc. Mr. Kriegsman has a B.S. degree with honors from New York University in Accounting and completed the Executive Program in Mergers and Acquisitions at New York University, The Management Institute. Mr. Kriegsman is a graduate of the Stanford Law School Directors' College.



Mr. Kriegsman was formerly a Certified Public Accountant with KPMG in New York City. In February 2006, Mr. Kriegsman received the Corporate Philanthropist of the Year Award from the Greater Los Angeles Chapter of the ALS Association and in October 2006, he received the Lou Gehrig Memorial Corporate Award from the Muscular Dystrophy Association. Mr. Kriegsman has been a guest speaker and lecturer at various universities including California Institute of Technology (Caltech), Brown University, and New York University. Mr. Kriegsman has been active in various charitable organizations including the Biotechnology Industry Organization, the California Health Institute, the ALS Association, the Los Angeles Venture Association, the Southern California Biomedical Council, the American Association of Dance Companies and the Palisades-Malibu YMCA.

Mr. Kriegsman's extensive history as a member of management is vital to the Board of Directors' collective knowledge of our day-to-day operations. Mr. Kriegsman also provides great insight as to how CytRx grew as an organization and his institutional knowledge is an invaluable asset to the Board of Directors in effecting its oversight of CytRx's strategic plans. Mr. Kriegsman's presence on the Board of Directors also allows for a flow of information and ideas between the Board of Directors and management.

Marvin R. Selter has been a director since October 2003. He has been President and Chief Executive Officer of CMS, Inc. since he founded that firm in 1968. CMS, Inc. is a national management consulting firm. In 1972, Mr. Selter originated the concept of employee leasing. He served as a member of the Business Tax Advisory Committee—City of Los Angeles, Small Business Board—State of California and the Small Business Advisory Commission—State of California. Mr. Selter also serves on the Valley Economic Development Center as past Chairman and Audit Committee Chairman, the Board of Valley Industry and Commerce Association as past Chairman, the Advisory Board of the San Fernando Economic Alliance and the California State University—Northridge as Past Chairman of the Economic Research Center and President of the Olive View UCLA Medical Center Foundation. He has served, and continues to serve, as a member of boards of directors of various hospitals, universities, private medical companies and other organizations. Mr. Selter attended Rutgers—The State University, majoring in Accounting and Business Administration. He was an LPA having served as Controller, Financial Vice President and Treasurer at distribution, manufacturing and service firms. He has lectured extensively on finance, corporate structure and budgeting for the American Management Association and other professional teaching associations.

Mr. Selter has founded, operated, and grown his own successful businesses, which gives him a valuable insight into the financial constraints and operational challenges facing companies in the development stage and as they mature. He also has many years of involvement in various governmental agencies and charitable organizations, which affords him an important perspective on the business regulatory process and capital-raising activities. In addition, he has significant education and work experience in accounting and financial matters that he is able to utilize as the named financial expert on our Audit Committee.

Louis Ignarro, Ph.D. has been a director since July 2002. He previously served as a director of Global Genomics since November 20, 2000. Dr. Ignarro serves as the Jerome J. Belzer, M.D. Distinguished Professor of Pharmacology in the Department of Molecular and Medical Pharmacology at the UCLA School of Medicine. Dr. Ignarro has been at the UCLA School of Medicine since 1985 as a professor, acting chairman and assistant dean. Dr. Ignarro received the Nobel Prize for Medicine in 1998. Dr. Ignarro received a B.S. in pharmacy from Columbia University and his Ph.D. in Pharmacology from the University of Minnesota. Dr. Ignarro is a Nobel Laureate and an esteemed medical researcher whose experience enables him to offer importance scientific guidance to our Board of Directors.

Joseph Rubinfeld, Ph.D. has been a director since July 2002. He co-founded SuperGen, Inc. in 1991 and has served as its Chief Executive Officer and President and as a director since its inception until December 31, 2003. He resigned as Chairman Emeritus of SuperGen, Inc. on February 8, 2005. Dr. Rubinfeld was also Chief Scientific Officer of SuperGen from 1991 until September 1997. Dr. Rubinfeld is also a founder of JJ Pharma. Dr. Rubinfeld was one of the four initial founders of Amgen, Inc. in 1980 and served as a Vice President and its Chief of Operations until 1983.

From 1987 until 1990, Dr. Rubinfeld was a Senior Director at Cetus Corporation and from 1968 to 1980, Dr. Rubinfeld was employed at Bristol-Myers Company, International Division in a variety of positions. Dr. Rubinfeld received a B.S. degree in chemistry from C.C.N.Y. and an M.A. and Ph.D. in chemistry from Columbia University.

Dr. Rubinfeld served as a senior executive of several large pharmaceutical companies before leaving to co-found SuperGEN and served as Chief Executive Officer or in other senior executive capacities with highly successful companies. Dr. Rubinfeld's academic training and business experience enhances the breadth and scope of our Board's oversight of our company's management, business, strategic relationships, and other activities, while his vision adds to the long-range planning of our Board of Directors and management.

Richard L. Wennekamp has been a director since October 2003. He retired from Community Bank in June 2008 where he was the Senior Vice President-Credit Administration since October 2002. From September 1980 to July 2002, Mr. Wennekamp was an executive officer of Bank of America Corporation, holding various positions, including Managing Director-Credit Product Executive for the last four years of his 22-year term with the bank. From 1977 through 1980, Mr. Wennekamp was a Special Assistant to former President of the United States, Gerald R. Ford, and the Executive Director of the Ford Transition Office. Prior thereto, he served as Staff Assistant to the President of the United States for one year, and as the Special Assistant to the Assistant Secretary of Commerce of the U.S.

Mr. Wennekamp's senior executive experience in the banking and financial services industry distinguishes him from our other directors and adds unique capabilities and a different perspective to the deliberations of our Board of Directors. As a former chief credit officer at Bank of America and Community Bank, he understands the credit needs, financing requirements, and operational constraints of development-stage and mature businesses.

Daniel Levitt, M.D., Ph.D. joined us in October 2009 as our Chief Medical Officer. Dr. Levitt brings more than 24 years of senior management experience, having spearheaded numerous drug development programs to commercialization at leading biotechnology and pharmaceutical companies. Prior to joining CytRx, Dr. Levitt served from January 2007 to February 2009 as Executive Vice President, Research and Development at Cerimon Pharmaceuticals, Inc. Prior to that, from August 2003 to April 2006, he was Chief Medical Officer and Head of Clinical and Regulatory Affairs at Dynavax Technologies Corporation, managing clinical trials for four programs and overseeing multi-country regulatory strategies. From August 2002 to July 2003, Dr. Levitt was Chief Operating Officer and Head of Research and Development at Affymax, Inc., and prior to that he spent six years at Protein Design Labs, Inc., completing his tenure as that firm's President and Head of Research and Development. Dr. Levitt's past experience includes a position as Head of Drug Development at Geron Corporation, and Head of the Cytokine Development Unit and Global Clinical Oncology at Sandoz Pharmaceuticals Ltd., and as Director, Clinical Oncology and Immunology at Hoffmann-LaRoche, Inc. Dr. Levitt graduated Magna Cum Laude and Phi Beta Kappa with a Bachelor of Arts degree from Brandeis University. He earned both his M.D. and his Ph.D. in Biology from the University of Chicago, Pritzker School of Medicine. Dr. Levitt has received 10 major research awards and authored or co-authored nearly 200 papers and abstracts.

John Y. Caloz joined us in October 2007 as our Chief Accounting Officer. In January of 2009 Mr. Caloz was named Chief Financial Officer. He has a history of providing senior financial leadership in the life sciences sector, as Chief Financial Officer of Occulogix, Inc, a NASDAQ listed, a medical therapy company. Prior to that, Mr. Caloz served as Chief Financial Officer of IRIS International Inc., a Chatsworth, CA based medical device manufacturer. He served as Chief Financial Officer of San Francisco-based Synarc, Inc., a medical imaging company, and from 1993 to 1999 he was Senior Vice President, Finance and Chief Financial Officer of Phoenix International Life Sciences Inc. of Montreal, Canada, which was acquired by MDS Inc. in 1999. Mr. Caloz was a partner at Rooney, Greig, Whitrod, Filion & Associates of Saint Laurent, Quebec, Canada, a firm of Chartered Accountants specializing in research and development and high tech companies, from 1983 to 1993. Mr. Caloz, a Chartered Accountant, holds a degree in Accounting from York University, Toronto, Canada.

Scott Wieland, Ph.D, joined CytRx in 2005 as the Vice President, Clinical and Regulatory Affairs and was promoted to the position of Senior Vice President, Drug Development in December 2008. Prior to that, he served in senior level positions in the areas of Drug Development, Clinical and Regulatory Affairs at various biotech firms. He spent five years at NeoTherapeutics, Inc. serving as the Director of Product Development and was later promoted to Vice President of Product Development. From 1990 to 1997, he served as Director of Regulatory Affairs at CoCensys, Inc. Dr. Wieland has a Ph.D. in Biopsychology and an M.A. in Psychology from the University of Arizona. He has an MBA from Webster University. Dr. Wieland received his B.S. in Physiological Psychology from the University of California, Santa Barbara.

Scott Geyer joined CytRx in November 2009 as our Senior Vice President, Manufacturing. Prior to joining CytRx, he served since May 2009, and also from May 2007 through November 2008, as Vice President, Technical Operations at Cerimon Pharmaceuticals, Inc. He previously served from December 2008 through April 2009 as Senior Vice President, Technical Operations & Product Development at TRF Pharma, Inc., from October 2004 through April 2007 as Vice President, Technical Operation at Xencor, Inc., and from October 2003 through February 2004 as Vice President, Manufacturing and Process Development at BioMarin Pharmaceuticals Inc. Mr. Geyer's past experience includes holding senior positions at Onyx Pharmaceuticals and Protein Design Labs, Inc., as well as positions at Ares-Sorono Group and SmithKline Beckman, among others. Mr. Geyer has co-authored numerous publications in peer reviewed journals. He holds an M.S. in veterinary microbiology from Texas A&M University and a B.S. in microbiology from the University of Southwestern Louisiana.

Benjamin S. Levin, has been our General Counsel, Vice President — Legal Affairs and Corporate Secretary since July 2004. From November 1999 to June 2004, Mr. Levin was an associate in the transactions department of the Los Angeles office of O'Melveny & Myers LLP. Mr. Levin received his S.B. in Economics from the Massachusetts Institute of Technology, and a J.D. from Stanford Law School.

David J. Haen joined CytRx in October 2003 as Director of Business Development and was promoted to Vice President of Business Development in December 2007. From 1999 to 2003, Mr. Haen worked as an associate for Kriegsman Capital Group LLC, a financial advisory firm focused on emerging companies in the life sciences field. Mr. Haen received a B.A. in Communications and Business from Loyola Marymount University.

#### Diversity

Our board of directors, acting through the Nomination and Governance Committee, is responsible for assembling for shareholder consideration a group of director-nominees that, taken together, have the experience, qualifications, attributes, and skills appropriate for functioning effectively as a board. The Nomination and Governance Committee periodically reviews the composition of the board of directors in light of the company's changing requirements, its assessment of the board of directors' performance, and the input of shareholders and other key constituencies. The Nomination and Governance Committee looks for certain characteristics common to all board members, including integrity, strong professional reputation and record of achievement, constructive and collegial personal attributes, and the ability and commitment to devote sufficient time and energy to board service. In addition, the Nomination and Governance Committee seeks to include on the board of directors a complementary mix of individuals with diverse backgrounds and skills reflecting the broad set of challenges that the board of directors confronts. These individual qualities can include matters such as experience in the company's industry, technical experience (i.e., medical or research expertise), experience gained in situations comparable to the company's, leadership experience, and relevant geographical diversity.

#### Committees

Our business, property and affairs are managed by or under the direction of the board of directors. Members of the board are kept informed of our business through discussion with the chief executive and financial officers and other officers, by reviewing materials provided to them and by participating at meetings of the board and its committees.

Our board of directors currently has three committees. The Audit Committee consists of Mr. Selter, Mr. Wennekamp and Dr. Rubinfeld, the Compensation Committee consists of Dr. Rubinfeld, Dr. Link, Mr. Selter and Mr. Wennekamp, and the Nomination and Governance Committee consist of Mr. Wennekamp, Dr. Link and Mr. Selter. Such committees operate under a formal charter, copies of which are available on our website at [www.cytrx.com](http://www.cytrx.com), that governs their duties and conduct.

Our board of directors has determined that Mr. Selter, one of the independent directors serving on our Audit Committee, is an "audit committee financial expert" as defined by the SEC's rules. Our board of directors has determined that Messrs. Link, Selter and Wennekamp are "independent" under the current independence standards of both The NASDAQ Capital Market and the SEC.

#### Section 16(a) Beneficial Ownership Reporting Compliance

Each of our executive officers and directors and persons who owns more than 10% of our outstanding shares of common stock is required under Section 16(a) of the Securities Exchange Act to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock and to furnish us with copies of those reports. Based solely on our review of copies of reports we have received and written representations from certain reporting

persons, we believe that our directors and executive officers and greater than 10% shareholders for 2011 complied with all applicable Section 16(a) filing requirements.

#### Code of Ethics

We have adopted a Code of Ethics applicable to all employees, including our principal executive officer, principal financial officer, and principal accounting officer or controller, a copy of which is available on our website at [www.cytrx.com](http://www.cytrx.com). We will furnish, without charge, a copy of our Code of Ethics upon request. Such requests should be directed to Attention: Corporate Secretary, 11726 San Vicente Boulevard, Suite 650, Los Angeles, California, or by telephone at 310-826-5648.

## Board Leadership Structure

Our Board has placed the responsibilities of Chairman with an independent non-employee member of the Board, which we believe provides better accountability between the Board and our management team. We believe it is beneficial to have an independent Chairman whose sole responsibility to us is guiding our Board members as they provide leadership to our executive team. Our Chairman is responsible for communication among the directors; setting the Board meeting agendas in consultation with the President and Chief Executive Officer; and presiding at Board meetings, executive sessions and stockholder meetings. This delineation of duties allows the President and Chief Executive Officer to focus his attention on managing the day-to-day business of the company. We believe this structure provides strong leadership for our Board, while positioning our President and Chief Executive Officer as the leader of the company in the eyes of our employees and other stakeholders.

## Board of Directors Role in Risk Oversight

In connection with its oversight responsibilities, our board of directors, including the Audit Committee, periodically assesses the significant risks that we face. These risks include, but are not limited to, financial, technological, competitive, and operational risks. Our board of directors administers its risk oversight responsibilities through our Chief Executive Officer and Chief Financial Officer, who review and assess the operations of our business as well as operating management's identification, assessment and mitigation of the material risks affecting our operations.

## Item 11. EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

#### Overview of Executive Compensation Program

The Compensation Committee of our Board of Directors has responsibility for establishing, implementing and monitoring our executive compensation program philosophy and practices. Generally speaking, the Compensation Committee determines compensation of our Chief Executive Officer and other named executive officers, and those determinations are ratified by our Board of Directors.

The Compensation Committee seeks to ensure that the total compensation paid to our named executive officers is fair, reasonable and competitive. Generally, the types of compensation and benefits provided to the named executive officers are similar to those provided to our other officers.

The Compensation Committee operates under a formal charter, copies of which are available on our website at [www.cytrx.com](http://www.cytrx.com), that governs its duties and conduct.

At the 2011 annual meeting of the shareholders, the shareholders on a non-binding, advisory basis, approved the compensation of our executive officers as disclosed in our 2011 proxy statement. Based upon the results of this shareholder advisory vote, the Compensation Committee has determined to follow the stockholders' recommendation and to continue to follow its compensation policies and procedures.

Throughout this Annual Report, the individuals included in the Summary Compensation Table below are referred to as our "named executive officers."

#### Compensation Philosophy and Objectives

The components of our executive compensation consist of salary, annual cash bonuses awarded based on the Compensation Committee's subjective assessment of the achievement of corporate goals and each individual executive's job performance during the past year, stock option grants to provide executives with longer-term incentives, and occasional special compensation awards (either cash, stock or stock options) to reward extraordinary efforts or results.



The Compensation Committee believes that an effective executive compensation program should provide base annual compensation that is reasonable in relation to individual executive's job responsibilities and reward the achievement of strategic goals of our company. We use annual and other periodic cash bonuses to reward an officer's achievement of specific goals, including goals related to the development of our drug candidates and management of working capital. We use employee stock options as a retention tool and as a means to align the executive's long-term interests with those of our stockholders, with the ultimate objective of affording our executives an appropriate incentive to improve stockholder value. The Compensation Committee evaluates both performance and compensation to maintain our company's ability to attract and retain excellent employees in key positions and to assure that compensation provided to key employees remains competitive relative to the compensation paid to similarly situated executives of comparable companies.

Each of the corporate goals established and subsequently reviewed by the Compensation Committee results from a collaboration among our named executive officers, including the leadership of our President and Chief Executive Officer and the support of our principal legal, financial, clinical, medical and business development officers. The Compensation Committee's assessment of the relative contribution of each named executive officer is based on periodic reports to our full Board of Directors regarding the progress of these business accomplishments and the individual efforts of our named executive officers, and year-end consultations, which include discussions of performance reviews, with our President and Chief Executive Officer that are a normal part of the Compensation Committee's compensation determinations. The Compensation Committee employs no objective measure of any individual's contribution.

The bonus amounts awarded to our eligible named executive officers are a function of their office and total compensation relative to the total compensation of our President and Chief Executive Officer, as adjusted by their relative employee evaluation, and with consideration given to comparable company data for similarly situated employees. The bonus amounts awarded to each named executive officer is set forth in the Summary Compensation Table.

Because of the size of our company, the small number of executive officers in our company, and our company's financial priorities, the Compensation Committee has not implemented any pension benefits, deferred compensation plans or other similar plans for our named executive officers.

#### Role of Executive Officers in Compensation Decisions

The Compensation Committee annually determines the compensation of our named executive officers. Our President and Chief Executive Officer, or CEO, typically attends all meetings of the Compensation Committee, except for executive sessions. At the request of the Compensation Committee, our CEO provides his assessment of the performance of our named executive officers, other than himself. Our CEO also takes an active part in the discussions of the compensation of named executive officers other than himself and assists in the development of a review matrix of each executive's contributions to the goals of the company that forms the basis for some compensation determinations. The Compensation Committee grants due consideration to our CEO's assessments when making determinations regarding the compensation of our named executive officers. All Compensation Committee deliberations and determinations regarding the compensation of our CEO are made without the presence of our CEO.

#### Setting Executive Compensation

Based on the foregoing objectives, the Compensation Committee has structured the company's annual cash and incentive-based cash and non-cash executive compensation to seek to motivate our named executives to achieve the company's business goals, including goals related to the development of our drug candidates and management of working capital, to reward the executives for achieving such goals, and to retain the executives. In doing so, the

Compensation Committee historically has not employed outside compensation consultants. During 2011, the Compensation Committee obtained three industry compensation surveys and used them in its compensation deliberations regarding cash and equity compensation for our executive officers. The surveys used were an Equilar survey of public companies with a market capitalization between \$25 million and \$100 million, a survey of public and private life sciences companies of all sizes provided by Radford, and a survey of public and private companies in Los Angeles provided by salary.com (which the Compensation Committee uses to adjust to geographic differences in cost of living).

The Compensation Committee utilized this data to set annual salary increases and bonus amounts for our executive officers at levels targeted at or around the third quartile of compensation amounts provided to executives at comparable companies, considering each individual's experience level related to their position with us. The Compensation Committee has no policy regarding the use of benchmarks, and we have no established policy or target for the allocation between cash and non-cash incentive compensation.

The Compensation Committee is authorized to retain its own independent advisors to assist in carrying out its responsibilities, but has not relied upon outside compensation consultants.

### Performance-driven Compensation

We emphasize performance in annually reviewing and setting our executive officers' base salary, bonuses and equity incentive compensation. This emphasis on performance with respect to a substantial portion of compensation is intended to motivate our executive officers to pursue our corporate goals, reward them for achievement of these goals and align their interests with those of our stockholders.

Each year, we determine goals that we hope to achieve in the coming year, both on a corporate and individual basis. Our overall corporate performance as compared to these goals, and an individual's performance compared to his or her individual goals, primarily drive the recommendations that the Compensation Committee makes with respect to each executive officers' base salary, cash bonus and equity incentive compensation. Other factors, such as larger macroeconomic conditions of the industry and market in which we compete, as well as strategic business decisions and issues related to key employee retention, also influence compensation decisions. For example, in response to the financial crisis in late 2008, our management and Compensation Committee determined that no executive salary increases would be made in 2009.

Individual performance goals for each year initially are identified and developed by senior executives through a self-evaluation and goal-setting process, and our CEO refines and documents those goals in conjunction with the Compensation Committee. At the end of the year, the Compensation Committee reviews each performance goal and determines the extent to which we achieved such goals, and our CEO assesses the achievement of specific performance goals relating to other executive officers.

In establishing performance goals, the Compensation Committee considers whether the goals could possibly result in an incentive for any executives to take unwarranted risks in our company's business and seeks to avoid creating any such incentives.

### Company Performance Goals

For 2011, the Compensation Committee and the Board of Directors approved the following performance goals:

- Complete clinical trial for bafetinib in patients with CLL and announce results
- Initiate Phase 1b clinical trial for INNO-206, and potentially initiate a Phase 2 clinical trial in patients with soft tissue sarcomas and work towards initiating clinical development in a further indication
  - Initiate clinical trial of tamibarotene for NSCLC, and evaluate continuation of development for APL
  - Sell or otherwise dispose of molecular chaperone assets
- Raise working capital through some combination of dispositions of RXi stock or other financing transactions

For 2011, the Compensation Committee determined that each of the corporate goals had either been achieved, or substantial progress towards achievement had been made, and noted the particular contributions of executive officers to the achievement of those goals.

### Individual Performance

The Compensation Committee reviews our executive officers' performance based on overall achievement of the corporate goals and a review of individual goals developed for each executive officer every year. The Compensation

Committee, with the assistance of our CEO, determines the relative achievement of the performance goals applicable to each executive officer, and assigns a performance rating based on a set of criteria set forth in an evaluation form. No specific formula is used with respect to setting any particular element of compensation based on the individual performance metrics. The score assigned to each officer was based on a subjective assessment by our Compensation Committee members of the officer's performance against the scoring standards of:

- 1 – Consistently Exceeds Expectations
- 2 – Sometimes Exceeds Expectations
- 3 – Meets Expectations
- 4 – Sometimes Meets Expectations
- 5 – Needs Improvement

The numerical job scores, with a 1 being the best, and 5 being the worst, are determined based on an initial self-assessment by the officer, which is subject to change based on an evaluation of the self-assessment by the officer's direct supervisor and on the Compensation Committee's own assessment of the officer's job performance.

For 2011, our Compensation Committee determined that the individual performance scores indicated below were merited by the officer's respective contributions to our key business achievements discussed above, as well as the performance of their day-to-day responsibilities. On an officer-by-officer basis, our Compensation Committee also considered the following:

Mr. Kriegsman's individual performance goals relate primarily to overall corporate objectives, including building stockholder value, managing working capital, management and successful operation of the executive management team, and development of personnel for future success. Based on those criteria, and noting our successful initiation of several clinical trials and our management of working capital through non-dilutive sales of RXi common stock and a financing in a difficult market climate, the Compensation Committee gave a rating of 1.7 to Mr. Kriegsman.

Mr. Caloz's individual performance goals relate primarily to achievement of key financial objectives, such as managing and raising working capital, controlling spending, managing accounting personnel and maintaining regulatory compliance. Based on those criteria, the Compensation Committee noted Mr. Caloz's role in obtaining needed working capital, his efforts to control expenditures, the continued improvement of our accounting department, and our compliance with filing deadlines, and gave a rating of 1.8 to Mr. Caloz.

Dr. Levitt's individual performance goals relate primarily to the achievement of key strategic and clinical objectives related to our clinical research programs, including ultimate oversight of the design and execution of our clinical programs, and analysis and implementation of new clinical opportunities improve stockholder value. Based on those criteria, the Compensation Committee noted Dr. Levitt's efforts towards our achievement of our key clinical goals, including the initiation of multiple new clinical trials and the announcement of important clinical data, and his development of strategic plans to build value, and gave a rating of 2.1 to Dr. Levitt.

Mr. Levin's individual performance goals relate primarily to the management of the company's legal risk, advice provided to the Board of Directors and management, and maintaining regulatory compliance. Based on those criteria, the Compensation Committee noted Mr. Levin's timely and useful advice on key corporate matters that reduced corporate risk, and his work ensuring compliance with various regulations, and gave a rating of 1.6 to Mr. Levin.

Dr. Wieland's individual performance goals relate primarily to the execution of the objectives related to our clinical development, including planning, initiation, budgeting and management of our clinical programs. Based on those criteria, the Compensation Committee noted Dr. Wieland's role in our achievement of key clinical goals, including the initiation of multiple new clinical trials, and gave a rating of 2.8 to Dr. Wieland.

#### 2011 Executive Compensation Components

For 2011, as in recent years, the principal components of compensation for the named executive officers were:

- base salary;
- annual bonuses; and
- equity incentive compensation.

Base Salary

We provide named executive officers and other employees with base salary to compensate them for services rendered during the year. Generally, the base salary element of compensation is used to recognize the experience, skills, knowledge and responsibilities required of each named executive officer, and reflects our executive officers' overall sustained performance and contributions to our business.

During its review of base salaries for executives, the Compensation Committee primarily considers:

- the negotiated terms of each executive's employment agreement, if any;
- each executive's individual performance;
- an internal review of the executive's compensation, both individually and relative to other named executive officers; and
- to a lesser extent, base salaries paid by comparable companies.

Salary levels are typically considered annually as part of the company's performance review process, as well as upon a change in job responsibility. Merit-based increases to salaries are based on the company's available resources and the Compensation Committee's assessment of the individual's performance. Both assessments are based upon written evaluations of such criteria as job knowledge, communication, problem solving, initiative, goal-setting, and expense management. In 2011, the Compensation Committee considered our successful achievement or substantial progress towards our corporate performance goals, but due to the challenging financial environment, and our anticipation of clinical results in 2012 and beyond, the Compensation Committee decided not to increase executive base salary for most executives, except in limited circumstances where an increase was merited by particular individual achievements or changes in job responsibilities. Base salaries were also reviewed in light of the Equilar, Radford and salary.com survey data to validate that they were within acceptable ranges based on market salaries.

#### Annual and Special Bonuses

As we do not generate significant revenues and have not commercially released any products, the Compensation Committee bases its discretionary annual bonus awards on the achievement of corporate and individual goals, efforts related to extraordinary transactions, effective fund-raising efforts, effective management of personnel and capital resources, and bonuses paid by comparable companies, among other criteria. Mr. Kriegsman's employment agreement entitles him to an annual cash bonus in an amount to be determined in our discretion, but not less than \$150,000, and Dr. Levitt's employment agreement provides that his bonus will not be less than 25% of his base salary. Any cash bonuses to our other named executive officers are entirely in our discretion.

During 2011, the Compensation Committee granted Mr. Kriegsman an annual cash bonus of \$150,000, and granted cash bonuses to the other named executive officers ranging from \$30,000 to \$112,500, principally based on their efforts in helping us advance the development of our products and raise capital.

#### Equity Incentive Compensation

We believe that strong long-term corporate performance is achieved with a corporate culture that encourages a long-term focus by our executive officers through the use of equity awards, the value of which depends on our stock performance. We have established equity incentive plans to provide all of our employees, including our executive officers, with incentives to help align those employees' interests with the interests of our stockholders and to enable them to participate in the long-term appreciation of our stockholder value. Additionally, equity awards provide an important retention tool for key employees, as the awards generally are subject to vesting over an extended period of time based on continued service with us.

Typically, equity awards are granted annually at the end of each year based primarily on corporate performance as a whole during the preceding year. In addition, we may grant equity awards upon the occurrence of certain events during the year, for example, upon an employee's hire or achievement of a significant business objective.

No formula is used in setting equity award grants and the determination of whether to grant equity awards, as well as the size of such equity awards, to our executive officers; rather, it involves subjective assessments by our Board of Directors, Compensation Committee and, with respect to executive officers other than himself, our CEO. Generally, annual equity awards are driven by our retention of experienced employees, and we consider individual performance and contributions during the preceding year to the extent our Board of Directors and Compensation Committee believe such factors are relevant. As with base salary and cash bonuses, for 2011 our Board of Directors and Compensation Committee also considered data from three surveys in determining equity award grants to our executive officers.



In 2011, the Compensation Committee granted to Mr. Kriegsman nonqualified options to purchase 1,500,000 shares of our common stock at a price of \$0.31 per share, which equaled the closing market price on the date of grant. The option vests monthly over three years, unless Mr. Kriegsman's employment is terminated by us without "cause," or by Mr. Kriegsman for "good reason," in which case they vest immediately. In addition, in connection with the annual review of our other named executive officers, the Compensation Committee also granted an aggregate of 1,350,000 stock options to those named executive officers. All of these other stock options had an exercise price equal to the closing market price on the date of grant, and also vest monthly over three years, provided that such executives remain in our employ through such monthly vesting periods.

Generally speaking, we have not taken into consideration any amounts realized by our named executive officers from prior stock option or stock awards in determining whether to grant new stock options or stock awards. No named executive officers have exercised options since 2003.

#### Retirement Plans, Perquisites and Other Personal Benefits

Our executive officers are eligible to participate in the same group insurance and employee benefit plans as our other salaried employees. These benefits include medical, dental, vision, and disability benefits and life insurance.

We have adopted a tax-qualified employee savings and retirement plan, our 401(k) Plan, for eligible U.S. employees, including our named executive officers. Eligible employees may elect to defer a percentage of their eligible compensation in the 401(k) Plan, subject to the statutorily prescribed annual limit. We may make matching contributions on behalf of all participants in the 401(k) Plan in an amount determined by our board of directors. We did not make any matching contribution to the 401(k) Plan for 2010. Matching contributions, if any, are subject to a vesting schedule; all employee contributions are at all times fully vested. We intend the 401(k) Plan, and the accompanying trust, to qualify under Sections 401(k) and 501 of the Internal Revenue Code so that contributions by employees to the 401(k) Plan, and income earned (if any) on plan contributions, are not taxable to employees until withdrawn from the 401(k) Plan, and so that we will be able to deduct our contributions, if any, when made. The trustee under the 401(k) Plan, at the direction of each participant, may invest the assets of the 401(k) Plan in any of a number of investment options.

We do not provide any of our executive officers with any other perquisites or personal benefits, other than benefits to Mr. Kriegsman provided for in his employment agreement. As required by his employment agreement, during 2011 we paid insurance premiums with respect to a life insurance policy for Mr. Kriegsman which had a face value of approximately \$1.4 million as of December 31, 2011 and under which Mr. Kriegsman's designee is the beneficiary. We periodically review the levels of perquisites and other personal benefits provided to our named executive officers, but no changes to these benefits were made during 2011, and we do not expect any such changes in the foreseeable future.

#### Employment Agreements and Severance Arrangements

We have entered into written employment agreements with each of our named executive officers. The main purpose of these agreements is to protect the company from business risks such as competition for the executives' service, loss of confidentiality or trade secrets, and solicitation of our other employees, and to define our right to terminate the employment relationship. The employment agreements also protect the executive from termination without "cause" (as defined) and, in Mr. Kriegsman's case, entitles him to resign for "good reason" (as defined). Each employment agreement was individually negotiated, so there are some minor variations in the terms among executive officers. Generally speaking, however, the employment agreements provide for termination and severance benefits that the Compensation Committee believes are consistent with industry practices for similarly situated executives. The Compensation Committee believes that the termination and severance benefits help the company retain the named

executive officers by providing them with a competitive employment arrangement and protection against unknowns such as termination without “cause” that go along with the position.

In the event of termination without “cause,” the named executive officers will be entitled to a lump-sum payment equal to six months of base salary (24 months in the case of Mr. Kriegsman). Mr. Kriegsman’s employment agreement also provides for our continuation of Mr. Kriegsman’s life insurance and medical benefits during his 24-month severance period. If Mr. Kriegsman’s employment is terminated by us without “cause,” or by Mr. Kriegsman for “good reason,” within two years following a change of control of CytRx, he also would be entitled under his employment agreement to receive a “gross-up” payment equal to the sum of any excise tax on his termination benefits (including any accelerated vesting of his options under our Plans as described below) plus any penalties and interest. In addition, if Mr. Kriegsman’s employment is terminated by us without “cause” or by Mr. Kriegsman for “good reason,” or terminates due to Mr. Kriegsman’s death or disability, his unvested stock options vest immediately.

### Change of Control Arrangements

The company's 2000 Long-Term Incentive Plan and 2008 Stock Incentive Plan provide generally that, upon a change of control of CytRx, all unvested stock options and awards under the Plans held by plan participants, including the named executive officers, will become immediately vested and exercisable immediately prior to the effective date of the transaction. The Compensation Committee believes that such "single trigger" change of control policy is consistent with the objective of aligning the interests of the named executive officer's and of the company's stockholders by allowing the executives to participate equally with stockholders in the event of a change of control transaction.

The foregoing severance and change of control arrangements, including the quantification of the payment and benefits provided under these arrangements, are described in more detail elsewhere in this Annual Report under the heading "Executive Compensation – Potential Payments Upon Termination or Change of Control."

### Ownership Guidelines

The Compensation Committee has no requirement that each named executive officer maintain a minimum ownership interest in our company.

Our long-term incentive compensation consists solely of periodic grants of stock options to our named executive officers. The stock option program:

- links the creation of stockholder value with executive compensation;
- provides increased equity ownership by executives;
- functions as a retention tool, because of the vesting features included in all options granted by the Compensation Committee; and
- helps us to maintain competitive levels of total compensation.

We normally grant stock options to new executive officers when they join our company based upon their position with us and their relevant prior experience. The options granted by the Compensation Committee generally vest monthly over the first three years of the ten-year option term. Vesting and exercise rights generally (except in the case of Mr. Kriegsman) cease upon termination of employment (or, in the case of exercise rights, 90 days thereafter), except in the case of death (subject to a one-year limitation), disability or retirement. Prior to the exercise of an option, the holder has no rights as a stockholder with respect to the shares subject to such option, including voting rights and the right to receive dividends or dividend equivalents. In addition to the initial option grants, our Compensation Committee may grant additional options to retain our executives and reward, or provide incentive for, the achievement of corporate goals and strong individual performance. Our Board of Directors has granted our President and Chief Executive Officer discretion to grant up to 200,000 options to employees upon joining our company, and to make grants from an additional "discretionary pool" of up to 200,000 options during each annual employee review cycle. Options are granted based on a combination of individual contributions to our company and on general corporate achievements, which may include the attainment of product development milestones (such as commencement and completion of clinical trials) and attaining other annual corporate goals and objectives. On an annual basis, the Compensation Committee assesses the appropriate individual and corporate goals for our executives and provides additional option grants based upon the achievement by the new executives of both individual and corporate goals. We expect that we will continue to provide new employees with initial option grants in the future to provide long-term compensation incentives and will continue to rely on performance-based and retention grants to provide additional incentives for current employees. Additionally, in the future, the Compensation Committee may consider awarding additional or alternative

forms of equity incentives, such as grants of bonus stock, restricted stock and restricted stock units.

It is our policy to award stock options at an exercise price equal to The NASDAQ Capital Market's closing price of our common stock on the date of the grant. In certain limited circumstances, the Compensation Committee may grant options to an executive at an exercise price in excess of the closing price of the common stock on the grant date. The Compensation Committee has never granted options with an exercise price that is less than the closing price of our common stock on the grant date, nor has it granted options which are priced on a date other than the grant date. For purposes of determining the exercise price of stock options, the grant date is deemed to be the first day of employment for newly hired employees, or the date on which the Compensation Committee or the Chief Executive Officer, as applicable, approves the stock option grant to existing employees.

We have no program, practice or plan to grant stock options to our executive officers, including new executive officers, in coordination with the release of material nonpublic information. We also have not timed the release of material nonpublic information for the purpose of affecting the value of stock options or other compensation to our executive officers, and we have no plan to do so. We have no policy regarding the adjustment or recovery of stock option awards in connection with the restatement of our financial statements, as our stock option awards have not been tied to the achievement of specific financial goals.

#### Tax and Accounting Implications

##### Deductibility of Executive Compensation

As part of its role, the Compensation Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code, which provides that corporations may not deduct compensation of more than \$1,000,000 that is paid to certain individuals. We believe that compensation paid to our executive officers generally is fully deductible for federal income tax purposes.

##### Accounting for Share-Based Compensation

Beginning on January 1, 2006, we began accounting for share-based compensation in accordance with the requirements of FASB Statement 123(R), Share-Based Payment. This accounting treatment has not significantly affected our compensation decisions. The Compensation Committee takes into consideration the tax consequences of compensation to the named executive officers, but tax considerations are not a significant part of the company's compensation policy.

##### Benchmarking

Beginning on January 1, 2006, we began accounting for share-based compensation in accordance with the requirements of FASB Statement 123(R), Share-Based Payment. This accounting treatment has not significantly affected our compensation decisions. The Compensation Committee takes into consideration the tax consequences of compensation to the named executive officers, but tax considerations are not a significant part of the company's compensation policy.

These policies remained in place throughout 2011, and we expect to continue to follow them for the foreseeable future.

##### Compensation Committee Interlocks and Insider Participation in Compensation Decisions

There are no "interlocks," as defined by the SEC, with respect to any member of the Compensation Committee. Max Link, Ph.D., Marvin R. Selter and Richard L. Wennekamp served as members of the Compensation Committee during 2011. Dr. Rubinfeld joined the Compensation Committee on March 9, 2012.

##### Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the "Compensation Discussion and Analysis" required by Item 402(b) of Regulation S-K and, based on such review and discussions, has recommended to our board of directors that the foregoing "Compensation Discussion and Analysis" be included in this Annual Report.

Dr. Joseph Rubinfeld,  
Chairman

Richard L. Wennekamp

Marvin R. Selter

Dr. Max Link



## Summary Compensation Table

The following table presents summary information concerning all compensation paid or accrued by us for services rendered in all capacities during 2011, 2010 and 2009 by Steven A. Kriegsman and John Y. Caloz, who are the only individuals who served as our principal executive and financial officers during the year ended December 31, 2011, and our three other most highly compensated executive officers who were serving as executive officers as of December 31, 2011:

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)(1)	Option Awards (\$)(2)	All Other Compensation (\$)(3)	Total (\$)
<b>Steven A. Kriegsman</b>						
<b>President and Chief Executive Officer</b>						
	2011	700,000	150,000	342,000	10,000	1,202,000
	2010	650,000	450,000	564,750	10,000	1,674,750
	2009	550,000	450,000	906,000	10,000	1,916,000
<b>John Y. Caloz</b>						
<b>Chief Financial Officer and Treasurer</b>						
	2011	335,000	45,000	45,600	—	425,600
	2010	325,000	25,000	37,650	—	387,650
	2009	275,000	80,000	137,750	—	492,750
<b>Daniel Levitt, M.D., Ph.D.</b>						
<b>Chief Medical Officer</b>						
	2011	450,000	112,500	114,000	—	676,500
	2010	375,000	135,000	188,250	—	698,250
	2009	83,894	—	405,000	—	488,894
<b>Benjamin S. Levin</b>						
<b>General Counsel, General Counsel, Vice President — Legal Affairs and Secretary</b>						
	2011	340,000	55,000	57,000	—	452,000
	2010	315,000	85,000	75,300	—	475,300
	2009	276,000	75,000	119,100	—	470,100
<b>Scott Wieland, Ph.D.</b>						
<b>Senior Vice President — Drug Development</b>						
	2011	330,000	30,000	45,600	—	405,600
	2010	315,000	75,000	75,300	—	465,300
	2009	275,000	75,000	105,750	—	455,750

(1) Bonuses to the named executive officers reported above were paid in December of the applicable year.

(2) The values shown in this column represent the aggregate grant date fair value of equity-based awards granted during the fiscal year, in accordance with ASC 718, “Share Based-Payment.” At the 2009 Annual Meeting of Stockholders held on July 1, 2009, our stockholders approved an amendment to our 2000 Long-Term Incentive Plan to allow for a one-time stock option re-pricing program for employees and officers. Pursuant to the re-pricing program, 3,265,500 eligible stock options held by ten eligible employees and officers were amended to reduce the exercise prices of the options to \$1.15 per share, which was the closing sale price of CytRx’s common stock as

reported on The NASDAQ Capital Market on the July 1, 2009 completion date of the re-pricing program, and to impose a new option vesting schedule. The values in this column include the incremental increase in the fair value of the re-priced options over the fair value of the original award. The fair value of the stock options at the date of grant was estimated using the Black-Scholes option-pricing model, based on the assumptions described in Note 13 of the Notes to Financial Statements included in this Annual Report.

(3) This amount represents life insurance premiums.

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## 2011 Grants of Plan-Based Awards

In 2011, we granted stock options to our named executive officers under our 2008 Stock Incentive Plan as follows:

## 2011 Grants of Plan-Based Awards

Name	Grant Date	All Other Option Awards (# of CytRx Shares)	Exercise Price of Option Awards (\$/Share)	Grant Date Fair Value of Option Awards (\$)
Steven A. Kriegsman President and Chief Executive Officer	12/12/2011	1,500,000 (1)	\$0.31	\$342,000
John Y. Caloz Chief Financial Officer and Treasurer	12/12/2011	200,000 (2)	\$0.31	\$45,600
Daniel Levitt, M.D., Ph.D. Chief Medical Officer	12/12/2011	500,000 (2)	\$0.31	\$114,000
Benjamin S. Levin General Counsel, Vice President — Legal Affairs and Secretary	12/12/2011	250,000 (2)	\$0.31	\$57,000
Scott Wieland, Ph.D. Senior Vice President – Drug Development	12/12/2011	200,000 (2)	\$0.31	\$45,600

(1) Options vest monthly over three years, provided that Mr. Kriegsman remains in our employ through such monthly vesting period, unless Mr. Kriegsman's employment is terminated by us without "cause" or by Mr. Kriegsman for "good reason," in which case they vest immediately.

(2) Options vest monthly over three years, provided that such executive remains in our employ through such monthly vesting period.

## 2000 Long-Term Incentive Plan and 2008 Stock Incentive Plan

The purpose of our 2000 Long-Term Incentive Plan, or 2000 Plan, and our 2008 Stock Incentive Plan, or 2008 Plan, is to promote our success and enhance our value by linking the personal interests of our employees, officers, consultants and directors to those of our stockholders. The 2000 Plan was originally adopted by our Board of Directors on August 24, 2000 and by our stockholders on June 7, 2001, with certain amendments to the Plan having been subsequently approved by our Board of Directors and stockholders. On May 11, 2009, our Board of Directors approved an amendment to the 2000 Plan to allow for a one-time stock option re-pricing program for our employees. The 2008 Plan was adopted by our Board of Directors on November 21, 2008 and by our stockholders on July 1, 2009.

## 2000 Plan and 2008 Plan Descriptions

The 2000 Plan and the 2008 Plan, or the Plans, are administered by the Compensation Committee of our Board of Directors. The Compensation Committee has the power, authority and discretion to:

- designate participants;
- determine the types of awards to grant to each participant and the number, terms and conditions of any award;
- establish, adopt or revise any rules and regulations as it may deem necessary or advisable to administer the Plan; and
- make all other decisions and determinations that may be required under, or as the Compensation Committee deems necessary or advisable to administer, the Plan.

#### Awards under the 2000 Plan

The 2000 Plan expired on August 6, 2010, and thus no shares are available for future grant under the 2000 Plan.

#### Awards under the 2008 Plan

The following is a summary description of financial instruments that may be granted to participants in our 2008 Plan by the Compensation Committee of our Board of Directors. The Compensation Committee to date has only granted stock options to participants in the 2008 Plan.

**Stock Options.** The Compensation Committee is authorized to grant both incentive stock options and non-qualified stock options. The terms of any incentive stock option must meet the requirements of Section 422 of the Internal Revenue Code. The exercise price of an option may not be less than the fair market value of the underlying stock on the date of grant, and no option may have a term of more than 10 years from the grant date.

**Restricted Stock.** The Compensation Committee may make awards of restricted stock, which will be subject to forfeiture to us and other restrictions as the Compensation Committee may impose.

**Stock Bonus Awards.** The Compensation Committee may make awards of stock bonus awards in consideration for past services actually rendered, which will be subject to repurchase by us and such other terms as the Compensation Committee may impose.

**Limitations on Transfer; Beneficiaries.** Stock Option awards under the 2008 Plan may generally not be transferred or assigned by participants other than by will or the laws of descent and distribution. Awards of Restricted Stock or Stock Bonus awards may be transferred or assigned only upon such terms and conditions as set forth in the award agreement or as determined by the Compensation Committee in its discretion.

**Acceleration Upon Certain Events.** In the event of a "Corporate Transaction," which is a term defined in the 2008 Plan, all outstanding options will become fully vested, subject to the holder's consent with respect to incentive stock options, and exercisable and all restrictions on all outstanding awards will lapse. Unless the surviving or acquiring entity assumes the awards in the Corporate Transaction or the stock award agreement provides otherwise, the stock awards will terminate if not exercised at or prior to the Corporate Transaction.

#### Termination and Amendment

Our Board of Directors or the Compensation Committee may, at any time and from time to time, terminate or amend the Plans without stockholder approval; provided, however, that our board or the Compensation Committee may condition any amendment on the approval of our stockholders if such approval is necessary or deemed advisable with respect to tax, securities or other applicable laws, policies or regulations. No termination or amendment of the Plans may adversely affect any award previously granted without the written consent of the participants affected. The Compensation Committee may amend any outstanding award without the approval of the participants affected, except that no such amendment may diminish or impair the value of an award.

## Holdings of Previously Awarded Equity

Equity awards held as of December 31, 2011 by each of our named executive officers were issued under our 2000 Plan and 2008 Plan. The following table sets forth outstanding equity awards held by our named executive officers as of December 31, 2011:

## 2011 Outstanding Equity Awards at Fiscal Year-End

Name	Number of Securities Underlying		Option Awards		
	Exercisable	Unexercisable	Unexercised Options (#)	Option Exercise Price (3)	Option Expiration Date
Steven A. Kriegsman	—	(1 )	1,500,000	0.31	12/11/21
President and Chief Executive Officer	250,140	(1 )	499,860	1.01	12/14/20
	499,700	(1 )	249,300	1.05	12/10/19
	300,000	(1 )	—	0.37	11/21/18
	450,000	(1 )	—	1.15	4/07/18
	350,000	(1 )	—	1.15	4/18/17
	200,000	(1 )	—	1.15	6/16/16
	300,000	(1 )	—	0.79	5/17/15
	250,000	(2 )	—	1.15	6/19/13
	750,000	(2 )	—	1.15	6/20/13
John Y. Caloz	—	(1 )	200,000	0.31	12/11/21
Chief Financial Officer and Treasurer	16,650	(1 )	33,350	1.01	12/14/20
	83,310	(1 )	41,690	1.05	12/10/19
	48,610	(1 )	1,390	0.30	01/02/19
	50,000	(2 )	—	0.37	11/21/18
	25,000	(2 )	—	1.15	04/07/18
	25,000	(2 )	—	1.15	12/06/17
	75,000	(2 )	—	1.15	10/26/17
Daniel Levitt, M.D., Ph.D.	—	(1 )	500,000	0.31	12/11/21
Chief Medical Officer	83,400	(1 )	166,600	1.01	12/14/20
	361,115	(1 )	138,885	1.06	10/11/19
Benjamin S. Levin	—	(1 )	250,000	0.31	12/11/21
General Counsel, Vice President — Legal Affairs and Secretary	66,700	(1 )	33,300	1.01	12/14/20
	66,650	(1 )	33,350	1.05	12/10/19
	100,000	(1 )	—	0.37	11/21/18
	100,000	(1 )	—	1.15	4/07/18
	100,000	(1 )	—	1.15	4/18/17
	90,000	(1 )	—	1.15	6/16/16
	150,000	(1 )	—	0.79	5/17/15
	160,000	(2 )	—	1.15	7/15/14

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Scott Wieland, Ph.D.	—	(1 )	200,000	0.31	12/11/21
Senior Vice President – Drug Development	66,700	(1 )	33,300	1.01	12/14/20
	66,650	(1 )	33,350	1.05	12/10/19
	25,000	(2 )	—	1.15	11/21/18
	30,000	(2 )	—	0.57	07/01/18
	25,000	(2 )	—	1.15	12/06/17
	75,000	(2 )	—	1.15	4/30/17

- (1) These options vest in 36 equal monthly installments, subject to the option holder's remaining in our continuous employ through such dates. If Mr. Kriegsman's employment is terminated by us without "cause" or by Mr. Kriegsman for "good reason," his unvested options will immediately vest in full.
- (2) These options vest in three annual installments, subject to the option holder's remaining in our continuous employ through such dates.
- (3) The reported options with prices of \$1.15 were re-priced to that exercise price on July 1, 2009.

#### Option Exercises and Stock Vested

There were no exercises of stock options by any of our named executive officers during 2011.

#### Employment Agreements and Potential Payment upon Termination or Change in Control

##### Employment Agreement with Steven A. Kriegsman

Mr. Kriegsman is employed as our Chief Executive Officer and President pursuant to an employment agreement that was amended as of January 2012 to continue through December 31, 2015. The employment agreement will automatically renew in December 2015 for an additional one-year period, unless either Mr. Kriegsman or we elect not to renew it.

Under his employment agreement as amended, Mr. Kriegsman is entitled to receive an annual base salary of \$700,000. Our board of directors (or its Compensation Committee) will review the base salary annually and may increase (but not decrease) it in its sole discretion. In addition to his annual salary, Mr. Kriegsman is eligible to receive an annual bonus as determined by our board of directors (or its Compensation Committee) in its sole discretion, but not to be less than \$150,000. Pursuant to his employment agreement with us, we have agreed that he shall serve on a full-time basis as our Chief Executive Officer and President and that he may continue to serve as Chairman of the Kriegsman Group only so long as necessary to complete certain current assignments.

Mr. Kriegsman is eligible to receive grants of options to purchase shares of our common stock. The number and terms of those options, including the vesting schedule, will be determined by our board of directors (or its Compensation Committee) in its sole discretion.

Under Mr. Kriegsman's employment agreement, we have agreed that, if he is made a party, or threatened to be made a party, to a suit or proceeding by reason of his service to us, we will indemnify and hold him harmless from all costs and expenses to the fullest extent permitted or authorized by our certificate of incorporation or bylaws, or any resolution of our board of directors, to the extent not inconsistent with Delaware law. We also have agreed to advance to Mr. Kriegsman such costs and expenses upon his request if he undertakes to repay such advances if it ultimately is determined that he is not entitled to indemnification with respect to the same. These employment agreement provisions are not exclusive of any other rights to indemnification to which Mr. Kriegsman may be entitled and are in addition to any rights he may have under any policy of insurance maintained by us.

In the event we terminate Mr. Kriegsman's employment without "cause" (as defined), or if Mr. Kriegsman terminates his employment with "good reason" (as defined), (i) we have agreed to pay Mr. Kriegsman a lump-sum equal to his salary and prorated minimum annual bonus through to his date of termination, plus his salary and minimum annual bonus for a period of two years after his termination date, or until the expiration of the amended and restated employment agreement, whichever is later, (ii) he will be entitled to immediate vesting of all stock options or other awards based on our equity securities, and (iii) he will also be entitled to continuation of his life insurance premium payments and

continued participation in any of our health plans through to the later of the expiration of the amended and restated employment agreement or 24 months following his termination date. Mr. Kriegsman will have no obligation in such events to seek new employment or offset the severance payments to him by any compensation received from any subsequent reemployment by another employer.

Under Mr. Kriegsman's employment agreement, he and his affiliated company, The Kriegsman Group, are to provide us during the term of his employment with the first opportunity to conduct or take action with respect to any acquisition opportunity or any other potential transaction identified by them within the biotech, pharmaceutical or health care industries and that is within the scope of the business plan adopted by our board of directors. Mr. Kriegsman's employment agreement also contains confidentiality provisions relating to our trade secrets and any other proprietary or confidential information, which provisions shall remain in effect for five years after the expiration of the employment agreement with respect to proprietary or confidential information and for so long as our trade secrets remain trade secrets.

Potential Payment upon Termination or Change in Control for Steven A. Kriegsman

Mr. Kriegsman's employment agreement contains no provision for payment to him in the event of a change in control of CytRx. If, however, a change in control (as defined in our 2000 Plan) occurs during the term of the employment agreement, and if, during the term and within two years after the date on which the change in control occurs, Mr. Kriegsman's employment is terminated by us without "cause" or by him for "good reason" (each as defined in his employment agreement), then, in addition to the severance benefits described above, to the extent that any payment or distribution of any type by us to or for the benefit of Mr. Kriegsman resulting from the termination of his employment is or will be subject to the excise tax imposed under Section 4999 of the Internal Revenue Code of 1986, as amended, we have agreed to pay Mr. Kriegsman, prior to the time the excise tax is payable with respect to any such payment (through withholding or otherwise), an additional amount that, after the imposition of all income, employment, excise and other taxes, penalties and interest thereon, is equal to the sum of (i) the excise tax on such payments plus (ii) any penalty and interest assessments associated with such excise tax.

Employment Agreement with Daniel Levitt, M.D., Ph.D.

Daniel Levitt is employed as our Chief Medical Officer pursuant to an employment agreement dated as of January 1, 2012 that expires on December 31, 2012. Dr. Levitt is entitled under his employment agreement to receive an annual base salary of \$450,000 and is eligible to receive an annual bonus as determined by our board of directors (or our Compensation Committee) in its sole discretion, but not to be less than 25% of his 2011 base salary. In the event we terminate Dr. Levitt's employment without cause (as defined), we have agreed to pay him a lump-sum equal to his accrued but unpaid salary and vacation, plus an amount equal to six months' salary under his employment agreement.

Employment Agreement with John Y. Caloz

John Y. Caloz is employed as our Chief Financial Officer and Treasurer pursuant to an employment agreement dated as of January 1, 2012 that expires on December 31, 2012. Mr. Caloz is entitled under his employment agreement to receive an annual base salary of \$340,000 and is eligible to receive an annual bonus as determined by our board of directors (or our Compensation Committee) in its sole discretion. In the event we terminate Mr. Caloz's employment without cause (as defined), we have agreed to pay him a lump-sum equal to his accrued but unpaid salary and vacation, plus an amount equal to six months' salary under his employment agreement.

Employment Agreement with Scott Wieland, Ph.D.

Scott Wieland is employed as our Senior Vice President — Drug Development pursuant to an employment agreement dated as of January 1, 2012 that expires on December 31, 2012. Dr. Wieland is paid an annual base salary of \$330,000 and is eligible to receive an annual bonus as determined by our board of directors (or our Compensation Committee) in its sole discretion. In the event we terminate Dr. Wieland's employment without "cause" (as defined), we have agreed to pay him a lump-sum equal to his accrued but unpaid salary and vacation, plus an amount equal to six months' base salary.

Employment Agreement with Benjamin S. Levin

Benjamin S. Levin is employed as our Vice President — Legal Affairs, General Counsel and Secretary pursuant to an employment agreement dated as of January 1, 2012 that expires on December 31, 2012. Mr. Levin is paid an annual base salary of \$340,000 and is eligible to receive an annual bonus as determined by our board of directors (or our Compensation Committee) in its sole discretion. In the event we terminate Mr. Levin's employment without "cause" (as defined), we have agreed to pay him a lump-sum equal to his accrued but unpaid salary and vacation, plus an amount equal to six months' base salary.



Employment Agreement with Scott Geyer

Scott Geyer is employed as our Senior Vice President — Manufacturing pursuant to an employment agreement dated as of January 1, 2012 that expires on December 31, 2012. Mr. Geyer is paid an annual base salary of \$330,000 and is eligible to receive an annual bonus as determined by our board of directors (or our Compensation Committee) in its sole discretion. In the event we terminate Mr. Geyer’s employment without “cause” (as defined), we have agreed to pay him a lump-sum equal to his accrued but unpaid salary and vacation, plus an amount equal to six months’ base salary.

## Quantification of Termination Payments and Benefits

The table below reflects the amount of compensation to each of our named executive officers in the event of termination of such executive's employment without "cause" or his resignation for "good reason," termination following a change in control and termination upon the executive's death or permanent disability. The named executive officers are not entitled to any payments other than accrued compensation and benefits in the event of their voluntary resignation. The amounts shown in the table below assume that such termination was effective as of December 31, 2011, and thus includes amounts earned through such time, and are estimates only of the amounts that would be payable to the executives. The actual amounts to be paid will be determined upon the occurrence of the events indicated.

## Termination Payments and Benefits

Name	Benefit	Termination w/o Cause or, for Steven A. Kriegsman, for Good Reason		Death (\$)	Disability (\$)	Change in Control (\$)
		Before Change in Control (\$)	After Change in Control (\$)			
Steven A. Kriegsman	Severance Payment(4)	1,400,000	1,400,000	1,400,000	1,400,000	—
President and Chief Executive Officer	Stock Options (1)	—	—	—	—	—
	Health Insurance (2)	91,700	91,700	91,700	91,700	91,700
	Life Insurance	10,000	10,000	—	10,000	—
	Bonus	300,000	300,000	300,000	300,000	—
	Tax Gross Up (3)	—	—	—	—	—
John Y. Caloz	Severance Payment(4)	170,000	170,000	—	—	—
Chief Financial Officer	Stock Options (1)	—	—	—	—	—
Daniel Levitt, M.D., Ph.D.	Severance Payment(4)	225,000	225,000	—	—	—
Chief Medical Officer						
Benjamin S. Levin	Severance Payment	170,000	170,000	—	—	—
General Counsel, Vice President — Legal Affairs and Secretary	Stock Options (1)	—	—	—	—	—
Scott Wieland, Ph.D.	Severance Payment(4)	165,000	165,000	—	—	—
Senior Vice President – Drug Development	Stock Options (1)	—	—	—	—	—

(1) Represents the aggregate value of stock options that vest and become exercisable immediately upon each of the triggering events listed as if such events took place on December 31, 2011, determined by the aggregate difference between the stock price as of December 31, 2011 and the exercise prices of the underlying options.

(2)

Represents the cost as of December 31, 2011 for the family health benefits provided to Mr. Kriegsman for a period of two years.

- (3) Mr. Kriegsman's employment agreement provides that if a change in control (as defined in our 2000 Long-Term Incentive Plan) occurs during the term of the employment agreement, and if, during the term and within two years after the date on which the change in control occurs, Mr. Kriegsman's employment is terminated by us without "cause" or by him for "good reason" (each as defined in his employment agreement), then, to the extent that any payment or distribution of any type by us to or for the benefit of Mr. Kriegsman resulting from the termination of his employment is or will be subject to the excise tax imposed under Section 4999 of the Internal Revenue Code of 1986, as amended, we will pay Mr. Kriegsman, prior to the time the excise tax is payable with respect to any such payment (through withholding or otherwise), an additional amount that, after the imposition of all income, employment, excise and other taxes, penalties and interest thereon, is equal to the sum of (i) the excise tax on such payments plus (ii) any penalty and interest assessments associated with such excise tax. Based on Mr. Kriegsman's past compensation and the estimated payment that would result from a termination of his employment following a change in control, we have estimated that a gross-up payment would not be required. "Good reason" as defined in Mr. Kriegsman's employment agreement includes any change in Mr. Kriegsman's duties or title that are inconsistent with his position as Chief Executive Officer.
- (4) Severance payments are prescribed by our employment agreements with the named executive officers and represent a factor of their annual base compensation ranging from six months to two years.

## Compensation of Directors

We use a combination of cash and stock-based compensation to attract and retain qualified candidates to serve on our board of directors. Directors who also are employees of our company currently receive no compensation for their service as directors or as members of board committees. In setting director compensation, we consider the significant amount of time that directors dedicate to the fulfillment of their director responsibilities, as well as the competency and skills required of members of our board. The directors' current compensation schedule has been in place since May 2009. The directors' annual compensation year begins with the annual election of directors at the annual meeting of stockholders. The annual retainer year period has been in place for directors since 2003. Periodically, our board of directors reviews our director compensation policies and, from time to time, makes changes to such policies based on various criteria the board deems relevant.

Our non-employee directors receive a quarterly retainer of \$6,000 (plus an additional \$12,500 for the Chairman of the Board, \$5,000 for the Chairman of the Audit Committee, and \$1,500 for the Chairmen of the Nomination and Governance Committee and the Compensation Committee), a fee of \$3,000 for each board meeting attended (\$750 for board actions taken by unanimous written consent), \$2,000 for each meeting of the Audit Committee attended, and \$1,000 for each other committee meeting attended. Non-employee directors who serve as the chairman of a board committee receive an additional \$2,000 for each meeting of the Nomination and Governance Committee or the Compensation Committee attended and an additional \$2,500 for each meeting attended of the audit committee. In June 2011, we granted stock options to purchase 50,000 shares of our common stock at an exercise price equal to the current market value of our common stock to each non-employee director. The options were vested, in full, upon grant.

The following table sets forth the compensation paid to our directors other than our Chief Executive Officer for 2011:

Director Compensation Table

Name	Fees Earned or Paid in		Option Awards	Total (\$)
	Cash			
(1)	(\$)	(2)	(\$)	(3)
Max Link, Ph.D., Chairman	102,250		26,450	128,700
Marvin R. Selter, Vice Chairman	82,250		26,450	108,700
Louis Ignarro, Ph.D., Director	35,250		26,450	61,700
Joseph Rubinfeld, Ph.D., Director	49,250		26,450	75,700
Richard L. Wennekamp, Director	76,250		26,450	102,700

(1) Steven A. Kriegsman does not receive additional compensation for his role as a Director. For information relating to Mr. Kriegsman's compensation as President and Chief Executive Officer, see the Summary Compensation Table above.

(2) The amounts in this column represent cash payments made to Non-Employee Directors for annual retainer fees, committee and/or chairmanship fees and meeting fees during the year.

(3) In June 2011, we granted stock options to purchase 50,000 shares of our common stock at an exercise price equal to the current market value of our common stock to each non-employee director, which had a grant date fair value of \$26,450 calculated in accordance with FASB ASC Topic 718, excluding the effect of estimated forfeitures

related to service-based vesting conditions. The amount recognized for these awards was calculated using the Black Scholes option-pricing model, and reflect grants from our 2000 Long-Term Incentive Plan, which is described in Note 13 of the Notes to Consolidated Financial Statements.

Joseph Rubinfeld, Ph.D. Consulting Agreement

On December 2, 2008, we entered into a written consulting agreement with Joseph Rubinfeld, Ph.D., under which Dr. Rubinfeld agrees to serve as our Chief Scientific Advisor. In exchange, we granted to Dr. Rubinfeld under our 2008 Stock Incentive Plan a ten-year stock option to purchase up to 350,000 shares of our common stock at an exercise price of \$0.35 per share, which equaled the market price of our common stock as of the grant date. The fair value of this option grant was \$116,900. The stock option vested immediately upon grant as to 50,000 of the option shares and vested as to the remaining option shares in 36 equal monthly installments. We agree in the consulting agreement to pay Dr. Rubinfeld a monthly fee of \$1,000. The consulting agreement is terminable at any time by either party upon notice to the other party.

## Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Based solely upon information made available to us, the following table sets forth information with respect to the beneficial ownership of our common stock as of March 12, 2012 by (1) each person who is known by us to beneficially own more than five percent of our common stock; (2) each of our directors; (3) the named executive officers listed in the Summary Compensation Table under Item 11; and (4) all of our executive officers and directors as a group. Beneficial ownership is determined in accordance with the SEC rules. Shares of common stock subject to any warrants or options that are presently exercisable, or exercisable within 60 days of March 12, 2012 (which are indicated by footnote) are deemed outstanding for the purpose of computing the percentage ownership of the person holding the warrants or options, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. The percentage ownership reflected in the table is based on 148,427,069 shares of our common stock outstanding as of March 12, 2012, excluding treasury shares. Except as otherwise indicated, the holders listed below have sole voting and investment power with respect to all shares of common stock shown, subject to applicable community property laws. An asterisk represents beneficial ownership of less than 1%.

N a m e o f B e n e f i c i a l Owner	Shares of Common Stock	
	Number	Percent
Louis Ignarro, Ph.D.(1)	718,916	*
Steven A. Kriegsman(2)	7,925,339	5.2 %
Max Link, Ph.D.(3)	544,848	*
Joseph Rubinfeld, Ph.D.(4)	629,000	*
Marvin R. Selter(5)	722,451	*
Richard L. Wennekamp(6)	381,965	*
Dan Levitt, M.D., Ph.D.(7)	711,135	*
John Y. Caloz (8)	407,431	*
Scott Wieland, Ph.D.(9)	341,113	*
Benjamin S. Levin(10)	936,634	*
All executive officers and directors as a group (eleven persons)(11)	13,493,838	8.6 %

(1) Includes 627,000 shares subject to options or warrants.

(2) Includes 3,745,563 shares subject to options or warrants. Mr. Kriegsman's address is c/o CytRx Corporation, 11726 San Vicente Boulevard, Suite 650, Los Angeles, CA 90049.

(3) Includes 284,543 shares subject to options or warrants.

(4) Includes 629,000 shares subject to options or warrants.

(5) The shares shown are owned, of record, by the Selter Family Trust or Selter IRA Rollover. Includes 265,000 shares subject to options or warrants owned by Mr. Selter.

(6) Includes 265,000 shares subject to options or warrants.

(7) Includes 611,135 shares subject to options or warrants.

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- (8) Includes 375,639 shares subject to options or warrants.
- (9) Includes 341,113 shares subject to options or warrants.
- (10) Includes 903,056 shares subject to options or warrants.
- (11) Includes 8,222,055 shares subject to options or warrants.

58

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## Item 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

### Director Independence

Our board of directors has determined that Messrs. Link, Selter, Rubinfeld, Ignarro and Wennekamp are “independent” under the current independence standards of both The NASDAQ Capital Market and the SEC, and have no material relationships with us (either directly or as a partner, shareholder or officer of any entity) which could be inconsistent with a finding of their independence as members of our board of directors or as the members of our Audit Committee. In making these determinations, our board of directors has broadly considered all relevant facts and circumstances, recognizing that material relationships can include commercial, banking, consulting, legal, accounting, and familial relationships, among others.

### Transactions with Related Persons

#### General

Our Audit Committee is responsible for reviewing and approving, as appropriate, all transactions with related persons, in accordance with its Charter and NASDAQ Marketplace Rules.

Transactions between us and one or more related persons may present risks or conflicts of interest or the appearance of conflicts of interest. Our Code of Ethics requires all employees, officers and directors to avoid activities or relationships that conflict, or may be perceived to conflict, with our interests or adversely affect our reputation. It is understood, however, that certain relationships or transactions may arise that would be deemed acceptable and appropriate so long as there is full disclosure of the interest of the related parties in the transaction and review and approval by disinterested directors to ensure there is a legitimate business reason for the transaction and that the transaction is fair to us and our stockholders.

As a result, the procedures followed by the Audit Committee to evaluate transactions with related persons require:

- that all related person transactions, all material terms of the transactions, and all the material facts as to the related person’s direct or indirect interest in, or relationship to, the related person transaction must be communicated to the Audit Committee; and
- that all related person transactions, and any material amendment or modification to any related person transaction, be reviewed and approved or ratified by the Audit Committee, as required by NASDAQ Marketplace Rules.

Our Audit Committee will evaluate related person transactions based on:

- information provided by members of our board of directors in connection with the required annual evaluation of director independence;
- pertinent responses to the Directors’ and Officers’ Questionnaires submitted periodically by our officers and directors and provided to the Audit Committee by our management;
- background information on nominees for director provided by the Nominating and Corporate Governance Committee of our board of directors; and
- any other relevant information provided by any of our directors or officers.



In connection with its review and approval or ratification, if appropriate, of any related person transaction, our Audit Committee is to consider whether the transaction will compromise standards included in our Code of Ethics. In the case of any related person transaction involving an outside director or nominee for director, the Audit Committee also is to consider whether the transaction will compromise the director's status as an independent director as prescribed in the NASDAQ Marketplace Rules.

#### Exemption Clause

Item 404(a)(7)(a) of Securities and Exchange Commission Regulation S-K states that: Disclosure need not be provided if the transaction is one where the rates or charges involved in the transaction are determined by competitive bid, or the transaction involves rendering of services as a common or contract carrier, or public utility, at rates or charges fixed in conformity with law or governmental authority.

#### Applicable Definitions

For purposes of our Audit Committee's review:

- "related person" has the meaning given to such term in Item 404(a) of Securities and Exchange Commission Regulation S-K ("Item 404(a)"); and
- "related person transaction" means any transaction for which disclosure is required under the terms of Item 404(a) involving us and any related persons.

#### Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

BDO USA, LLP, or BDO, serves as our independent registered public accounting firm and audited our financial statements for the years ended December 31, 2011, 2010 and 2009.

##### Audit Fees

The fees for 2011 and 2010 from BDO for professional services rendered for the audit of our annual consolidated financial statements and internal controls over financial reporting, quarterly and S-3 reviews were \$347,000 and \$343,100, respectively.

##### Tax Fees

The aggregate fees billed by BDO for professional services for tax compliance, tax advice and tax planning were \$23,325 and \$54,125 for 2011 and 2010, respectively.

##### All Other Fees

No other services were rendered by BDO for 2011 or 2010.

##### Pre-Approval Policies and Procedures

It is the policy of our Audit Committee that all services to be provided by our independent registered public accounting firm, including audit services and permitted audit-related and non-audit services, must be pre-approved by our Audit Committee. Our Audit Committee pre-approved all services, audit and non-audit, provided to us by BDO for 2011 and 2010.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this 10-K:

(1) Financial Statements

Our consolidated financial statements and the related report of the independent registered public accounting firm thereon are set forth on pages F-1 to F-20 of this Annual Report. These consolidated financial statements are as follows:

Consolidated Balance Sheets as of December 31, 2011 and 2010

Consolidated Statements of Operations for the Years Ended December 31, 2011, 2010 and 2009

Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2011, 2010 and 2009

Consolidated Statements of Cash Flows for the Years Ended December 31, 2011, 2010 and 2009

Notes to Consolidated Financial Statements

Reports of Independent Registered Public Accounting Firms

(2) Financial Statement Schedules

The following financial statement schedule is set forth on page F-20 of this Annual Report.

Schedule II — Valuation and Qualifying Accounts for the years ended December 31, 2011, 2010 and 2009

All other schedules are omitted because they are not required, not applicable, or the information is provided in the financial statements or notes thereto.

(b) Exhibits

See Exhibit Index on page 62 of this Annual Report, which is incorporated herein by reference.

CytRx Corporation  
Form 10-K Exhibit Index

Exhibit Number	Description	Footnote
2.1	Agreement and Plan of Merger, dated as of June 6, 2008, among CytRx Corporation, CytRx Merger Subsidiary, Inc., Innovive Pharmaceuticals, Inc., and Steven Kelly	(n)
3.1	Amended and Restated Certificate of Incorporation of CytRx Corporation, as amended	
3.2	Restated By-Laws of CytRx Corporation	(a)
4.1	Shareholder Protection Rights Agreement dated April 16, 1997 between CytRx Corporation and American Stock Transfer & Trust Company, as Rights Agent	(b)
4.2	Amendment No. 1 to Shareholder Protection Rights Agreement, dated February 11, 2002	(e)
4.3	Amendment No. 2 to Shareholder Protection Rights Agreement, dated March 30, 2007	(l)
4.4	Securities Purchase Agreement, dated July 24, 2009, between CytRx Corporation and the purchasers listed on the signature pages thereto	(p)
4.5	Form of Common Stock Purchase Warrant to be issued by CytRx Corporation to purchasers under the Securities Purchase Agreement, dated July 24, 2009	(p)
4.6	Form of Common Stock Purchase Warrant issued by CytRx Corporation, dated August 1, 2011	(r)
4.7	Form of Common Stock Purchase Warrant issued by CytRx Corporation, dated September 7, 2011	(s)
10.1*	CytRx Corporation 2000 Long-Term Incentive Plan	(c)
10.2*	Amendment No. 1 to CytRx Corporation 2000 Long-Term Incentive Plan	(f)
10.3*	Amendment No. 2 to CytRx Corporation 2000 Long-Term Incentive Plan	(f)
10.4*	Amendment No. 3 to CytRx Corporation 2000 Long-Term Incentive Plan	(g)
10.5*	Amendment No. 4 to CytRx Corporation 2000 Long-Term Incentive Plan	(g)
10.6*	CytRx Corporation Amended and Restated 2008 Stock Incentive Plan	
10.7†		(d)

License Agreement, dated December 7, 2001, by and between CytRx Corporation and Vical Incorporated

10.8 Office Lease between The Kriegsman Capital Group, LLC and Douglas Emmett Joint Venture, dated April 13, 2000 (g)

10.9 Assignment, Assumption and Consent, effective July 1, 2003, by and among CytRx Corporation, The Kriegsman Capital Group, LLC and Douglas Emmett Joint Venture, concerning Office Lease dated April 13, 2000 (g)

10.10\* Third Amended and Restated Employment Agreement dated May 17, 2005 between CytRx Corporation and Steven A. Kriegsman (i)

10.11*Second Amendment to Third Amended and Restated Employment Agreement, dated May 11, 2009, between CytRx Corporation and Steven A. Kriegsman	(v)
10.12*Third Amendment to Third Amended and Restated Employment Agreement, dated January 1, 2012, between CytRx Corporation and Steven A. Kriegsman	
10.13 First Amendment to Office Lease dated October 14, 2005, by and between CytRx Corporation and Douglas Emmett 1993, LLC	(j)
10.14†NS-187 License Agreement dated December 28, 2005 between Innovive Pharmaceuticals, Inc. and Nippon Shinyaku Co., Ltd.	(h)
10.15†License Agreement dated April 17, 2006 between Innovive Pharmaceuticals, Inc. and KTB Tumorforschungs GmbH	(k)
10.16†License Agreement dated December 6, 2006 between Innovive Pharmaceuticals, Inc. and TMRC Co., Ltd.	(m)
10.17†License Agreement dated as of August 28, 2007 between Innovive Pharmaceuticals, Inc. and TMRC Co. Ltd.	(u)
10.18 Second Amendment to Office Lease dated June 30, 2008, by and between CytRx Corporation and Douglas Emmett 1993, LLC	(o)
10.19 Third Amendment to Office Lease dated December 1, 2009, by and between CytRx Corporation and Douglas Emmett 1993, LLC	(q)
10.20*Employment Agreement dated January 1, 2012 between CytRx Corporation and Daniel Levitt, M.D., Ph.D.	
10.21*Employment Agreement dated January 1, 2012, between CytRx Corporation and Scott Geyer	
10.22*Employment Agreement dated January 1, 2012, between CytRx Corporation and Benjamin S. Levin	
10.23*Employment Agreement dated January 1, 2012, between CytRx Corporation and Scott Wieland	
10.24*Employment Agreement dated January 1, 2012, between CytRx Corporation and John Y. Caloz	
10.25†Asset Purchase Agreement dated May 13, 2011 by and between CytRx Corporation and Orphazyme ApS	(t)

10.26 Investment Banking Agreement dated February 14, 2012, between CytRx Corporation and Legend Securities, Inc.

23.1 Consent of BDO USA, LLP

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 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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

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\* Indicates a management contract or compensatory plan or arrangement.

† Confidential treatment has been requested or granted for certain portions which have been blanked out in the copy of the exhibit filed with the Securities and Exchange Commission. The omitted information has been filed separately with the Securities and Exchange Commission.

(a) Incorporated by reference to the Registrant's Form 10-K filed on April 1, 2008

(b) Incorporated by reference to the Registrant's 8-K filed on April 17, 1997

(c) Incorporated by reference to the Registrant's Form 10-K filed on March 27, 2001

(d) Incorporated by reference to the Registrant's Form 8-K filed on December 21, 2001

(e) Incorporated by reference to the Registrant's Form 10-K filed on April 1, 2002

(f) Incorporated by reference to the Registrant's Proxy Statement filed June 11, 2002

(g) Incorporated by reference to the Registrant's 10-K filed on May 14, 2004

(h) Incorporated by reference to the CytRx Oncology Corp (f/k/a Innovive Pharmaceuticals, Inc.) Form 10 filed on April 20, 2006



- (i) Incorporated by reference to the Registrant's 10-Q filed on August 15, 2005
- (j) Incorporated by reference to the Registrant's 8-K filed on October 20, 2005
- (k) Incorporated by reference to the CytRx Oncology Corp (f/k/a Inovio Pharmaceuticals, Inc.) 10-Q filed on November 14, 2006
- (l) Incorporated by reference to the Registrant's 10-K filed on April 2, 2007
- (m) Incorporated by reference to the CytRx Oncology Corp (f/k/a Inovio Pharmaceuticals, Inc.) 10-K filed on March 21, 2007
- (n) Incorporated by reference to the Registrant's 8-K filed on June 9, 2008
- (o) Incorporated by reference to the Registrant's 10-K filed on March 13, 2009
- (p) Incorporated by reference to the Registrant's 8-K filed on July 27, 2009
- (q) Incorporated by reference to the Registrant's 8-K filed on December 4, 2009
- (r) Incorporated by reference to the Registrant's 8-K filed on July 27, 2011
- (s) Incorporated by reference to the Registrant's 8-K filed on September 13, 2011
- (t) Incorporated by reference to the Registrant's 10-Q filed on August 9, 2011
- (u) Incorporated by reference to the Quarterly Report on Form 10-Q of CytRx Oncology Corp (f/k/a Inovio Pharmaceuticals, Inc.) filed on November 14, 2007.
- (v) Incorporated by reference to the Registrant's 10-K filed on July 26, 2011

## SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

## CYTRX CORPORATION

Date: March 12, 2012

By: /s/ STEVEN A. KRIEGSMAN  
Steven A. Kriegsman  
President and Chief Executive  
Officer

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ STEVEN A. KRIEGSMAN Steven A. Kriegsman	Director, President and Chief Executive Officer (Principal Executive Officer)	March 12, 2012
/s/ JOHN Y. CALOZ John Y. Caloz	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 12, 2012
/s/ MAX LINK Max Link, Ph.D.	Chairman of the Board	March 12, 2012
/s/ MARVIN R. SELTHER Marvin R. Selter	Vice-Chairman of the Board	March 12, 2012
/s/ LOUIS IGNARRO Louis Ignarro, Ph.D.	Director	March 12, 2012
/s/ JOSEPH RUBINFELD Joseph Rubinfeld, Ph.D.	Director	March 12, 2012
/s/ RICHARD L. WENNEKAMP Richard L. Wennekamp	Director	March 12, 2012

INDEX TO FINANCIAL STATEMENTS  
AND FINANCIAL STATEMENT SCHEDULE

	Page
CytRx Corporation	F-2
Consolidated Balance Sheets	F-3
Consolidated Statements of Operations	F-4
Consolidated Statements of Stockholders' Equity	F-5
Consolidated Statements of Cash Flows	F-6
Notes to Consolidated Financial Statements	F-18
Reports of Independent Registered Public Accounting Firm	F-20
Financial Statement Schedule II — Valuation and Qualifying Accounts	

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CYTRX CORPORATION  
CONSOLIDATED BALANCE SHEETS

	December 31,	
ASSETS	2011	2010
Current assets:		
Cash and cash equivalents	\$ 17,988,590	\$ 6,324,430
Marketable securities	18,057,672	20,567,861
Proceeds from sale of RXi	—	6,938,603
Receivable	175,704	259,006
Income taxes recoverable	—	519,158
Interest receivable	41,275	117,624
Prepaid expenses and other current assets	1,017,799	1,247,145
Total current assets	37,281,040	35,973,827
Equipment and furnishings, net	266,335	319,191
Goodwill	183,780	183,780
Other assets	123,268	220,292
Total assets	\$ 37,854,423	\$ 36,697,090
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 2,074,463	\$ 1,027,924
Accrued expenses and other current liabilities	4,786,956	2,663,910
Warrant liabilities	6,738,934	2,437,281
Total current liabilities	13,600,353	6,129,115
Commitment 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; 149,060,885 and 109,840,445 shares issued and outstanding at December 31, 2011 and 2010, respectively	149,057	109,840
Additional paid-in capital	237,324,545	229,253,122
Treasury stock, at cost (633,816 shares held, at December 31, 2011 and 2010)	(2,279,238 )	(2,279,238 )
Accumulated deficit	(210,940,294)	(196,515,749)
Total stockholders' equity	24,254,070	30,567,975
Total liabilities and stockholders' equity	\$ 37,854,423	\$ 36,697,090

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

CYTRX CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2011	2010	2009
Revenue:			
Service revenue	\$—	\$—	\$9,400,397
Licensing revenue	250,000	100,000	100,000
	250,000	100,000	9,500,397
Expenses:			
Research and development	15,491,301	8,506,937	7,541,998
General and administrative	7,317,169	8,235,993	9,127,845
Depreciation and amortization	95,517	107,666	475,316
	22,903,987	16,850,596	17,145,159
Loss before other income	(22,653,987 )	(16,750,596 )	(7,644,762 )
Other income:			
Interest and dividend income	207,217	303,592	349,490
Other income, net	205,194	95,827	93,950
Gain on warrant derivative liability	7,915,027	933,420	656,905
Gain on sale of affiliate's shares - RXi Pharmaceutical	—	15,826,217	1,224,951
	(14,326,549 )	408,460	(5,319,466 )
Net (loss) profit before provision for income taxes	(14,326,549 )	408,460	(5,319,466 )
Income tax benefit (expense)	(97,996 )	—	519,158
Net (loss) profit	\$(14,424,545 )	\$408,460	\$(4,800,308 )
	\$(0.11 )	\$0.00	\$(0.05 )
Basic and diluted (loss) profit per share	\$(0.11 )	\$0.00	\$(0.05 )
Basic weighted average shares outstanding	125,551,261	109,484,492	99,978,124
Diluted weighted average shares outstanding	125,551,261	111,442,278	99,978,124

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

## CYTRX CORPORATION

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Total
	Shares Issued	Amount				
Balance at December 31, 2008	93,978,448	\$93,978	\$210,007,468	\$(192,123,901)	\$(2,279,238)	\$15,698,307
Common stock and warrants issued in connection with private placements	15,252,040	15,253	14,230,710	—	—	14,245,963
Issuance of stock options/warrants for compensation and services	—	—	2,867,638	—	—	2,867,638
Common stock issued for services	50,000	50	42,950	—	—	43,000
Options and warrants exercised	258,333	258	292,825	—	—	293,083
Net loss	—	—	—	(4,800,308 )	—	(4,800,308 )
Balance at December 31, 2009	109,538,821	\$109,539	\$227,441,591	\$(196,924,209)	\$(2,279,238)	\$28,347,683
Issuance of stock options/warrants for compensation and services	—	—	1,620,088	—	—	1,620,088
Common stock issued for services	50,000	50	44,450	—	—	44,500
Options and warrants exercised	251,624	251	146,993	—	—	147,244
Net profit	—	—	—	408,460	—	408,460
Balance at December 31, 2010	109,840,445	\$109,840	\$229,253,122	\$(196,515,749)	\$(2,279,238)	\$30,567,975
Issuance of stock options/warrants for compensation and services	—	—	1,387,701	—	—	1,387,701
Common stock and warrants issued in connection with a public offering	39,200,000	39,200	6,683,739	—	—	6,683,739
Options and warrants exercised	17,440	17	(17 )	—	—	—
Net loss	—	—	—	(14,424,545 )	—	(14,424,545)
Balance at December 31, 2011	149,057,885	\$149,057	\$237,324,545	\$(210,940,294)	\$(2,279,238)	\$24,254,070

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

CYTRX CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2011	2010	2009
Cash flows from operating activities:			
Net profit (loss) attributable to CytRx Corporation	\$(14,424,545)	\$408,460	\$(4,800,308)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	95,517	107,666	475,316
Retirement of fixed assets	10,206	63,853	103,241
Fair value adjustment of warrant liability	(7,915,027)	(933,420)	(656,905)
Impairment loss on fixed assets	—	—	1,187,305
Non-realized foreign exchange loss	17,834	—	—
Gain on sale of affiliate's shares	—	(15,826,217)	(1,224,951)
Stock option and warrant expense	1,436,840	1,620,088	2,867,638
Common stock issued for services	—	44,450	43,000
Changes in assets and liabilities:			
Accounts receivable	83,302	(119,326)	(12,400)
Interest receivable	76,349	13,155	(130,779)
Income taxes recoverable	519,158	—	303,535
Prepaid expenses and other current assets	277,232	(56,127)	(594,668)
Accounts payable	1,046,539	(38,131)	397,633
Deferred revenue	—	—	(9,400,397)
Accrued expenses and other current liabilities	2,105,212	171,459	(64,454)
Total adjustments	(2,246,838)	(14,952,550)	(7,313,956)
Net cash used in operating activities	(16,671,383)	(14,544,090)	(12,114,264)
Cash flows from investing activities:			
Proceeds from matured marketable securities	25,644,481	26,250,000	(22,750,000)
Purchase of marketable securities	(23,134,292)	(24,067,861)	—
Proceeds from sale of fixed assets	—	—	119,929
Proceeds from sale of assets held for sale	—	73,634	—
Proceeds from sale of affiliate's shares	6,938,603	8,887,614	1,224,951
Purchases of equipment and furnishings	(52,868)	(315,751)	(195,449)
Net cash provided by (used in) investing activities	9,395,924	10,827,636	(21,600,569)
Cash flows from financing activities:			
Common stock issued in accordance with financing	18,939,619	—	18,273,568
Net proceeds from exercise of stock options and warrants	—	147,294	293,083
Net cash provided by financing activities	18,939,619	147,294	18,566,651
Net increase (decrease) in cash and cash equivalents	11,664,160	(3,569,160)	(15,148,182)
Cash and cash equivalents at beginning of year	6,324,430	9,893,590	25,041,772
Cash and cash equivalents at end of year	\$17,988,590	\$6,324,430	\$9,893,590
Supplemental disclosures of non-cash financing activities:			
Warrants issued in connection with financing	\$12,216,680	\$—	\$4,027,606
Warrants issued for prepaid services	\$—	\$—	\$133,391



The accompanying notes are an integral part of these consolidated financial statements. See supplemental information on the following page.

F-5

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CYTRX CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business

CytRx Corporation (“CytRx” or the “Company”) is a biopharmaceutical research and development company specializing in oncology. CytRx’s oncology pipeline includes three programs in clinical development for cancer indications: INNO-206, tamibarotene and bafetinib. With its tumor-targeted doxorubicin conjugate INNO-206, the Company has initiated an international Phase 2b clinical trial as a treatment for soft tissue sarcomas, is completing an ongoing Phase 1b/2 clinical trial for primarily the same indication, and plans to initiate a Phase 2 trial for an undisclosed solid tumor indication in the first half of 2012. The Company’s pipeline also includes tamibarotene, which it is testing in a double-blind, placebo-controlled, international Phase 2b clinical trial in patients with non-small-cell lung cancer, and which is in a clinical trial as a treatment for acute promyelocytic leukemia (APL). CytRx is evaluating 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. In 2011, the Company completed its strategy of monetizing its non-core assets through the sale of its molecular chaperone technology to Denmark-based Orphazyme ApS in a transaction valued at up to \$120 million, the sale of its 19% interest in SynthRx to ADVENTRX Pharmaceuticals, and the disposition of its remaining shares of RXi Pharmaceuticals in a series of transactions that provided the Company with approximately \$17 million in non-dilutive financing.

At December 31, 2011, the Company had cash and cash equivalents of approximately \$18.0 million and marketable securities of \$18.1 million. Management believes that the Company’s current cash on hand, together with its marketable securities, 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 2012 of approximately \$23.7 million (unaudited), which includes approximately \$7.0 million (unaudited) for its clinical programs for INNO-206, approximately \$5.3 million (unaudited) for its clinical program for tamibarotene, approximately \$0.4 million (unaudited) for its clinical programs for bafetinib, approximately \$4.5 million (unaudited) for general operation of its clinical programs, and approximately \$6.5 million (unaudited) for other general and administrative expenses. These projected expenditures are also based upon numerous other assumptions and subject to many uncertainties, and actual expenditures may be significantly different from these projections. The Company will be required to obtain additional funding in order to execute its long-term business plans, although it does not currently have commitments from any third parties to provide it with capital. The Company cannot assure you that additional funding will be available on favorable terms, or at all. If the Company fails to obtain additional funding when needed, it may not be able to execute its business plans and its business may suffer, which would have a material adverse effect on its financial position, results of operations and cash flows.

2. Summary of Significant Accounting Policies

**Basis of Presentation and Principles of Consolidation** — The accompanying Consolidated Financial Statements are prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and accounting principles generally accepted in the United States (“GAAP”). Our Consolidated Financial Statements include the accounts of CytRx Corporation and its wholly-owned subsidiaries.

**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 Classification Standards (“ASC”) ASC 605-25, Revenue

Recognition – Multiple-Revenue Arrangements (“ASC 605-25”). Milestone payments will be recognized upon achievement of the milestone as long as the milestone is deemed substantive and the Company has 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.

In August 2006, the Company received approximately \$24.3 million in proceeds from the privately-funded ALS Charitable Remainder Trust (“ALSCRT”) in exchange for the commitment to continue research and development of arimoclomol and other potential treatments for ALS and a one percent royalty in the worldwide sales of arimoclomol. Under the arrangement, the Company retains the rights to any products or intellectual property funded by the arrangement and the proceeds of the transaction are non-refundable. The ALSCRT has no obligation to provide any further funding to the Company. The Company has concluded that due to the research and development components of the transaction that it is properly accounted for under ASC 730-20, Research and Development Arrangements (“ASC 730-20”). Accordingly, the Company recorded the value received under the arrangement as deferred service revenue and recognized service revenue using the proportional performance method of revenue recognition, meaning that service revenue was recognized on a dollar-for-dollar basis for each dollar of expense incurred for the research and development of arimoclomol and other potential ALS treatments. CytRx believes that this method best approximates the efforts expended related to the services provided. The Company adjusted its estimates of expense incurred for this research and development on a quarterly basis.

Pursuant to an amendment signed between the Company and the beneficiary of the ALSCRT on August 6, 2009, the Company was released from all restrictions on the use of any proceeds previously received by us in connection with the arrangement. As a result, the Company recognized \$6.7 million as service revenue in 2009, which represented the remaining deferred revenue and previously un-recognized portion of the value received. For the year ended December 31, 2009, the Company recognized approximately \$9.4 million of service revenue related to this transaction. No service revenue related to the ALSCRT transaction was recognized in 2010 or 2011.

The amount of “deferred revenue, current portion” is the amount of deferred revenue that is expected to be recognized in the next twelve months and is subject to fluctuation based upon management’s estimates. Management’s estimates include an evaluation of what pre-clinical and clinical trials are necessary, the timing of when trials will be performed and the estimated clinical trial expenses. These estimates are subject to changes and could have a significant effect on the amount and timing of when the deferred revenues are recognized.

Other Income — The Company realized a net gain of \$0.1 million in each of 2011, 2010 and 2009 on the sub-lease of its New York City rental property inherited on the acquisition of Innovive Pharmaceuticals in 2008.

Cash Equivalents — The Company considers all highly liquid debt instruments with an original maturity of 90 days or less to be cash equivalents. Cash equivalents consist primarily of amounts invested in money market accounts.

Marketable securities — Investment securities held by the Company are classified as available for sale.

Proceeds from sale of RXi — In December 2010, the Company sold its remaining RXi shares of 3.1 million for net proceeds of approximately \$6.9 million. These funds were deposited in the Company’s cash account on January 6, 2011.

Fair Value of Financial Instruments — The carrying amounts reported in the balance sheet for cash and cash equivalents and marketable securities approximate their fair values.

Equipment and Furnishings — Equipment and furnishings are stated at cost and depreciated using the straight-line method based on the estimated useful lives (generally three to five years for equipment and furniture) of the related assets. Whenever there is a triggering event that might suggest an impairment, management evaluates the realizability of recorded long-lived assets to determine whether their carrying values have been impaired. The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the non-discounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. Any impairment loss is measured by comparing the fair value of the asset to its

carrying amount.

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.

F-7

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The following table summarizes fair value measurements by level at December 31, 2011 for assets and liabilities measured at fair value on a recurring basis:

(In thousands)	Level I	Level II	Level III	Total
Cash equivalents	\$17,073	\$—	\$—	\$17,073
Marketable securities	18,058	—	—	18,058
Warrant Liability	—	—	6,739	6,739

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

(In thousands)	Level I	Level II	Level III	Total
Cash equivalents	\$5,567	\$—	\$—	\$5,567
Marketable securities	20,568	—	—	20,568
Proceeds from sale of RXi	6,939	—	—	6,939
Warrant Liability	—	—	2,437	2,437

Liabilities measured at market value on a recurring basis include warrant liabilities resulting from recent debt and equity financing. 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 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, Equity-Based Payments to Non-Employees (“ASC 505-50”). See Warrant Liabilities below.

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.

**Impairment of Long-Lived Assets** — The Company reviews 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.

**Patents and Patent Application Costs** — Although the Company believes that its patents and underlying technology have continuing value, the amount of future benefits to be derived from the patents is uncertain. Patent costs are therefore expensed as incurred.

**Net Profit (Loss) Per Share** — Basic net profit (loss) per common share is computed using the weighted-average number of common shares outstanding. Diluted net profit (loss) per common share is computed using the weighted-average number of common share and common share equivalents outstanding. Common share equivalents which could potentially dilute basic earnings per share in the future, and which were excluded from the computation of diluted loss per share, totaled approximately 57.7 million, 15.4 million, and 24.4 million shares at December 31, 2011, 2010 and 2009, respectively.

**Warrant Liabilities** —Liabilities measured at fair value on a recurring basis include warrant liabilities resulting from our 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 our application of ASC 718, Compensation – Stock Compensation (“ASC

718”). The gain or loss resulting from the marked to market calculation is shown on the Statements of Operations as gain on warrant derivative liability.

Shares Reserved for Future Issuance — As of December 31, 2011, the Company has reserved approximately 3.9 million of its authorized but unissued shares of common stock for future issuance pursuant to its employee stock option plans issued to employees and consultants.

Stock-based Compensation — The Company’s stock-based employee compensation plans are described in Note 13. 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 505-50, and ASC 505 Equity (“ASC 505”), as amended.

Non-employee option grants that do not vest immediately upon grant are recorded as an expense over the vesting period. At the end of each financial reporting period prior to performance, the value of these options, as calculated using the Black-Scholes option-pricing model, is determined, and compensation expense recognized or recovered during the period is adjusted accordingly. Since the fair market value of options granted to non-employees is subject to change in the future, the amount of the future compensation expense is subject to adjustment until the common stock options or warrants are fully vested.

**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 the Company's contracts with various clinical research organizations in connection with conducting clinical trials for its product candidates. The Company recognizes 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. The Company believes that this method best approximates the efforts expended on a clinical trial with the expenses it records. The Company adjusts its rate of clinical expense recognition if actual results differ from its estimates. If its estimates are incorrect, clinical trial expenses recorded in any particular period could vary.

**Income Taxes** — The Company accounts for income taxes in accordance with the provisions of FASB ASC 740-10, Income Taxes, ("ASC 740") which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Under this method, a two-step process, the first step is to determine whether or not a tax benefit should be recognized. A tax benefit will be recognized if the weight of available evidence indicates that the tax position is more likely than not to be sustained upon examination by the relevant tax authorities. The recognition and measurement of benefits related to our tax positions requires significant judgment, as uncertainties often exist with respect to new laws, new interpretations of existing laws, and rulings by taxing authorities. Differences between actual results and our assumptions or changes in our assumptions in future periods are recorded in the period they become known.

**Concentrations of Risks** — Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash, cash equivalents and marketable securities. The Company maintains cash and cash equivalents in large well-capitalized financial institutions and the Company's investment policy disallows investment in any debt securities rated less than "investment-grade" by national ratings services. The Company has not experienced any losses on its deposits of cash or cash equivalent or its marketable securities. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Company has never experienced any losses related to these balances. All of the Company's non-interest bearing cash balances were fully insured at December 31, 2011 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. Beginning 2013, insurance coverage will revert to \$250,000 per depositor at each financial institution, and our non-interest bearing cash balances may again exceed federally insured limits. Interest-bearing amounts on deposit in excess of federally insured limits at December 31, 2011 approximated \$17.1 million.

**Use of Estimates** — The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates include the accrual for research and development expenses, the basis for the classification of current deferred revenue, estimated income



taxes and the estimate of expense arising from the common stock options granted to employees and non-employees. Actual results could materially differ from those estimates.

Other comprehensive income/(loss) — The Company follows the provisions of ASC 220, Comprehensive Income (“ASC 220”), which requires separate representation of certain transactions, which are recorded directly as components of shareholders’ equity. The Company has no components of other comprehensive income (loss) and accordingly comprehensive loss is the same as net loss reported.

### 3. Recent Accounting Pronouncements

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. 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. Adoption of this standard is not expected to have a material impact on the Company’s consolidated financial statements.

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. The adoption of this accounting standard will not have an impact on the Company's consolidated financial statements.

#### 4. Receivable

At December 31, 2011, the Company had a receivable of \$175,704 primarily related to annual licensing fees due to the Company. At December 31, 2010, the Company had a receivable of \$259,006, \$98,000 of which related to a nontaxable grant under the Qualifying Therapeutic Discovery Project Program. Due to the certainty of the collectability of the accounts receivable, no allowance was recorded.

#### 5. Prepaid and Other Assets

At December 31, 2011 and 2010, the Company had \$123,268 and \$220,292, respectively, of non-current other assets, which consist primarily of security deposits on contracts for research and development, prepaid insurance and leases for its facilities.

#### 6. Marketable securities

The Company held \$18.1 million of marketable securities at December 31, 2011. The Company has classified these investments as available for sale. These investments are comprised of federally insured certificates of deposit and these three accounts detailed as follows: \$5.1 million with a maturity date of January 12, 2012, \$6.0 million with a maturity date of March 29, 2012, and \$7.0 million with a maturity date of October 4, 2012. As at December 31, 2010, the Company held \$20.6 million of marketable securities.

#### 7. Equipment and Furnishings

Equipment and furnishings at December 31, 2011 and 2010 consist of the following (in thousands):

	2011	2010
Equipment and furnishings	\$ 430	\$ 398
Less — accumulated depreciation	(164 )	(79 )
Equipment and furnishings, net	\$ 266	\$ 319

Depreciation and amortization expense for the years ended December 31, 2011, 2010 and 2009 were \$95,517, \$107,666 and \$475,316, respectively.

#### 8. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities at December 31, 2011 and 2010 are summarized below (in thousands).

	2011	2010
Professional fees	\$286	\$423

Research and development costs	4,177	2,031
Wages, bonuses and employee benefits	227	158
Income taxes	—	—
Other	97	52
Total	\$4,787	\$2,664

#### 9. 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 the guidance which is now 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. The gain or loss resulting from the marked to market calculation is shown on the Consolidated Statements of Operations as Gain on warrant derivative liability. The Company recognized gains of \$7,915,026, \$933,420 and \$656,905 in 2011, 2010 and 2009, respectively.

## 10. Commitments and Contingencies

The Company acquires assets still in development and enters into research and development arrangements with third parties that often require milestone and royalty payments to the third party contingent upon the occurrence of certain future events linked to the success of the asset in development. Milestone payments may be required, contingent upon the successful achievement of an important point in the development life-cycle of the pharmaceutical product (e.g., approval of the product for marketing by a regulatory agency). If required by the arrangement, CytRx may have to make royalty payments based upon a percentage of the sales of the pharmaceutical product in the event that regulatory approval for marketing is obtained. Because of the contingent nature of these payments, they are not included in the table of contractual obligations.

These arrangements may be material individually, and in the unlikely event that milestones for multiple products covered by these arrangements were reached in the same period, the aggregate charge to expense could be material to the results of operations in any one period. In addition, these arrangements often give CytRx the discretion to unilaterally terminate development of the product, which would allow CytRx to avoid making the contingent payments; however, CytRx is unlikely to cease development if the compound successfully achieves clinical testing objectives.

CytRx's current contractual obligations that will require future cash payments are as follows (in thousands):

	Operating Leases (1)(2)	Employment Agreements (3)	Subtotal	Research and Development (4)	Total
2012	\$471	\$ 2,753	\$3,224	\$ 8,561	\$11,785
2013	332	—	332	5,521	5,853
2014	386	—	386	1,342	1,728
2015	55	—	55	—	55
2016 and thereafter	—	—	—	—	—
Total	\$1,244	\$ 2,753	\$3,997	\$ 15,424	\$19,421

(1) Operating leases are primarily facility lease related obligations, as well as equipment lease obligations with third party vendors.

(2) The Company is entitled to receive future rental income under subleases in place which would be offset against future operating lease obligations as follows: \$235,000 in 2012.

(3) Employment agreements include management contracts which have been revised from time to time. The employment agreement for the Company's President and Chief Executive Officer provides for a minimum salary level, which is adjusted annually at the discretion of the Company's Compensation Committee, as well as for minimum bonuses that are payable. New employment agreements for the Company's other executive officers are entered into annually.

(4) Research and development obligations relate primarily to clinical trials. Most of these purchase obligations are cancelable.

The Company applies the disclosure provisions of ASC 460, Guarantees (“ASC 460”), to its agreements that contain guarantee or indemnification clauses. The Company provides (i) indemnifications of varying scope and size to certain investors and other parties for certain losses suffered or incurred by the indemnified party in connection with various types of third-party claims; and (ii) indemnifications of varying scope and size to officers and directors against third party claims arising from the services they provide to us. These indemnifications and guarantees give rise only to the disclosure provisions of ASC 460. To date, the Company has not incurred material costs as a result of these obligations and does not expect to incur material costs in the future; further, the Company maintains insurance to cover certain losses arising from these indemnifications. Accordingly, the Company has not accrued any liabilities in its consolidated financial statements related to these indemnifications or guarantees.

#### 11. Equity Transactions

On July 27, 2009, the Company completed a \$20.0 million registered direct public offering in which it issued approximately 15.3 million shares of its common stock at a price of \$1.31 per share, and warrants to purchase an additional approximately 4.7 million shares of common stock at an exercise price of \$1.70 per share. Net of investment banking commissions, advisory fees, legal, accounting and other fees related to the transaction, the Company received proceeds of approximately \$18.3 million (without giving effect to any proceeds that may in the future be received by the Company upon exercise of warrants sold in the offering). Immediately after the sale, the Company had approximately 109.5 million shares of common stock outstanding, without giving effect to the possible exercise of the warrants sold in the offering or any of our other outstanding warrants or stock options.

On August 1, 2011, the Company undertook a \$20.4 million underwritten public offering in which it sold and issued 39.2 million shares of common stock at a price of \$0.51 per share and warrants at a price of \$0.01 per warrant to purchase up to approximately 45.1 million shares of common stock at an exercise price of \$0.64 per share. Net of underwriting discounts, legal, accounting and other offering expenses, the Company received proceeds of approximately \$18.9 million (without giving effect to any proceeds that may in the future be received by the Company upon the underwriters' exercise of their option to purchase up to an additional 5,880,000 shares of common stock to cover over-allotments). Immediately after the sale, the Company had approximately 149.1 million shares of common stock outstanding, without giving effect to the possible exercise of the warrants sold in the offering or any of our other outstanding warrants or stock options.

## 12. Investments in RXi and ADVENTRX 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.

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, which it sold on October 11, 2011 for \$112,200. The Company will be entitled to receive an additional 37,000 shares of common stock of ADVENTRX currently held in an escrow 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.

## 13. Stock Options and Warrants

### CytRx Options

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 December 31, 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 December 31, 2011, there were 6.1 million shares subject to outstanding stock options and 3.9 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.

At the 2009 Annual Meeting of Stockholders, which was held on July 1, 2009, the Company's stockholders approved an amendment to the Company's 2000 Long-Term Incentive Plan to allow for a one-time stock option re-pricing program for employees and officers. Pursuant to the re-pricing program, 3,265,500 eligible stock options held by ten eligible employees and officers were amended to reduce the exercise prices of the options to \$1.15 per share, which was the closing sale price of the Company's common stock as reported on the Nasdaq Capital Market on the July 1, 2009 completion date of the re-pricing program, and to impose a new option vesting schedule. None of the amended

options vested immediately. To the extent a participating employee's or officer's eligible options were vested on the amendment date, the amended options vested in full on December 31, 2009, so long as the employee or officer remained in the Company's employ through that date. To the extent a participating employee's or officer's eligible options were unvested as of July 1, 2009, the original scheduled vesting was suspended until December 31, 2009 and resumed after that date, so long as the employee or officer remained in the Company's employ through such date. The incremental cost of the re-pricing program was approximately \$0.4 million.

ASC 718 requires the re-pricing of equity awards to be treated as the repurchase of the old award for a new award of equal or greater value, incurring additional compensation cost for any incremental value. This incremental difference in value is measured as the excess of the fair value of the modified award determined in accordance with the provisions of ASC 718 over the fair value of the original award immediately before its terms are modified, measured based on the share price and other pertinent factors at that date. ASC 718 provides that this incremental fair value, plus the remaining unrecognized compensation cost from the original measurement of the fair value of the old option, must be recognized over the remaining vesting period.

The fair value of the stock options at the date of grant was estimated using the Black-Scholes option-pricing model, based on the following assumptions:

	2011		2010		2009	
Risk-free interest rate	1.23	%	2.50	%	1.95	%
Expected volatility	89	%	91	%	97	%
Expected lives (years)	6		6		6	
Expected dividend yield	0.00	%	0.00	%	0.00	%

The Company's computation of expected volatility is based on the historical daily volatility of its publicly traded stock. For option grants issued during years ended December 31, 2011, 2010 and 2009, the Company used a calculated volatility for each grant. The Company's computation of expected lives was estimated using the simplified method provided for under ASC 718, which averages the contractual term of the Company's options of ten years with the average vesting term of three years for an average of six years. The dividend yield assumption of zero is based upon the fact the Company has never paid cash dividends and presently has no intention of paying cash dividends. The risk-free interest rate used for each grant is equal to the U.S. Treasury rates in effect at the time of the grant for instruments with a similar expected life. Based on historical experience, for the year ended December 31, 2011, the Company has estimated an annualized forfeiture rate of 13% for options granted to its employees, 2% for options granted to senior management and 0% for options granted to directors. For the years ended December 31, 2010 and 2009, the Company has estimated an annualized forfeiture rate of 13% and 14%, respectively, for options granted to its employees, 2% and 2%, respectively, for options granted to senior management and 0% and 0%, respectively, for options granted to directors. Compensation costs will be adjusted for future changes in estimated forfeitures. The Company will record additional expense if the actual forfeitures are lower than estimated and will record a recovery of prior expense if the actual forfeiture rates are higher than estimated. No amounts relating to employee stock-based compensation have been capitalized.

At December 31, 2011, there remained approximately \$1.7 million of unrecognized compensation expense related to unvested stock options granted to current and former employees and directors, to be recognized as expense over a weighted-average period of 1.28 years. Presented below is the Company's stock option activity for employees and directors:

	Stock Options			Weighted Average Exercise Price		
	2011	2010	2009	2011	2010	2009
Outstanding — beginning of year	8,877,460	8,012,090	6,409,940	\$1.07	\$1.99	\$1.99
Granted	3,495,000	1,715,500	2,351,000	0.34	0.98	1.00
Exercised	—	(223,633 )	(8,333 )	—	0.66	0.37
Forfeited	(25,000 )	(626,497 )	(713,018 )	0.99	1.01	2.57
Expired	—	—	(27,499 )	—	—	1.07
Outstanding — end of year	12,347,460	8,877,460	8,012,090	0.86	1.07	1.02
Exercisable at end of year	7,492,933	5,701,946	4,998,400	\$1.07	\$0.99	\$1.16
Weighted average fair value of stock options granted during the year:	\$0.25	\$0.75	\$0.77			

A summary of the activity for unvested employee stock options as of December 31, and changes during the year is presented below:

Stock Options	Weighted Average Grant Date Fair Value per Share
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	2011	2010	2009	2011	2010	2009
Nonvested at January 1,	3,175,514	3,013,690	2,300,100	\$0.75	\$0.70	\$1.52
Granted	3,495,000	1,715,500	2,351,000	0.34	0.75	0.77
Vested	(1,790,987)	(927,179 )	(924,392 )	0.70	0.75	2.10
Pre-vested forfeitures	(25,000 )	(626,497 )	(713,018 )	0.99	0.62	2.11
Nonvested at December 31,	4,854,527	3,175,514	3,013,690	\$0.41	\$0.75	\$0.70

For stock options paid in consideration of services rendered by non-employees, the Company recognizes compensation expense in accordance with the requirements of ASC 718 and 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 are fully vested.

The Company recorded \$31,000, \$400,000 and \$0 of non-cash charges related to the issuance of stock options to certain consultants in exchange for services during 2011, 2010 and 2009, respectively.

At December 31, 2011, there was no unrecognized compensation expense related to unvested non-employee stock options. Presented below is the Company's non-employee stock option activity:

	Stock Options			Weighted Average Exercise Price		
	2011	2010	2009	2011	2010	2009
Outstanding — beginning of year	995,000	995,000	995,000	\$0.90	\$0.91	\$0.91
Granted	10,000	395,000	—	0.42	1.22	—
Exercised	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—
Expired	—	(395,000 )	—	—	1.28	—
Outstanding — end of year	1,005,000	995,000	995,000	0.88	0.90	0.91
Exercisable at end of year	880,000	707,541	545,080	\$0.85	\$1.00	\$1.00
Weighted average fair value of stock options granted during the year:	\$0.42	\$0.87	\$0.00			

The fair value of the stock options at the date of grant was estimated using the Black-Scholes option-pricing model, based on the following assumptions:

	2011	2010	2009
Risk-free interest rate	2.77 %	2.37 %	—
Expected volatility	70 %	92 %	—
Expected lives (years)	10	5	—
Expected dividend yield	0 %	0 %	—

A summary of the activity for nonvested, non-employee stock options as of December 31, and changes during the years are presented below:

	Stock Options			Weighted Average Grant Date Fair Value per Share		
	2011	2010	2009	2011	2010	2009
Nonvested at January 1,	287,459	449,920	550,000	\$1.98	\$1.38	\$0.58
Granted	10,000	395,000	—	0.42	0.87	—
Vested	(172,459 )	(162,461 )	(100,080 )	1.23	0.33	0.33
Pre-vested forfeitures	—	(395,000 )	—	—	1.12	—
Nonvested at December 31,	125,000	287,459	449,920	\$1.11	\$1.98	\$1.38

The following table summarizes significant ranges of outstanding stock options under the three plans at December 31, 2011:

Range of Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Contractual Life	Weighted Average Exercise Price
\$0.28 — 1.00	5,647,607	8.51	\$0.44	2,339,233	8.62	\$0.64
\$1.01 — 1.50	7,465,983	5.79	1.14	5,840,831	6.22	1.17
\$2.35 — 3.33	175,000	4.46	3.05	175,000	2.55	3.05
	13,288,590	6.93	\$0.86	8,355,064	7.09	\$1.05

The aggregate intrinsic value of outstanding options as of December 31, 2011 was \$0.8 million, which represents options whose exercise price was less than the closing fair market value of the Company's common stock on December 30, 2011 of \$0.28.

## CytRx Warrants

A summary of the Company's warrant activity and related information for the years ended December 31 are shown below.

	Warrants			Weighted Average Exercise Price		
	2011	2010	2009	2011	2010	2009
Outstanding — beginning of year	9,062,074	15,418,178	10,634,848	\$ 1.47	\$ 1.50	\$ 1.40
Granted	45,080,000	1,200,000	6,328,330	0.64	1.80	1.61
Exercised	—	(40,000 )	(250,000 )	0.76	0.26	1.16
Forfeited	—	—	—	—	—	—
Expired	(2,360,569 )	(7,516,104 )	(1,295,000 )	1.24	2.04	1.28
Outstanding — end of year	51,781,505	9,062,074	15,418,178	0.76	1.47	1.50
Exercisable at end of year	51,781,505	8,762,074	15,418,178	\$ 0.76	\$ 1.50	\$ 1.50
Weighted average fair value of warrants granted during the year:	\$ 0.64	\$ 0.55	\$ 1.61			

The following table summarizes additional information concerning warrants outstanding and exercisable at December 31, 2011:

Range of Exercise Prices	Number of Shares	Warrants Outstanding			Exercisable Weighted Average Exercise Price
		Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Warrants Number of Shares Exercisable	
\$0.26 — 1.00	46,400,000	4.53	\$0.64	46,300,000	\$0.64
\$1.01 — 2.00	4,896,757	2.61	1.70	4,896,757	1.70
\$2.01 — 3.00	324,678	3.83	2.75	324,678	2.75
\$3.01 — 3.50	160,000	3.86	3.50	160,000	3.50
	51,781,435	4.35	\$0.76	51,681,435	\$0.76

## 14. Sale of Assets

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

## 15. ALSCRT Amendment

Pursuant to an amendment signed between the Company and the beneficiary of the ALSCRT on August 6, 2009, the Company was released from all restrictions on the use of any proceeds previously paid to the Company in connection with the arrangement. As a result, the Company recognized \$6.7 million as service revenue in the third quarter of

2009, which represented the remaining deferred revenue and previously un-recognized portion of the value received.

#### 16. Stockholder Protection Rights Plan

Effective April 16, 1997, the Company's board of directors declared a distribution of one right ("Rights") for each outstanding share of the Company's common stock to stockholders of record at the close of business on May 15, 1997 and for each share of common stock issued by the Company thereafter and prior to a Flip-in Date (as defined below). Each Right entitles the registered holder to purchase from the Company one-ten thousandth (1/10,000th) of a share of Series A Junior Participating Preferred Stock, at an exercise price of \$30. The Rights are generally not exercisable until 10 business days after an announcement by the Company that a person or group of affiliated persons (an "Acquiring Person") has acquired beneficial ownership of 15% or more of the Company's then outstanding shares of common stock (a "Flip-in Date").

In the event the Rights become exercisable as a result of the acquisition of shares, each Right will enable the owner, other than the Acquiring Person, to purchase at the Right's then-current exercise price a number of shares of common stock with a market value equal to twice the exercise price. In addition, unless the Acquiring Person owns more than 50% of the outstanding shares of common stock, the Board of Directors may elect to exchange all outstanding Rights (other than those owned by such Acquiring Person) at an exchange ratio of one share of common stock per Right. All Rights that are owned by any person on or after the date such person becomes an Acquiring Person will be null and void.

The Rights have been distributed to protect the Company's stockholders from coercive or abusive takeover tactics and to give the Board of Directors more negotiating leverage in dealing with prospective acquirers. In April 2007, the Company extended the stockholder rights plan through April 2017.

## 17. Income Taxes

At December 31, 2011, the Company had federal and state net operating loss carryforwards of \$148.0 million and \$96.0 million, respectively, available to offset against future taxable income, which expire in 2012 through 2031. As a result of a change in-control that occurred in the CytRx shareholder base in July 2002, approximately \$13.7 million in federal net operating loss carryforwards became limited in their availability to \$363,000 annually. Management currently believes that the remaining \$144.3 million in federal net operating loss carryforwards, and the \$82.3 million in state net operating loss carryforwards, are unrestricted. However, management is reviewing its recent equity transactions such as the company's underwritten public offering on July 27, 2011 to determine if they may have resulted in any further restrictions on the Company's net operating loss carryforwards. As of December 31, 2011, CytRx also had research and development and alternative minimum tax credits for federal and state purposes of approximately \$5.7 million and \$6.6 million, respectively, available for offset against future income taxes, which expire in 2022 through 2031. Based on an assessment of all available evidence including, but not limited to, the Company's limited operating history in its core business and lack of profitability, uncertainties of the commercial viability of its technology, the impact of government regulation and healthcare reform initiatives, and other risks normally associated with biotechnology companies, the Company has concluded that it is more likely than not that these net operating loss carryforwards and credits will not be realized and, as a result, a 100% deferred tax valuation allowance has been recorded against these assets.

Deferred income taxes reflect the net effect of temporary differences between the financial reporting carrying amounts of assets and liabilities and income tax carrying amounts of assets and liabilities. The components of the Company's deferred tax assets and liabilities, all of which are long-term, are as follows (in thousands):

	December 31,	
	2011	2010
Deferred tax assets:		
Net operating loss carryforwards	\$56,025	\$38,715
Tax credit carryforwards	10,040	8,663
Equipment, furnishings and other	9,154	8,554
<b>Total deferred tax assets</b>	<b>75,219</b>	<b>55,932</b>
Deferred tax liabilities	(3,868 )	(830 )
<b>Net deferred tax assets</b>	<b>71,351</b>	<b>55,102</b>
Valuation allowance	(71,351 )	(55,102 )
	<b>\$—</b>	<b>\$—</b>

For all years presented, the Company did not recognize any deferred tax assets or liabilities. The net change in valuation allowance for the years ended December 31, 2011 and 2010 was \$16.2 million and \$3.3 million, respectively.

The provision for income taxes differs from the provision computed by applying the Federal statutory rate to net loss before income taxes as follows (in thousands):

	Years ended December 31,		
	2011	2010	2009

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Federal benefit at statutory rate	\$ (4,996 )	\$ 139	\$ (1,809 )
State income taxes, net of Federal taxes	(857 )	24	(310 )
Permanent differences	6	22	(136 )
Book gain in excess of tax gain	—	(3,630 )	—
Provision related to change in valuation allowance	16,235	3,278	3,651
Net change in research and development tax credits	—	—	(2,826 )
Other, net	(10,290 )	167	911
	\$ 98	\$ —	\$ (519 )

There have been no changes to the Company's liability for unrecognized tax benefits during the year ended December 31, 2011.

The Company files income tax returns in the U.S. Federal jurisdiction and various state jurisdictions. As of the date of adoption of ASC 740 and the year ended December 31, 2011, the tax returns for 2007 through 2011 remain open to examination by the Internal Revenue Service and various state tax authorities.

The Company's policy is to recognize any interest and penalties related to unrecognized tax benefits as a component of income tax expense. As of the date of adoption of ASC 740 and the years ended December 31, 2011, 2010 and 2009, the Company had accrued no interest or penalties related to uncertain tax positions.

#### 18. Quarterly Financial Data (unaudited)

Summarized quarterly financial data for 2010 and 2009 is as follows (in thousands, except per share data):

	Quarters Ended			
	March 31	June 30	September 30	December 31
	(In thousands, except per share data)			
<b>2011</b>				
Total revenues	\$—	\$150	\$—	\$100
Net loss	(6,275 )	(3,120 )	(558 )	(4,472 )
Net loss applicable to common stockholders	\$(6,275 )	\$(3,120 )	\$(558 )	\$(4,472 )
Basic and diluted loss per share applicable to common stock	\$(0.06 )	\$(0.03 )	\$(0.00 )	\$(0.03 )
<b>2010</b>				
Total revenues	\$—	\$—	\$—	\$100
Net income (loss)	(611 )	1,294	(4,414 )	4,140
Net income (loss) applicable to common stockholders	\$(611 )	\$1,294	\$(4,414 )	\$4,140
Basic and diluted loss per share applicable to common stock	\$(0.01 )	\$0.01	\$(0.04 )	\$0.04

Quarterly and year-to-date loss per share amounts are computed independently of each other. Therefore, the sum of the per share amounts for the quarters may not agree to the per share amounts for the year.

#### 19. Subsequent Events

In February 2012, the Company issued a warrant to purchase 800,000 shares of its common stock at an exercise price per share of \$0.30 in connection with an investment banking agreement. The warrant vested as to 200,000 of the warrant shares upon issuance and as to an additional 200,000 of the warrant shares on each of August 14, 2012, February 14, 2013 and August 14, 2013 provided that the agreement has not been terminated as of such dates, and will be exercisable for a period of five years. In March 2012, the Company issued a warrant to purchase a total of 400,000 shares of its common stock at an exercise price of \$0.33 per share, in connection with a consulting agreement. The warrant will vest as to 100,000 of the warrant shares on each of June 8, 2012, September 8, 2012, December 8, 2012 and March 8, 2013 provided that the agreement has not been terminated as of such dates, and will be exercisable for a period of five years. The issuance of these warrants was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders  
CytRx Corporation  
Los Angeles, California

We have audited the accompanying consolidated balance sheets of CytRx Corporation (“the Company”) as of December 31, 2011 and 2010 and the related consolidated statements of operations, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2011. We have also audited the schedule listed in the accompanying index under Item 15a (2). These financial statements and schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CytRx Corporation at December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CytRx Corporation's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 12, 2012 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Los Angeles, California  
March 12, 2012

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders  
CytRx Corporation  
Los Angeles, California

We have audited CytRx Corporation's ("the Company") internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). CytRx Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Controls and Procedures." Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, CytRx Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of the Company as of December 31, 2011 and 2010, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011 and our report dated March 12, 2012 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Los Angeles, California  
March 12, 2012

F-19

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CYTRX CORPORATION  
 SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS  
 For the Years Ended December 31, 2011, 2010 and 2009

Description	Balance at Beginning of Year	Additions		Deductions	Balance at End of Year
		Charged to Costs and Expenses	Charged to Other Accounts		
Reserve Deducted in the Balance Sheet from the Asset to Which it Applies: Allowance for Deferred Tax Assets					
Year ended December 31, 2011	\$55,102,000	\$—	\$16,235,000	\$—	\$71,351,000
Year ended December 31, 2010	\$51,824,000	\$—	\$3,278,000	\$—	\$55,102,000
Year ended December 31, 2009	\$48,998,000	\$—	\$2,826,000	\$—	\$51,824,000

F-20

