CYTRX CORP
Form 10-Q
May 19, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

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

For the quarterly period ended March 31, 2008

OR

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

For the transition period from__________ to __________

Commission file number 0-15327

CytRx Corporation

(Exact name of Registrant as specified in its charter)

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

(310) 826-5648

(Registrant s telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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 o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Number of shares of CytRx Corporation Common Stock, $.001 par value, issued and outstanding as of May 16, 2008: 90,770,453, exclusive of treasury shares.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CYTRX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 43,538,946	$ 50,498,261
Short-term investments, at amortized cost		9,951,548
Accounts receivable		101,217
Prepaid expense and other current assets	1,101,651	930,596
Total current assets	44,640,597	61,481,622
Equipment and furnishings, net	1,349,548	1,573,290
Molecular library, net	182,017	193,946
Investment in unconsolidated subsidiary	3,536,614	
Goodwill	183,780	183,780
Other assets	647,055	713,398
Total assets	$ 50,539,611	$ 64,146,036
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 721,093	$ 1,946,215
Accrued expenses and other current liabilities	2,699,777	3,700,866
Income taxes payable	342,000	
Deferred revenue, current portion	8,207,492	8,399,167
Total current liabilities	11,970,362	14,046,248
Deferred revenue, non-current portion	5,177,967	7,167,381
Total liabilities	17,148,329	21,213,629
Minority interest		2,708,368
Commitments and Contingencies		
Stockholders equity:		
Preferred Stock, $.01 par value, 5,000,000 shares authorized, including 15,000 shares of Series A Junior Participating Preferred Stock; no shares issued and outstanding		
	91,374	90,398

Common stock, $.001 par value, 150,000,000 shares authorized; 91,374,269 and 90,397,867 shares issued at March 31, 2008 and December 31, 2007, respectively		
Additional paid-in capital	206,089,009	203,905,691
Treasury stock, at cost (633,816 shares held at March 31, 2008 and December 31, 2007, respectively)	(2,279,238)	(2,279,238)
Accumulated deficit	(170,509,863)	(161,492,812)
Total stockholders equity	33,391,282	40,224,039
Total liabilities and stockholders equity	$ 50,539,611	$ 64,146,036

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

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CYTRX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Revenue:		
Service revenue	$ 2,181,088	$ 1,446,993
Grant revenue		116,070
	2,181,088	1,563,063
Expenses:		
Research and development	3,191,713	4,008,374
General and administrative	4,473,149	2,485,085
	7,664,862	6,493,459
Loss before other income	(5,483,774)	(4,930,396)
Other income:		
Interest income	524,271	382,614
Other income, net	218,229	
Equity in loss of unconsolidated subsidiary	(378,898)	
Minority interest in losses of subsidiary	88,374	2,000
Net loss before income taxes	(5,031,798)	(4,545,782)
Provision for income taxes	(342,000)	
Net loss	(5,373,798)	(4,545,782)
Deemed dividend for anti-dilution adjustment made to stock warrants	(756,954)	
Net loss applicable to common stockholders	$ (6,130,752)	$ (4,545,782)
Basic and diluted loss per share	$ (0.07)	$ (0.06)
Weighted average shares outstanding	90,280,449	73,273,746

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

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CYTRX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31, 2008	2007
Cash flows from operating activities:		
Net loss	$ (5,373,798)	$ (4,545,782)
Adjustments to reconcile net loss to net used in operating activities:		
Depreciation and amortization	133,052	71,353
Equity in loss of unconsolidated subsidiary	378,898	
Minority interest in losses of subsidiary	(88,374)	(2,000)
RXi common stock transferred for services	244,860	
Non-cash earned on short-term investments	(48,452)	
Non-cash gain on transfer of RXi common stock	(226,579)	
Common stock, stock options and warrants issued for services		975,545
Expense related to employee stock options	555,093	148,812
Net change in operating assets and liabilities	(2,898,342)	(1,741,723)
Total adjustments	(1,949,844)	(548,013)
Net cash used in operating activities	(7,323,642)	(5,093,795)
Cash flows from investing activities:		
Purchases of equipment and furnishings	(223,203)	(2,501)
Deconsolidation of subsidiary, RXi Pharmaceutical Corporation	(10,359,278)	
Proceeds from sale of short-term investments	10,000,000	
Net cash used in investing activities	(582,481)	(2,501)
Cash flows from financing activities:		
Proceeds from exercise of stock options and warrants	946,808	11,064,892
Net proceeds from issuances of common stock in subsidiary		2,000
Net cash provided by financing activities	946,808	11,066,892
Net increase (decrease) in cash and cash equivalents	(6,959,315)	5,970,596
Cash and cash equivalents at beginning of period	50,498,261	30,381,393
Cash and cash equivalents at end of period	$ 43,538,946	$ 36,351,989
Supplemental disclosure of cash flow information:		
Cash received during the period as interest income	$ 524,271	$ 382,614
Supplemental schedule of non-cash investing and financing activities:		

As the result of the stock dividend on March 6, 2008, the Company deconsolidated its previously majority-owned subsidiary. As part of the transaction, the Company deconsolidated $3.7 million of total assets and $4.6 million of total liabilities.

In connection with the Company s adjustment to the terms of certain outstanding warrants on March 6, 2008, the Company recorded a deemed dividend of approximately $757,000 in the three months ended March 31, 2008. The deemed dividend was recorded as a charge to accumulated deficit and a corresponding credit to additional paid-in capital.

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

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CYTRX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2008
(Unaudited)

1. Description of Company and Basis of Presentation

CytRx Corporation (CytRx, the Company, we, us or our) is a clinical-stage biopharmaceutical company enga developing human therapeutic products based primarily upon its small-molecule molecular chaperone amplification technology. Molecular chaperone proteins occur normally in human cells and are key components of the body s defenses against potentially toxic mis-folded cellular proteins. Since these toxic proteins called aggregates are thought to play a role in many diseases, the Company believes that amplification of molecular chaperone proteins could have therapeutic efficacy for a broad range of indications. Currently, the Company is using its chaperone amplification technology to discover and develop potential treatments for a number of indications, including neurodegenerative disorders and diabetic complications.

Through February 2008, the Company owned a majority of the outstanding shares of common stock of RXi Pharmaceuticals Corporation, or RXi, which was founded in April 2006 by the Company 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. RXi is focused solely on developing and commercializing therapeutic products based upon RNAi technologies for the treatment of human diseases, including neurodegenerative diseases, cancer, type 2 diabetes and obesity. While RXi was majority-owned, the Company s consolidated financial statements reflected 100% of the assets and liabilities and results of operations of RXi, with the interests of the minority shareholders of RXi recorded as minority interests. In March 2008, the Company distributed to its stockholders approximately 36% of RXi s outstanding shares, which reduced CytRx s ownership to less than 50% of RXi. As a result of the reduced ownership, CytRx began to account for its investment in RXi using the equity method, under which CytRx records only its pro-rata share of the financial results of RXi against its historical basis investment in RXi. The investment in RXi is shown as investment in unconsolidated subsidiary on the consolidated balance sheet and the related earnings are shown as equity in loss of unconsolidated subsidiary on the consolidated statements of operations. Because only a portion of RXi s financial results for March 2008 were recorded by CytRx under the equity method, the Company s results of operations for the first quarter of 2008 are not directly comparable to results of operations for the same period in 2007. The future results of operations of the Company also will not be directly comparable to corresponding periods in prior years during which our financial statements reflected the consolidation of RXi.

To date, the Company has relied primarily upon sales of its equity securities and upon proceeds received upon the exercise of options and warrants and, to a much lesser extent, upon payments from its strategic partners and licensees, to generate funds needed to finance its business and operations. See Note 6 Liquidity and Capital Resources.

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 developments funded by the arrangement and the proceeds of the transaction are non-refundable. Further, the ALS Charitable Remainder Trust has no obligation to provide any further funding to the Company. Management has concluded that due to the research and development components of the transaction that it is properly accounted for under SFAS No. 68, *Research and Development Arrangements* (SFAS No. 68). Accordingly, the Company has recorded the value received under the arrangement as deferred revenue and will recognize service revenue using the proportional performance method of revenue recognition, meaning that service revenue is 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.

The accompanying condensed consolidated financial statements at March 31, 2008 and for the three-month periods ended March 31, 2008 and 2007 are unaudited, but include all adjustments, consisting of normal recurring entries, which management believes to be necessary for a fair presentation of the periods presented. Interim results are not necessarily indicative of results for a full year. Balance sheet amounts as of December 31, 2007 have been derived from the Company s audited financial statements as of that date.

The consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. The financial statements should be read in conjunction with the Company s audited consolidated financial statements in its Form 10-K for the year ended December 31, 2007. The Company s operating results will fluctuate for the foreseeable future. Therefore, period-to-period comparisons should not be relied upon as predictive of the results in future periods.

2. Recent Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not expand the use of fair value in any new circumstances. In February 2008, the FASB issued Staff Position No. FAS 157-1, which amended SFAS No. 157 to exclude SFAS No. 13, *Accounting for Leases*, and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under Statement 13. However, this scope exception does not apply to assets acquired and liabilities assumed in a business combination. Also in February 2008, the FASB issued Staff Position No. FAS 157-2, which delayed the effective date of SFAS No. 157 for non-financial assets and liabilities, except those items recognized at fair value on an annual or more frequently recurring basis to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. The Company adopted SFAS No. 157 with no material impact on the Company s consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company adopted SFAS No. 159 with no material impact on the Company s consolidated financial statements.

In June 2007, the FASB ratified the consensus on Emerging Issues Task Force (EITF) Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards* (EITF 06-11). EITF 06-11 requires companies to recognize the income tax benefit realized from dividends or dividend equivalents that are charged to retained earnings and paid to employees for non-vested equity-classified employee share-based payment awards as an increase to additional paid-in capital. EITF 06-11 is effective for fiscal years beginning after September 15, 2007. The Company adopted EITF 06-11 with no material impact on the Company s consolidated financial statements.

In June 2007, the FASB ratified the consensus reached on EITF Issue No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities* (EITF 07-3), which requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and amortized over the period that the goods are delivered or the related services are performed, subject to an assessment of recoverability. EITF 07-3 will be effective for fiscal years beginning after December 15, 2007. The Company adopted EITF 07-3 with no material impact on the Company s consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS No. 160) and a revision to SFAS No. 141, *Business Combinations* (SFAS No. 141R). SFAS No. 160 modifies the accounting for noncontrolling interest in a subsidiary and the deconsolidation of a subsidiary. SFAS No. 141R establishes the measurements in a business combination of the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree. Both of these related statements are effective for fiscal years beginning after December 15, 2008. The Company has not determined the impact that the adoption of these two statements will have on the consolidated financial statements.

In December 2007, the SEC issued Staff Accounting Bulletin 110 (SAB 110), which expresses the views of the Staff regarding use of a simplified method, as discussed in SAB 107, in developing an estimate of expected term of plain vanilla share options in accordance with Statement of Financial Accounting Standards No. 123. SAB 110 will allow, under certain circumstances, the use of the simplified method beyond December 31, 2007 when a Company is unable to rely on the historical exercise data. The Company adopted SAB 110 with no material impact on its financial statements.

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3. Short-term Investments

RXi had zero coupon U.S Treasury Bills that were purchased at a discount and matured within twelve months. They were classified as held-to-maturity and under Statement of Financial Accounting Standards No. 115, *Investments in Debt Securities*, were measured at amortized cost since RXi had the intent and ability to hold these securities to maturity. The interest income had been amortized at the effective interest rate.

4. Basic and Diluted Loss Per Common Share

Basic and diluted loss per common share are computed based on the weighted average number of common shares outstanding. Common share equivalents (which consist of options and warrants) are excluded from the computation of diluted loss per share since the effect would be antidilutive. 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 16.2 million and 22.7 million shares at March 31, 2008 and 2007, respectively.

In connection with the Company s adjustment to the exercise terms of certain outstanding warrants to purchase common stock on March 11, 2008, the Company recorded a deemed dividend of approximately $757,000. The deemed dividend is reflected as an adjustment to net loss for the first quarter of 2008, to arrive at net loss applicable to common stockholders on the Condensed Consolidated Statement of Operations and for purposes of calculating basic and diluted loss per share.

5. Stock Based Compensation

CytRx Corporation

The Company has a stock option plan, the 2000 Stock Option Incentive Plan, under which, as of March 31, 2008, an aggregate of 10,000,000 shares of common stock were reserved for issuance, including approximately 5,889,756 shares subject to outstanding stock options and approximately 2,257,032 million shares available for future grant. Additionally, the Company has two other plans, the 1994 Stock Option Plan and the 1998 Long Term Incentive Plan, which include 9,167 and 100,041 shares subject to outstanding stock options. As the terms of the plans provide that no options may be issued after 10 years, no options are available under the 1994 Plan. Under the 1998 Long Term Incentive Plan, 29,517 shares are available for future grant. Options granted under these plans generally vest and become exercisable as to 33% of the option grants on each anniversary of the grant date until fully vested. The options expire, unless previously exercised, not later than ten years from the grant date.

The Company s stock-based employee compensation plans are described in Note 12 to its financial statements contained in its Annual Report on Form 10-K filed for the year ended December 31, 2007.

The Company adopted the provisions of SFAS No. 123(R), *Share-Based Payment* (SFAS 123(R)), which requires the measurement and recognition of compensation expense for all stock-based awards made to employees and non-employee directors.

For stock options paid in consideration of services rendered by non-employees, the Company recognizes compensation expense in accordance with the requirements of SFAS No. 123(R), Emerging Issues Task Force Issue No. 96-18 (EITF 96-18), *Accounting for Equity Instruments that are Issued to other than Employees for Acquiring, or in Conjunction with Selling Goods or Services* and EITF 00-18, *Accounting Recognition for Certain Transactions involving Equity Instruments Granted to Other Than Employees*, as amended.

Non-employee option grants that do not vest immediately upon grant are recorded as an expense over the performance 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, will be determined, and compensation expense recognized or recovered during the period will be 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.

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The following table sets forth the total stock-based compensation expense (recovery) resulting from stock options included in the Company s unaudited interim consolidated statements of operations:

	Three Months Ended March 31,	
	2008	**2007**
Research and development employee	$ 171,000	$ 37,000
General and administrative employee	291,000	112,000
Total employee stock-based compensation	$ 462,000	$ 149,000
Research and development non-employee	$ (422,000)	$ 695,000
General and administrative non-employee		
Total non-employee stock-based compensation	$ (422,000)	$ 695,000

During the first three months of 2008, the Company issued stock options to purchase 86,000 shares of its common stock. The fair value of the stock options granted in the three-month period listed in the table below was estimated using the Black-Scholes option-pricing model, based on the following assumptions:

	Three Months Ended March 31,	
	2008	**2007**
Risk-free interest rate	2.84%	4.41%-4.89%
Expected volatility	93.8%-96.2%	116.8%
Expected lives (years)	6	6
Expected dividend yield	0.00%	0.00%

The Company s computation of expected volatility is based on the historical daily volatility of its publicly traded stock. For option grants issued during the three-month periods ended March 31, 2008 and 2007, the Company used a calculated volatility for each grant. The Company s computation of expected life were estimated using the simplified method provided for under Staff Accounting Bulletin 107, *Share-Based Payment* (SAB 107), 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 three-month periods ended March 31, 2008 and 2007, the Company has estimated an annualized forfeiture rate of 10% and 5%, respectively, for options granted to its employees and 1% for each period for options granted to senior management and 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 March 31, 2008, there remained approximately $3.6 million of unrecognized compensation expense related to unvested stock options granted to employees, directors, scientific advisory board members and consultants, to be recognized as expense over a weighted-average period of 1.55 years. Presented below is the Company s stock option activity:

	Three Months Ended March 31, 2008			
	Number of Options	**Number of Options**	**Total Number**	**Weighted Average**

	(Employees)	(Non-Employees)	of Options	Exercise Price
Outstanding at January 1, 2008	4,594,000	1,397,000	5,991,000	$ 2.29
Granted	86,000		86,000	$ 1.93
Exercised	(25,000)		(25,000)	$ 0.83
Forfeited	(162,000)		(162,000)	$ 2.92
Outstanding at March 31, 2008	4,493,000	1,397,000	5,890,000	$ 2.27
Options exercisable at March 31, 2008	2,944,000	1,147,000	4,091,000	$ 1.89

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A summary of the activity for non-vested stock options as of March 31, 2008 is presented below:

	Number of Options (Employees)	Number of Options (Non-Employees)	Total Number of Options	Weighted Average Grant Date Fair Value per Share
Non-vested at January 1, 2008	1,734,000	250,000	1,984,000	$ 2.91
Granted	86,000		86,000	$ 1.50
Forfeited	(162,000)		(162,000)	$ 2.46
Vested	(84,000)		(84,000)	$ 2.74
Non-vested at March 31, 2008	1,574,000	250,000	1,824,000	$ 2.92

The following table summarizes significant ranges of outstanding stock options under the Company s plans at March 31, 2008:

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
$0.71 1.00	790,000	6.49	$ 0.81	730,000	6.49	$ 0.81
$1.01 2.00	2,362,000	6.97	$ 1.48	1,863,000	6.97	$ 1.52
$2.01 3.00	1,130,000	5.32	$ 2.46	1,112,000	5.32	$ 2.46
$3.01 4.00	623,000	9.47	$ 3.42	150,000	9.47	$ 3.34
$4.01 4.65	985,000	9.10	$ 4.42	236,000	9.10	$ 4.45
	5,890,000	7.21	$ 2.27	4,091,000	7.19	$ 1.89

The aggregate intrinsic value of outstanding options as of March 31, 2008 was approximately $300,000, of which approximately $270,000 was related to exercisable options. The aggregate intrinsic value was calculated based on the positive difference between the closing fair market value of the Company s common stock on March 31, 2008 ($1.15) and the exercise price of the underlying options. The intrinsic value of options exercised was $8,000 for the three-month period ended March 31, 2008, and the intrinsic value of options that vested was approximately $11,000 for the same period.

RXi Pharmaceuticals

RXi has its own stock option plan named the RXi Pharmaceuticals Corporation 2007 Incentive Plan. They account for stock option expense in the same manner as CytRx, which is described above.

The following table sets forth the total stock-based compensation expense for January and February 2008, resulting from stock options, that is included in the Company s unaudited condensed consolidated statements of operations:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Research and development employee	$ 28,000	$

General and administrative employee		369,000		
Total employee stock-based compensation	$	397,000	$	
Research and development non-employee	$	121,000	$	
General and administrative non-employee				
Total non-employee stock-based compensation	$	121,000	$	

6. Liquidity and Capital Resources

At March 31, 2008, the Company had cash and cash equivalents of $43.5 million. Management believes that the Company has adequate financial resources to support its currently planned level of operations into the second half of 2009, based, in part, upon projected expenditures for the remainder of 2008 and the first three months of 2009 of $31.0 million, including $6.2 million for the Company s planned clinical program for arimoclomol for ALS and related studies, $6.3 million for its other ongoing and planned clinical programs, including a planned Phase II clinical trial of arimoclomol in stroke patients and a planned Phase II clinical trial of iroxanadine for diabetic ulcers, $9.9 million for the operations of the Company s research laboratory in San Diego and $8.6 million for other general and administrative expenses. Management s projected expenditures assume the prompt resumption of the Company s Phase II clinical program for arimoclomol for ALS, which has been placed on clinical hold by the U.S. Food and Drug Administration, or FDA. If the Company is required to conduct additional toxicology or human studies prior to or in parallel with the resumption of that clinical trial, alter the design of that trial, including by potentially reducing the dosage of arimoclomol, or is prohibited by the FDA from resuming the current planned clinical trial or initiating any other clinical trial of arimoclomol for the treatment of ALS or stroke recovery at the desired dose, or at all, due to safety concerns, then the Company s actual expenditures will vary, perhaps significantly from management s current 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 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.

7. Equity Transactions

On March 11, 2008, the Company paid a dividend to its stockholders of approximately 36% of the outstanding shares of RXi common stock. In connection with that distribution, the Company adjusted the price of warrants to purchase approximately 10.6 million shares that had been issued in prior equity financings in October 2004, January 2005 and March 2006. The adjustment was made as a result of anti-dilution provisions in those warrants that were triggered by the Company s distribution of a portion of its assets to its stockholders. The Company accounted for the anti-dilution adjustments as deemed dividends analogous with the guidance in Emerging Issues Task Force Issue (EITF) No. 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*, and EITF 00-27, *Application of 98-5 to Certain Convertible Instruments*, and recorded an approximate $757,000 charge to accumulated deficit and a corresponding credit to additional paid-in capital.

On April 19, 2007, the Company completed a $37.0 million private equity financing in which it issued approximately 8.6 million shares of its common stock at a price of $4.30 per share. Net of investment banking commissions, legal, accounting and other expenses related to the transaction, the Company received proceeds of approximately $34.2 million. On April 30, 2007, the Company contributed $15.0 million, net of reimbursed expenses estimated at $2.0 million paid by RXi to the Company, in exchange for equity in RXi, to satisfy the initial funding requirements under its agreements with the University of Massachusetts Medical School (UMMS). In September 2007, the actual reimbursed expenses paid by RXi to the Company were finally determined to be approximately $3.0 million, and on September 25, 2007, RXi issued to CytRx additional equity as reimbursement of the excess expenses. Following those transactions, CytRx owned approximately 85% of the outstanding capital stock of RXi, of which approximately 36% was paid as a dividend to CytRx stockholders on March 11, 2008.

In connection with the April 2007 private