CYTRX CORP
Form 10-Q
August 09, 2012

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

Form 10-Q

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from ____________________ to ____________________

Commission file number 0-15327

CytRx Corporation
(Exact name of Registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes 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, outstanding as of August 8, 2012: 21,206,367 shares exclusive of treasury shares.

CYTRX CORPORATION

FORM 10-Q

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PART I — FINANCIAL INFORMATION

Item 1. — Financial Statements

CYTRX CORPORATION
CONDENSED BALANCE SHEETS
(Unaudited)

	June 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$11,859,009	$17,988,590
Marketable securities	15,067,770	18,057,672
Receivable	20,758	175,704
Interest receivable	22,171	41,275
Prepaid expenses and other current assets	918,821	1,017,799
Total current assets	27,888,529	37,281,040
Equipment and furnishings, net	321,102	266,335
Goodwill	183,780	183,780
Other assets	119,921	123,268
Total assets	$28,513,332	$37,854,423
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$2,232,148	$2,074,463
Accrued expenses and other current liabilities	5,403,039	4,786,956
Warrant liabilities	19,155,292	6,738,934
Total current liabilities	26,790,479	13,600,353
Stockholders' equity (2011 restated to reflect a 1-7 reverse common stock split, see Note 1):		
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; 21,296,913 shares issued and outstanding at June 30, 2012 and 21,294,413 shares issued and outstanding at December 31, 2011	21,296	21,294
Additional paid-in capital	238,318,443	237,452,308
Treasury stock, at cost (90,546 shares)	(2,279,238)	(2,279,238)
Accumulated deficit	(234,337,648)	(210,940,294)
Total stockholders' equity	1,722,853	24,254,070
Total liabilities and stockholders' equity	$28,513,332	$37,854,423

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

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CYTRX CORPORATION
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenue:				
License revenue	$—	$150,000	$—	$150,000
Expenses:				
Research and development	2,686,465	1,886,652	7,087,980	6,707,360
General and administrative	2,091,856	2,026,602	4,006,572	4,174,061
	4,778,321	3,913,254	11,094,552	10,881,421
Loss before other income (expense)	(4,778,321)	(3,763,254)	(11,094,552)	(10,731,421)
Other income (expense):				
Interest income	27,547	50,270	63,005	105,699
Other income, net	16,491	15,619	50,551	52,650
(Loss) gain on warrant derivative liabilities	(8,528,192)	577,290	(12,416,358)	1,177,762
Loss before provision for income taxes	(13,262,475)	(3,120,075)	(23,397,354)	(9,395,310)
Provision for income taxes	—	—	—	—
Net loss	$(13,262,475)	$(3,120,075)	$(23,397,354)	$(9,395,310)
Other comprehensive income (net of tax)				
Unrealized gain on available-for-sale securities	–– —	379,260	—	379,260
Comprehensive loss	$(13,262,475)	$(2,740,815)	$(23,397,354)	$(9,016,050)
Basic and diluted net loss per share	$(0.63)	$(0.20)	$(1.10)	$(0.60)
Basic and diluted weighted-average shares outstanding	21,204,499	15,603,867	21,203,754	15,603,812

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

CYTRX CORPORATION
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30, 2012	2011
Cash flows from operating activities:		
Net loss	$(23,397,354)	$(9,395,310)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	52,875	45,670
Retirement of fixed assets	4,360	4,372
Stock option and warrant expense	858,937	827,987
Fair value adjustment on warrant liabilities	12,416,358	(1,177,762)
Changes in assets and liabilities:		
Receivable	154,946	151,061
Interest receivable	19,105	12,290
Prepaid expenses and other current assets	102,323	(564,867)
Income taxes recoverable	—	519,158
Accounts payable	93,663	405,858
Accrued expenses and other current liabilities	616,083	1,466,170
Net cash used in operating activities	(9,078,704)	(7,705,373)
Cash flows from investing activities:		
Net proceeds from sale of marketable securities	2,989,902	1,491,241
Proceeds from sale of unconsolidated subsidiary shares	—	6,938,603
Purchases of equipment and furnishings	(47,979)	(25,725)
Net cash provided by investing activities	2,941,923	8,404,119
Cash flows from financing activities:	7,200	—
Net proceeds from exercise of stock options	7,200	—
Net increase (decrease) in cash	(6,129,581)	698,746
Cash at beginning of period	17,988,590	6,324,430
Cash at end of period	$11,859,009	$7,023,176
Supplemental disclosure of cash flow information:		
Fixed assets purchased on credit	$64,022	—
Cash received during the period as interest income	$82,110	$117,988

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

NOTES TO CONDENSED FINANCIAL STATEMENTS

June 30, 2012
(Unaudited)

1. Description of Company and Basis of Presentation

CytRx Corporation ("CytRx" or the "Company") is a biopharmaceutical research and development company engaged in the development of high-value human therapeutics, specializing in oncology. CytRx's oncology pipeline currently consiste of two programs in clinical development for cancer indications: aldoxorubicin (formerly known as INNO-206) and tamibarotene. With its tumor-targeted doxorubicin conjugate aldoxorubicin, CytRx has initiated an international Phase 2b clinical trial as a treatment for soft tissue sarcomas, has completed its Phase 1b/2 clinical trial primarily in the same indication, recently initiated a Phase 2 trial for patients with advanced pancreatic ductual adenocarcinomas, and plans to meet with the FDA in the second half of 2012 to discuss a potential Phase 3 pivotal trial as a therapy for patients with soft tissue sarcomas whose tumors have progressed following treatment with chemotherapy. Tamibarotene is being tested in a double-blind, placebo-controlled, international Phase 2b clinical trial in patients with non-small-cell lung cancer, and is in a Phase 2 clinical trial as a treatment for acute promyelocytic leukemia (APL). The Company also has completed its evaluation of a third drug candidate, 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.

The accompanying condensed financial statements at June 30, 2012 and for the three-month and six-month periods ended June 30, 2012 and 2011, respectively, are unaudited, but include all adjustments, consisting of normal recurring entries, that management believes to be necessary for a fair presentation of the periods presented. Prior period figures have been reclassified, wherever necessary, to conform to current presentation. Interim results are not necessarily indicative of results for a full year. Balance sheet amounts as of December 31, 2011 have been derived from the Company's audited financial statements as of that date.

The financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. The financial statements should be read in conjunction with the Company's audited financial statements contained in its Annual Report on Form 10-K for the year ended December 31, 2011. The Company's operating results will fluctuate for the foreseeable future. Therefore, period-to-period comparisons should not be relied upon as predictive of the results in future periods.

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

2. Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("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 the Company's consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standard ("IFRS"), to converge fair value measurement and disclosure guidance in U.S. GAAP with the guidance in the International Accounting Standards Board's ("IASB") concurrently issued IFRS 13, Fair Value Measurement. The amendments in ASU 2011-04 do not modify the requirements for when fair value measurements apply; rather, they generally represent clarifications on how to measure and disclose fair value under ASC 820, Fair Value Measurement. The amendments in the ASU 2011-04 were effective prospectively for interim and annual periods beginning after December 15, 2011. Adoption of this standard did not have a material impact on the Company's consolidated financial statements.

3. Marketable Securities

The Company held $15.1 million of marketable securities at June 30, 2012. The Company has classified these investments as available for sale. These investments are comprised of federally insured certificates of deposit as follows: $5.1 million with a maturity date of July 12, 2012; $7.0 million with a maturity date of October 4, 2012; and $3.0 million with a maturity date of March 28, 2013.

4. Investment in ADVENTRX Pharmaceuticals

On April 8, 2011, ADVENTRX Pharmaceuticals completed its acquisition of SynthRx, Inc., in which the Company held a 19.1% interest. In the transaction, the Company received approximately 126,000 shares of common stock of ADVENTRX, which it sold on October 11, 2011 for approximately $112,200. In April 2012, the Company received an additional 38,000 shares of common stock of ADVENTRX that had been held in an escrow established in connection with the acquisition, which shares were subsequently sold for approximately $18,000. 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 treated these shares as assets “available for sale”.

5. Basic and Diluted Net Loss Per Common Share

Basic and diluted net loss per common share is computed based on the weighted-average number of common shares outstanding. Common share equivalents (which consist of options and warrants) are excluded from the computation of diluted net loss per common share where the effect would be anti-dilutive. Common share equivalents that could potentially dilute basic earnings per share in the future, and which were excluded from the computation of diluted loss per share, totaled 1.0 million for the three-month and six-month periods ended June 30, 2012, and 1.4 million and 0.5 million shares, respectively, for the three-month and six-month periods ended June 30, 2011.

6. Warrant Liabilities

Liabilities measured at market value on a recurring basis include warrant liabilities resulting from the Company’s past equity financing, including the underwritten public offering that closed on August 1, 2011. In accordance with ASC 815-40, Derivatives and Hedging – Contracts in Entity’s Own Equity (“ASC 815-40”), the warrant liabilities are being marked to market until they are completely settled. The warrants are valued using the Black-Scholes method, using assumptions consistent with our application of ASC 505-50, Equity-Based Payments to Non-Employees (“ASC 505-50”). The gain or loss resulting from the marked to market calculation is shown on the Consolidated Statements of Operations as (Loss) Gain on warrant derivative liability. The Company recognized a (loss) gain of ($8.5 million) and $0.6 million for the three-month periods ended June 30, 2012 and 2011, respectively, and ($12.4 million) and $1.2 million for the six-month periods ended June 30, 2012 and 2011, respectively.

7. Stock Based Compensation

The Company has a 2000 Long-Term Incentive Plan under which 1.4 million shares of common stock were originally reserved for issuance. As of June 30, 2012, there were approximately 1.0 million shares subject to outstanding stock options. This plan expired on August 6, 2010, and thus no further shares are available for future grant under this plan.

The Company also has a 2008 Stock Incentive Plan under which 10.0 million shares of common stock were originally reserved for issuance. The number of shares reserved for issuance under the 2008 Plan was then fixed at 5.0 million shares, after giving effect to the 1-for-7 reverse stock split implemented on May 15, 2012. As of June 30, 2012, there were 0.9 million shares subject to outstanding stock options and 4.1 million shares available for future grant under this plan.

The Company has adopted the provisions of ASC 718, Compensation-Stock Compensation, which requires the measurement and recognition of compensation expense for all stock-based awards made to employees.

For stock options and stock warrants paid in consideration of services rendered by non-employees, the Company recognizes compensation expense in accordance with the requirements of ASC 505-50.

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

The following table sets forth the total stock-based compensation expense resulting from stock options and warrants included in the Company's unaudited interim statements of operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Research and development — employee	$98,242	$87,890	$193,366	$171,321
General and administrative — employee	263,007	343,682	437,079	541,274
Total employee stock-based compensation	$361,249	$431,572	$630,445	$712,595
Research and development — non-employee	$—	$19,576	$—	$41,484
General and administrative — non-employee	176,074	42,908	228,492	88,305
Total non-employee stock-based compensation	$176,074	$62,484	$228,492	$129,789

During the six-month period ended June 30, 2012, the Company issued stock options to purchase 53,502 shares of its common stock. The fair value of the stock options granted in the current six-month period was estimated using the Black-Scholes option-pricing model, based on the following assumptions:

	Six Months Ended June 30, 2012		Six Months Ended June 30, 2011
Risk-free interest rate	1.54	%	2.13