

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[mark one]

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

For the quarterly period ended: March 31, 2017

☐ 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 1-36598

CELLECTAR BIOSCIENCES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

04-3321804

(IRS Employer
Identification No.)

**3301 Agriculture Drive
Madison, Wisconsin 53716**

(Address of principal executive offices)

(608) 441-8120

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant 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 ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Accelerated filer ☐
Smaller reporting company ☒
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Number of shares outstanding of the issuer's common stock as of the latest practicable date: 13,462,170 shares of common stock, \$0.00001 par value per share, as of May 8, 2017.

CELLECTAR BIOSCIENCES, INC.

FORM 10-Q INDEX

<u>PART I. FINANCIAL INFORMATION</u>	3
Item 1. <u>Financial Statements</u>	3
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
Item 4. <u>Controls and Procedures</u>	17
<u>PART II. OTHER INFORMATION</u>	18
Item 1. <u>Legal Proceedings</u>	18
Item 1A. <u>Risk Factors</u>	18
Item 6. <u>Exhibits</u>	19

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CELLECTAR BIOSCIENCES, INC. CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	March 31, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 11,238,394	\$ 11,444,619
Restricted cash	55,000	55,000
Prepaid expenses and other current assets	893,185	693,569
Total current assets	12,186,579	12,193,188
FIXED ASSETS, NET	1,423,448	1,444,058
GOODWILL	1,675,462	1,675,462
OTHER ASSETS	11,872	11,872
TOTAL ASSETS	<u>\$ 15,297,361</u>	<u>\$ 15,324,580</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of notes payable	\$ —	\$ 86,591
Accounts payable and accrued liabilities	1,186,092	1,416,433
Derivative liability	209,600	127,125
Capital lease obligations, current portion	2,801	2,727
Total current liabilities	1,398,493	1,632,876
LONG-TERM LIABILITIES:		
Deferred rent	145,367	146,583
Capital lease obligation, less current portion	4,520	5,249
Total long-term liabilities	149,887	151,832
TOTAL LIABILITIES	<u>1,548,380</u>	<u>1,784,708</u>
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.00001 par value; 7,000 shares authorized; none and 17 Series A issued and outstanding as of March 31, 2017 and December 31, 2016, respectively	—	875,572
Common stock, \$0.00001 par value; 40,000,000 shares authorized; 13,458,170 and 10,368,325 shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively	135	104
Additional paid-in capital	87,427,196	83,451,222
Accumulated deficit	(73,678,350)	(70,787,026)
Total stockholders' equity	13,748,981	13,539,872
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 15,297,361</u>	<u>\$ 15,324,580</u>

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

CELLECTAR BIOSCIENCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended March 31,	
	2017	2016
COSTS AND EXPENSES:		
Research and development	\$ 1,856,880	\$ 1,039,454
General and administrative	955,356	961,254
Total costs and expenses	<u>2,812,236</u>	<u>2,000,708</u>
LOSS FROM OPERATIONS	<u>(2,812,236)</u>	<u>(2,000,708)</u>
OTHER INCOME (EXPENSE):		
Gain (loss) on revaluation of derivative warrants	(82,475)	2,824,722
Interest income, net	3,387	549
Total other income (expense), net	<u>(79,088)</u>	<u>2,825,271</u>
NET INCOME (LOSS)	<u>\$ (2,891,324)</u>	<u>\$ 824,563</u>
BASIC NET INCOME (LOSS) PER COMMON SHARE	<u>\$ (0.24)</u>	<u>\$ 0.96</u>
SHARES USED IN COMPUTING BASIC NET INCOME (LOSS) PER COMMON SHARE	<u>12,010,284</u>	<u>858,107</u>
DILUTED NET INCOME (LOSS) PER COMMON SHARE	<u>\$ (0.24)</u>	<u>\$ 0.91</u>
SHARES USED IN COMPUTING DILUTED NET INCOME (LOSS) PER COMMON SHARE	<u>12,010,284</u>	<u>906,381</u>

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

CELLECTAR BIOSCIENCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (2,891,324)	\$ 824,563
Adjustments to reconcile net income (loss) to cash used in operating activities:		
Depreciation and amortization	86,911	90,773
Stock-based compensation expense	165,674	102,918
(Gain) loss on revaluation of derivative warrants	82,475	(2,824,722)
Changes in:		
Accounts payable and accrued liabilities	(230,341)	(67,256)
Prepaid expenses and other current assets	(199,616)	55,793
Other assets and liabilities	(1,216)	(325)
Cash used in operating activities	<u>(2,987,437)</u>	<u>(1,818,256)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(66,301)	—
Cash used in investing activities	<u>(66,301)</u>	<u>—</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of warrants	2,934,759	—
Payments on notes payable	(86,591)	(60,528)
Payments on capital lease obligations	(655)	(588)
Cash paid for issuance costs	—	(69,450)
Reverse stock split fractional shares	—	(594)
Cash provided by (used in) financing activities	<u>2,847,513</u>	<u>(131,160)</u>
NET DECREASE IN CASH AND EQUIVALENTS	(206,225)	(1,949,416)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	11,444,619	3,857,791
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 11,238,394</u>	<u>\$ 1,908,375</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest expense	<u>\$ 364</u>	<u>\$ 1,467</u>

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

CELLECTAR BIOSCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. NATURE OF BUSINESS, ORGANIZATION AND GOING CONCERN

Cellectar Biosciences, Inc. (the “Company”) is a biopharmaceutical company developing compounds for the treatment and imaging of cancer. The Company’s headquarters are located in Madison, Wisconsin.

The Company is subject to a number of risks similar to those of other small pharmaceutical companies. Principal among these risks are dependence on key individuals, competition from substitute products and larger companies, the successful development and marketing of its products in a highly regulated environment and the need to obtain additional financing necessary to fund future operations.

The accompanying financial statements have been prepared on a basis that assumes that the Company will continue as a going concern and that contemplates the continuity of operations, realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company has devoted substantially all of its efforts toward research and development and has, during the three months ended March 31, 2017, generated an operating loss of approximately \$2,812,000. The Company expects that it will continue to generate operating losses for the foreseeable future.

The Company believes that its cash balance at March 31, 2017 is adequate to fund operations at budgeted levels into second quarter 2018. The Company’s ability to execute its operating plan beyond second quarter 2018 depends on its ability to obtain additional funding via the sale of equity and/or debt securities, a strategic transaction or otherwise. The Company plans to continue to actively pursue financing alternatives, but there can be no assurance that it will obtain the necessary funding, raising substantial doubt about the Company’s ability to continue as a going concern within one year of the date these financial statements are issued. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The accompanying condensed consolidated balance sheet as of December 31, 2016 has been derived from audited financial statements. The accompanying unaudited condensed consolidated balance sheet as of March 31, 2017, the condensed consolidated statements of operations for the three months ended March 31, 2017 and 2016, the condensed consolidated statements of cash flows for the three months ended March 31, 2017 and 2016 and the related interim information contained within the notes to the condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions, rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial information. Accordingly, they do not include all of the information and the notes required by U.S. GAAP for complete financial statements. In the opinion of management, the unaudited interim condensed consolidated financial statements reflect all adjustments which are of a nature necessary for the fair presentation of the Company’s consolidated financial position at March 31, 2017 and consolidated results of its operations for the three months ended March 31, 2017 and 2016, and its cash flows for the three months ended March 31, 2017 and 2016. The results for the three months ended March 31, 2017 are not necessarily indicative of future results.

These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and related notes thereto included in the Company’s Form 10-K for the fiscal year ended December 31, 2016, which was filed with the SEC on March 15, 2017.

Principles of Consolidation — The consolidated financial statements include the accounts of the Company and the accounts of its wholly-owned subsidiary. All significant intercompany accounts and transactions have been eliminated.

Restricted Cash — The Company accounts for cash that is restricted for other than current operations as restricted cash. Restricted cash at March 31, 2017 and December 31, 2016 consisted of a certificate of deposit of \$55,000 required under the Company’s lease agreement for its Madison, Wisconsin facility.

Goodwill — Goodwill is not amortized, but is required to be evaluated for impairment annually or whenever events or changes in circumstances suggest that the carrying value of an asset may not be recoverable. The Company evaluates goodwill for impairment annually in the fourth fiscal quarter and additionally on an interim basis if an event occurs or there is a change in circumstances, such as a decline in the Company’s stock price or a material adverse change in the business climate, which would more likely than not reduce the fair value of the reporting unit below its carrying amount. No such event or change in circumstances occurred; therefore, no changes in goodwill were made during the three months ended March 31, 2017 and 2016.

In January 2017, the FASB issued ASU No. 2017-04, Simplifying the Test for Goodwill. The standard streamlines the methodology for calculating whether goodwill is impaired based upon whether the carrying amount of goodwill exceeds the reporting unit's fair value. ASU 2017-04 applies to public business entities and those other entities that have goodwill reported in their financial statements and have not elected the private company alternative for the subsequent measurement of goodwill and is effective for annual and interim reporting periods beginning after December 15, 2019, with early adoption permitted. The Company does not expect that the adoption of this standard will have a material effect on its financial statements.

Impairment of Long-Lived Assets — Long-lived assets other than goodwill consist primarily of fixed assets, which we periodically evaluate for potential impairment. Whenever events or circumstances change, an assessment is made as to whether there has been an impairment in the value of long-lived assets by determining whether projected undiscounted cash flows generated by the applicable asset exceed its net book value as of the assessment date. No such event or change in circumstances occurred; therefore, no such impairment occurred during the three months ended March 31, 2017 and 2016.

Stock-Based Compensation — The Company uses the Black-Scholes option-pricing model to calculate the grant-date fair value of stock option awards. The resulting compensation expense, net of expected forfeitures, for awards that are not performance-based is recognized on a straight-line basis over the service period of the award, which is generally three years for stock options. For stock options with performance-based vesting provisions, recognition of compensation expense, net of expected forfeitures, commences if and when the achievement of the performance criteria is deemed probable. The compensation expense, net of expected forfeitures, for performance-based stock options is recognized over the relevant performance period. Awards of stock that are not performance-based are valued at the fair market value on the date of the grant and are amortized over the service period of the award. Non-employee stock-based compensation is accounted for in accordance with the guidance of Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") Topic 505, *Equity*. As such, the Company recognizes expense based on the estimated fair value of options granted to non-employees over their vesting period, which is generally the period during which services are rendered and deemed completed by such non-employees.

Fair Value of Financial Instruments — The guidance under FASB ASC Topic 825, *Financial Instruments*, requires disclosure of the fair value of certain financial instruments. Financial instruments in the accompanying financial statements consist of cash equivalents, accounts payable and long-term obligations. The carrying amount of cash equivalents and accounts payable approximate their fair value due to their short-term nature. The carrying value of remaining long-term obligations, including the current portion, approximates fair value because the fixed interest rate approximates current market interest rates available on similar instruments.

Derivative Instruments — The Company generally does not use derivative instruments to hedge exposures to cash flow or market risks. However, certain warrants to purchase common stock that do not meet the requirements for classification as equity, in accordance with the Derivatives and Hedging Topic of the FASB ASC, are classified as liabilities. In such instances, net-cash settlement is assumed for financial reporting purposes, even when the terms of the underlying contracts do not provide for a net-cash settlement. These warrants are considered derivative instruments because the agreements contain a certain type of cash settlement feature, "down-round" provisions whereby the number of shares for which the warrants are exercisable and/or the exercise price of the warrants is subject to change in the event of certain issuances of stock at prices below the then-effective exercise price of the warrants. The number of shares issuable under such warrants was 533,065 at March 31, 2017 and December 31, 2016. The primary underlying risk exposure pertaining to the warrants is the change in fair value of the underlying common stock. Such financial instruments are initially recorded at fair value with subsequent changes in fair value recorded as a component of gain or loss on derivatives on the consolidated statements of operations in each reporting period. If these instruments subsequently meet the requirements for equity classification, the Company reclassifies the fair value to equity. At March 31, 2017 and December 31, 2016, these warrants represented the only outstanding derivative instruments issued or held by the Company.

Leases — In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842) which supersedes FASB ASC Topic 840, *Leases* (Topic 840) and provides principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than twelve months regardless of classification. Leases with a term of twelve months or less will be accounted for similar to existing guidance for operating leases. The standard is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted upon issuance. The Company is currently evaluating the method of adoption and the impact of adopting ASU 2016-02 on its results of operations, cash flows and financial position.

2. FAIR VALUE

In accordance with Fair Value Measurements and Disclosures Topic of the FASB ASC 820, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

- Level 1: Input prices quoted in an active market for identical financial assets or liabilities.
- Level 2: Inputs other than prices quoted in Level 1, such as prices quoted for similar financial assets and liabilities in active markets, prices for identical assets, and liabilities in markets that are not active or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Input prices quoted that are significant to the fair value of the financial assets or liabilities which are not observable or supported by an active market.

To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The Company issued warrants to purchase an aggregate of 82,500 common shares in a February 2013 public offering (the "February 2013 Public Offering Warrants"). On February 20, 2014, 27,500 of the February 2013 Public Offering Warrants expired. On May 20, 2016, 16,250 warrants were exercised. The remaining 38,750 warrants are classified within the Level 3 hierarchy.

In August 2014, as part of an underwritten public offering, the Company issued 494,315 warrants to purchase common stock (the "August 2014 Warrants"). The August 2014 Warrants are listed on the NASDAQ Capital Market under the symbol "CLRBW," however, there are certain periods where trading volume is low; therefore, they are classified as Level 2 within the hierarchy.

The following tables set forth the Company's financial instruments carried at fair value using the lowest level of input applicable to each financial instrument as of March 31, 2017 and December 31, 2016:

March 31, 2017				
	Level 1	Level 2	Level 3	Fair Value
Liabilities:				
February 2013 Public Offering Warrants	\$ —	\$ —	\$ 49,600	\$ 49,600
August 2014 Warrants	—	160,000	—	160,000
Total	\$ —	\$ 160,000	\$ 49,600	\$ 209,600
December 31, 2016				
	Level 1	Level 2	Level 3	Fair Value
Liabilities:				
February 2013 Public Offering Warrants	\$ —	\$ —	\$ 27,125	\$ 27,125
August 2014 Warrants	—	100,000	—	100,000
Total	\$ —	\$ 100,000	\$ 27,125	\$ 127,125

In order to estimate the value of the February 2013 Public Offering Warrants considered to be derivative instruments, the Company uses a modified option-pricing model together with assumptions that consider, among other variables, the fair value of the underlying stock, risk-free interest rates, volatility, the contractual term of the warrants, future financing requirements and dividend rates. The future financing estimates are based on the Company's estimates of anticipated cash requirements over the term of the warrants as well as the frequency of required financings based on its assessment of its historical financing trends and anticipated future events. Due to the nature of these inputs and the valuation technique utilized, these warrants are classified within the Level 3 hierarchy.

The following table summarizes the modified option-pricing assumptions used:

	Three Months Ended March 31, 2017	Twelve Months Ended December 31, 2016
Volatility	118%	92.72-134%
Risk-free interest rate	1.03%	0.53-1.15%
Expected life (years)	0.89	1.14-1.89
Dividend	0%	0%

During fiscal year 2016, the Company had warrants outstanding for part of the year that were considered financial instruments. Those warrants were either extinguished or amended such that they were no longer considered financial instruments as of December 31, 2016, and were, therefore, not financial instruments during the quarter ended March 31, 2017. The following table summarizes the modified option-pricing assumptions used for the period they were considered financial instruments:

	Twelve Months Ended December 31, 2016
Volatility	89.73%
Risk-free interest rate	1.65%
Expected life (years)	4.50
Dividend	0%

The following table summarizes the changes in the fair market value of the Company's warrants which are classified within the Level 3 fair value hierarchy.

	Three Months Ended March 31, 2017	Twelve Months Ended December 31, 2016
Beginning balance – Fair value	\$ 27,125	\$ 2,067,000
Reclassification to equity for warrants that are no longer derivative liabilities	—	(1,392,429)
Loss (gain) on derivatives resulting from change in fair value or extinguishment	22,475	(647,446)
Ending balance – Fair value	<u>\$ 49,600</u>	<u>\$ 27,125</u>

To estimate the fair value of the August 2014 Warrants, the Company calculated the weighted average closing price for the trailing 10 day period with trades that ended on the balance sheet date.

3. STOCKHOLDERS' EQUITY

November 2016 Underwritten Offering

On November 23, 2016, the Company entered into an Underwriting Agreement with Ladenburg Thalmann & Co. Inc., as representative of the several underwriters named therein, in connection with the Company's Registration Statement on Form S-1. Pursuant to the Underwriting Agreement, the Company agreed to sell to the Underwriter 800,000 shares of common stock, 68 shares of Series A preferred stock convertible into 4,533,356 shares of common stock and Series C warrants to purchase 5,333,356 shares of common stock, plus up to an additional 800,000 shares of common stock and Series C warrants to purchase up to an additional 800,000 shares of common stock in the event of the exercise by the Underwriter of its over-allotment option. The public offering price of a share of common stock together with a Series C warrant to purchase one share of common stock was \$1.50. The public offering price to purchase one share of Series A preferred stock, each of which is convertible into 66,667 shares of common stock, together with a Series C warrant to purchase 66,667 shares of common stock was \$100,000. The preferred stock was non-voting, had no dividend rights (except to the extent dividends were also paid on common stock), liquidation preference, or other preferences over common stock. The Series C warrants have an exercise price of \$1.50 per share, and are exercisable for five years from the date of issuance. The net proceeds were allocated to each security based upon the pro-rata values of the underlying common stock and a Black-Scholes valuation of the warrants.

The sale of securities pursuant to the Underwriting Agreement, including the entire over-allotment option, closed on November 29, 2016 (the "November 2016 Underwritten Offering"). Gross proceeds were \$9.2 million with net proceeds to the Company of approximately \$8.3 million.

As of December 31, 2016, 17 shares of Series A preferred stock were outstanding. During the three months ended March 31, 2017, all 17 shares were converted into 1,133,339 shares of common stock.

During the three months ended March 31, 2017, Series C warrants representing 1,956,506 shares of common stock were exercised by the holders, for proceeds of \$2,934,759.

April 2016 Underwritten Offering

On April 15, 2016, the Company entered into an Underwriting Agreement with Ladenburg Thalmann & Co., Inc. in connection with the Company's Registration Statement on Form S-1. Pursuant to the Underwriting Agreement, the Company agreed to sell to the Underwriter 1,378,364 shares of common stock, Series B prefunded warrants to purchase 1,908,021 shares of common stock and Series A warrants to purchase 3,286,385 shares of common stock, plus up to an additional 492,957 shares of common stock and Series A warrants to purchase up to an additional 492,957 shares of common stock in the event of the exercise by the Underwriter of its over-allotment option. The public offering price of a share of common stock together with a Series A warrant to purchase one share of common stock was \$2.13. The public offering price of a Series B pre-funded warrant to purchase one share of common stock together with a Series A warrant to purchase one share of common stock was \$2.12. The Series B pre-funded warrants had an exercise price of \$0.01 per share, were immediately exercisable and do not expire. The Series A warrants have an exercise price of \$3.04 per share, are exercisable for five years from the date of issuance, and are callable by the Company under certain circumstances.

On April 20, 2016, the Company closed on the underwritten public offering (the "April 2016 Underwritten Offering") of 1,871,321 shares of its common stock and Series B pre-funded warrants to purchase 1,908,021 shares of common stock, plus the issuance of Series A warrants to purchase 3,779,342 shares of common stock, reflecting the exercise in full of the Underwriter's over-allotment option. The gross proceeds of the offering amounted to approximately \$8.0 million with net proceeds to the Company of approximately \$7.2 million.

Warrant Restructuring

On April 13, 2016, the Company entered into an exchange and amendment agreement (the "Warrant Restructuring Agreement"). Pursuant to the Warrant Restructuring Agreement, the Company agreed with the holders of 2015 Series A warrants that upon the consummation of the 2016 Underwritten Offering, the exercise price of the 2015 Series A warrants would be reduced to the public offering price per share of the shares of common stock sold in this offering and that the warrants would be amended such that the exercise price would no longer be subject to adjustment in connection with future equity offerings we may undertake. In consideration of this amendment, the Company agreed to issue to each of those holders a new warrant to purchase an additional number of shares of common stock equal to twice the number of shares of common stock underlying the 2015 Series A Warrants held by them (the "Incremental Series A Warrants"). As a result, the 2015 Series A warrants and the Incremental Series A Warrants have an exercise price equal to \$2.13 (the public offering price of the shares of common stock sold in the 2016 Underwritten Offering).

2016 Reverse Stock Split and Recapitalization

At a special meeting held on February 8, 2016, the Company's stockholders approved an amendment to the Company's certificate of incorporation to effect a reverse split of the Company's common stock at a ratio between 1:5 to 1:10 in order to ensure that adequate authorized but unissued shares would be available for anticipated future financings, and to satisfy requirements for the continued listing of the Company's common stock on the NASDAQ Capital Market. In addition, the proposal approved by the stockholders provided that if the reverse split was effected, the number of shares of common stock that the Company is authorized to issue remained unchanged at 40,000,000. The Company's stockholders further authorized the board of directors to determine the ratio at which the reverse split would be effected by filing an appropriate amendment to the Company's certificate of incorporation. The board of directors authorized the ratio of the reverse split on February 24, 2016, and effective at the close of business on March 4, 2016, the Company's certificate of incorporation was amended to effect a 1-for-10 reverse split of the Company's common stock (the "2016 Reverse Split"). All share and per share numbers included in these consolidated financial statements give effect to the 2016 Reverse Split.

Common Stock Warrants

The following table summarizes information with regard to outstanding warrants to purchase common stock as of March 31, 2017.

Offering	Number of Shares Issuable Upon Exercise of Outstanding Warrants	Exercise Price	Expiration Date
November 2016 Public Offering Series C	4,176,850	\$ 1.50	November 29, 2021
April 2016 Underwritten Registered Series A	3,626,942	\$ 3.04	April 20, 2021
October 2015 Incremental Series A	300,006	\$ 2.13	October 20, 2021
October 2015 Private Placement Series A	86,365	\$ 2.13	April 1, 2021
October 2015 Offering – Placement Agent	3,750	\$ 28.30	October 1, 2020
August 2014 Public Offering ⁽¹⁾	504,019	\$ 46.80	August 20, 2019
February 2013 Public Offering ⁽¹⁾	38,750	\$ 1.50 ⁽²⁾	February 20, 2018
February 2013 Public Offering – Placement Agents	3,854	\$ 125.00	February 4, 2018
November 2012 Private Placement	5,000	\$ 250.00	November 2, 2017
June 2012 Public Offering	14,910	\$ 250.00	June 13, 2017
Total	<u>8,760,446</u>		

- (1) These warrants have a certain type of cash settlement feature or their exercise prices for which the warrant may be exercised are subject to adjustment for "down-rounds" and the warrants have been accounted for as derivative instruments as described in Note 3, with the exception of 9,704 warrants issued in August 2014.
- (2) Due to the issuance of common stock at \$1.50 per share as part of the November 2016 Underwritten Offering, the remaining outstanding warrants issued as part of the February 2013 Public Offering were adjusted to reflect the revised exercise price of \$1.50 each.

Reserved Shares

The following shares were reserved for future issuance upon exercise of stock options, preferred stock conversions and warrants:

	March 31, 2017	December 31, 2016
Warrants	8,760,446	10,716,952
Preferred stock	—	1,133,339
Stock options	508,733	471,433
Total number of shares reserved for future issuance	<u>9,269,179</u>	<u>12,321,724</u>

4. NOTES PAYABLE

During the quarter ended March 31, 2017, the two loans with initial principal amounts totaling \$450,000 from the Wisconsin Economic Development Corporation, dated September 15, 2010, were paid in full.

5. STOCK-BASED COMPENSATION

Accounting for Stock-Based Compensation

The following table summarizes amounts charged to expense for stock-based compensation related to employee and director stock option grants and recorded in connection with stock options granted to non-employee consultants:

	Three Months Ended March 31,	
	2017	2016
Employee and director stock option grants:		
Research and development	\$ 16,648	\$ 11,035
General and administrative	149,026	92,249
	<u>165,674</u>	<u>103,284</u>
Non-employee consultant stock option grants:		
Research and development	—	(366)
	<u>—</u>	<u>(366)</u>
Total stock-based compensation	<u>\$ 165,674</u>	<u>\$ 102,918</u>

Assumptions Used In Determining Fair Value

Valuation and amortization method. The fair value of each stock award is estimated on the grant date using the Black-Scholes option-pricing model. The estimated fair value of employee stock options is amortized to expense using the straight-line method over the vesting period. The estimated fair value of the non-employee options is amortized to expense over the period during which a non-employee is required to provide services for the award (usually the vesting period).

Volatility. The Company estimates volatility based on an average of (1) the Company's historical volatility since its common stock has been publicly traded and (2) review of volatility estimates of publicly held drug development companies with similar market capitalizations.

Risk-free interest rate. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant commensurate with the expected term assumption.

Expected term. The expected term of stock options granted is based on an estimate of when options will be exercised in the future. The Company applied the simplified method of estimating the expected term of the options, as described in the SEC's Staff Accounting Bulletins 107 and 110, as the historical experience is not indicative of the expected behavior in the future. The expected term, calculated under the simplified method, is applied to groups of stock options that have similar contractual terms. Using this method, the expected term is determined using the average of the vesting period and the contractual life of the stock options granted. The Company applied the simplified method to non-employees who have a truncation of term based on termination of service and utilizes the contractual life of the stock options granted for those non-employee grants which do not have a truncation of service.

Forfeitures. The Company records stock-based compensation expense only for those awards that are expected to vest. A forfeiture rate is estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. An annual forfeiture rate of 2% was applied to all unvested options for employees and directors, respectively, for the three months ended March 31, 2017 and for the year ended December 31, 2016. Ultimately, the actual expense recognized over the vesting period will be for only those shares that vest.

Exercise prices for all grants made during the three months ended March 31, 2017 were equal to the market value of the Company's common stock on the date of grant. There were no stock option grants during the three months ended March 31, 2016.

Stock Option Activity

A summary of stock option activity is as follows:

	Number of Shares Issuable Upon Exercise of Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Contracted Term in Years	Aggregate Intrinsic Value
Outstanding at December 31, 2016	471,433	\$ 7.59		
Granted	37,300	\$ 2.18		
Expired	—	\$ —		
Forfeited	—	\$ —		
Outstanding at March 31, 2017	<u>508,733</u>	\$ 7.19		
Vested, March 31, 2017	<u>104,106</u>	\$ 19.84	8.70	\$ 54,579
Unvested, March 31, 2017	<u>404,627</u>	\$ 3.94	9.17	\$ 167,134
Exercisable at March 31, 2017	<u>104,106</u>	\$ 19.84	8.70	\$ 54,579

The aggregate intrinsic value of options outstanding is calculated based on the positive difference between the estimated per-share fair value of common stock at the end of the respective period and the exercise price of the underlying options. There have been no option exercises to date. Shares of common stock issued upon the exercise of options are from authorized but unissued shares.

As of March 31, 2017, there was approximately \$950,882 of total unrecognized compensation cost related to unvested stock-based compensation arrangements. Of this total amount, the Company expects to recognize approximately \$372,648, \$391,798, \$186,079, and \$357 during 2017, 2018, 2019 and 2020, respectively. The Company's expense estimates are based upon the expectation that all unvested options will vest in the future, less the forfeiture rate discussed above. The weighted-average grant-date fair value of vested and unvested options outstanding at March 31, 2017 was \$14.95 and \$3.20, respectively.

6. INCOME TAXES

The Company accounts for income taxes in accordance with the liability method of accounting. Deferred tax assets or liabilities are computed based on the difference between the financial statement and income tax basis of assets and liabilities, and net operating loss carryforwards, (NOLs) using the enacted tax rates. Deferred income tax expense or benefit is based on changes in the asset or liability from period to period. The Company did not record a provision or benefit for federal, state or foreign income taxes for the three months ended March 31, 2017 or 2016 because the Company has experienced losses on a tax basis since inception. Because of the limited operating history, continuing losses and uncertainty associated with the utilization of the NOLs in the future, management has provided a full allowance against the value of its gross deferred tax assets.

The Company also accounts for the uncertainty in income taxes related to the recognition and measurement of a tax position taken or expected to be taken in an income tax return. The Company follows the applicable accounting guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition related to the uncertainty in income tax positions. No uncertain tax positions have been identified.

7. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted net income per share for the three months ended March 31, 2016 is computed by dividing net income by the sum of the weighted average number of shares of common stock and the dilutive potential common stock equivalents then outstanding. Potential common stock equivalents consist of stock options and warrants. Since there is a net loss attributable to common stockholders for the three months ended March 31, 2017, the inclusion of common stock equivalents in the computation for that period would be antidilutive.

The following potentially dilutive securities have been excluded from the computation of diluted net income (loss) per share since their inclusion would be antidilutive:

	Three Months Ended March 31,	
	2017	2016
Warrants	8,760,446	782,782
Stock options	508,733	68,582

8. COMMITMENTS AND CONTINGENCIES

The Company is involved in legal matters and disputes in the ordinary course of business. We do not anticipate that the outcome of such matters and disputes will materially affect the Company's financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This quarterly report on Form 10-Q includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act. For this purpose, any statements contained herein regarding our strategy, future operations, financial position, future revenues, projected costs, prospects, plans and objectives of management, other than statements of historical facts, are forward-looking statements. The words "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "will," "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We cannot guarantee that we actually will achieve the plans, intentions or expectations disclosed in our forward-looking statements. There are a number of important factors that could cause actual results or events to differ materially from those disclosed in the forward-looking statements we make. These important factors include our significant accounting estimates, such as those for amounts due to clinical research organizations, and clinical investigators and the risk factors set forth in our annual report on Form 10-K and in Part II below under the caption "Risk Factors". Although we may elect to update forward-looking statements in the future, we specifically disclaim any obligation to do so, even if our estimates change, and readers should not rely on those forward-looking statements as representing our views as of any date subsequent to the date of this quarterly report.

Overview

Collectar Biosciences, Inc. (the Company) is a clinical stage biopharmaceutical company focused on the development of targeted phospholipid drug conjugates (PDCs) for the treatment of cancer. The Company's research and development program is based on its proprietary PDC cancer targeting delivery platform. The delivery platform possesses the potential for the discovery and development of a broad range of cancer targeting agents. The Company's pipeline is comprised of pre-clinical and clinical product candidates including radiotherapeutic and chemotherapeutic PDC's. The Company's research and development resources are focused on the clinical advancement of its therapeutic PDC's.

Our Company's core strategy is to leverage our industry leading PDC, proprietary cancer targeting delivery platform to generate capital, supplement internal resources and accelerate and broaden product candidate clinical development through strategic asset acquisitions and research collaborations.

Our shares are listed on the Nasdaq® Capital Market under the symbol CLRB; prior to August 15, 2014, our shares were quoted on the OTCQX® marketplace, and prior to February 12, 2014 were quoted under the symbol NVLT.

Our PDC platform is based on our cancer-targeting and delivery technology which provides selective delivery of a diverse range of oncologic payloads to cancer cells and cancer stem cells. By linking various drug payloads to our proprietary phospholipid ether cancer-targeting vehicle, we believe we can create PDCs with the potential to provide highly targeted delivery of chemotherapeutic and radiotherapeutic payloads to a broad range of cancers. As a result, our PDC platform has the potential to improve the therapeutic indices of drug payloads and enhance or maintain efficacy while minimizing the off-target and toxic side effects that frequently occur with typical cancer therapies. The Company is currently focused on the development of its lead therapeutic product candidate, CLR 131. Additionally, the Company is executing the pre-clinical evaluation and development of its CLR CTX Chemotherapeutic PDC program with both internal and external resources.

- CLR 131 is a small-molecule, cancer-targeting radiotherapeutic PDC that is designed to deliver cytotoxic (cell-killing) radiation directly and selectively to cancer cells and cancer stem cells. CLR 131 is our lead therapeutic PDC product candidate and is currently being evaluated in both Phase 1 and Phase 2 clinical studies. The Phase 1 clinical study is a standard three by three dose escalation safety study in patients with relapse or refractory multiple myeloma. Multiple myeloma is the second most common hematologic cancer and an incurable cancer of plasma cells. This cancer type was selected for clinical, regulatory and commercial rationales, including multiple myeloma's highly radiosensitive nature, and continued unmet medical need in the relapse/refractory setting. The primary goals of the Phase 1 study are to assess the compound's safety and tolerability in patients with relapsed or refractory multiple myeloma. Secondary objectives include establishment of a recommended Phase 2 dose, both with and without dexamethasone, as well as an assessment of therapeutic activity, including surrogate efficacy markers, progression free survival (PFS) and overall survival. The Investigational New Drug (IND) application was accepted by the U.S. Food and Drug Administration (FDA) in March 2014. In December 2014, the FDA granted orphan drug designation for CLR 131 for the treatment of multiple myeloma. The Phase 1 study was initiated in April 2015 and we announced favorable safety results from the first patient cohort in January 2016. The study's Data Monitoring Committee (DMC), unanimously agreed to allow an increase in the dose of CLR 131 by 50% and advancement into the second cohort. The DMC reviewed Cohort 2 patient safety data in September 2016, and unanimously agreed to an increase in the dose by 33% and advancement to Cohort 3. In February 2017, the DMC unanimously determined the safety profile was again favorable in Cohort 3 and that it was acceptable to advance into Cohort 4 with an increase in dose by 20%. Surrogate markers of efficacy, including M protein, Free Light Chain (FLC), Progression Free Survival (PFS), and Overall Survival (OS), are also captured as secondary objectives of this Phase 1 study. In July 2016, the Company was awarded a \$2,000,000 National Cancer Institute Fast-Track Small Business Innovation Research (SBIR) grant to further advance CLR 131. The funds are supporting a Phase 2 study the Company initiated in March 2017 to further define the clinical benefits of CLR 131 in multiple myeloma and other rare hematologic malignancies.
- The Company is exploring the creation of additional PDCs ranging from newly discovered to well-characterized chemotherapeutic payloads under its CLR CTX Chemotherapeutic PDC program. The objective of our CTX program is to develop PDC chemotherapeutics through conjugation of our delivery vehicle and non-targeted anti-cancer agents to improve therapeutic indices and expand potential indications through the targeted delivery of chemotherapeutic payloads. Initial CTX product candidates include CLR 1601-PTX, CLR 1602-PTX and CLR 1603-PTX; all are small-molecule, cancer-targeting chemotherapeutics in pre-clinical research. These PDCs are designed to selectively deliver paclitaxel, a chemotherapeutic payload to cancer cells and cancer stem cells increasing the therapeutic index of paclitaxel as a monotherapy. Each of our paclitaxel PDC's have been evaluated *in vitro* to demonstrate formulation stability and CLR 1602-PTX is currently being studied *in vivo* to further explore the PDC's cancer targeting selectivity. In December of 2015, the Company entered into a research collaboration for our PDC technology with Pierre Fabre laboratories, the third largest French pharmaceutical company. The objective of the research collaboration is to co-design a library of PDC's employing Pierre Fabre's chemotherapeutics in combination with our proprietary cancer targeting delivery vehicle. The newly developed PDC's may provide enhanced therapeutic indices to otherwise highly potent, non-targeted payloads through the targeted delivery to cancer cells provided by our cancer targeted delivery vehicle.
- CLR 125 is a cancer-targeting radiotherapeutic currently under pre-clinical investigation for the treatment of micrometastatic disease. Similar to CLR 131, the selective uptake and retention of CLR 125 has been observed in malignant tissues during pre-clinical studies. Preclinical evaluation of this molecule was completed in June 2016 as part of the Phase 1 portion of an NCI SBIR award and demonstrated favorable biodistribution, tolerability, and dose response.

The Company's product pipeline also includes a diagnostic imaging agent, CLR 124, a Phase 2-ready asset, as well as our 1500 series of optical imaging agents, including 1502, a Phase 1-ready asset. Although these are intriguing and potentially clinically useful compounds, at this time the Company has prioritized the development of its therapeutic assets.

We believe our PDC platform has potential to provide targeted delivery of a diverse range of oncologic payloads, as exemplified by the product candidates listed above, that may result in improvements upon current standard of care (SOC) for the treatment of a broad range of human cancers.

Results of Operations

Research and development expense. Research and development expense consists of costs incurred in identifying, developing and testing, and manufacturing product candidates, which primarily include salaries and related expenses for personnel, costs of our research and manufacturing facility, cost of manufacturing materials and contract manufacturing fees paid to contract research organizations, fees paid to medical institutions for clinical trials, and costs to secure intellectual property. The Company analyzes its research and development expenses based on four categories as follows: clinical projects, preclinical projects, chemistry and manufacturing costs, and general fixed and overhead costs that are not allocated to the functional project costs, including personnel costs, facility costs, related overhead costs and patent costs.

General and administrative expense. General and administrative expense consists primarily of salaries and other related costs for personnel in executive, finance and administrative functions. Other costs include insurance, costs for public company activities, investor relations, directors' fees and professional fees for legal and accounting services.

Three Months Ended March 31, 2017 and 2016

Research and Development. Research and development expense for the three months ended March 31, 2017 was approximately \$1,857,000 (composed of \$501,000 in clinical project costs, \$91,000 of manufacturing and related costs and \$1,265,000 in general unallocated research and development costs) compared to approximately \$1,039,000 (composed of \$188,000 in clinical project costs, \$43,000 of preclinical project costs, \$74,000 of manufacturing and related costs and \$734,000 in general unallocated research and development costs) for the three months ended March 31, 2016. The overall increase in research and development expense of approximately \$818,000, or 79%, was due primarily to an increase of approximately \$256,000 in contract research; an increase of approximately \$352,000 related to contract manufacturing and supply costs; an increase in consulting fees of approximately \$160,000, and an increase in equipment and building repairs and maintenance of approximately \$20,000, partially offset by a decrease in personnel costs of approximately \$53,000 and a reduction in reimbursed costs related to the SBIR study of approximately \$39,000. More generally, the spending increases in this category are all related to the hematologic malignancies Phase 2 trial that was initial in the fourth quarter of 2016.

General and Administrative. General and administrative expense for the three months ended March 31, 2017 was approximately \$955,000 compared to approximately \$961,000 in the three months ended March 31, 2016. While largely consistent between periods, the approximately \$6,000 or 1% decrease was due to a shift in expense composition; primarily increased personnel costs of approximately \$132,000 offset by a decrease in accounting fees of approximately \$29,000; a decrease in public company expenses of approximately \$57,000; and a decrease in consulting and marketing fees of approximately \$37,000.

Gain (Loss) on Derivative Warrants. We recorded a loss on derivative warrants of approximately \$83,000 in the three months ended March 31, 2017, as compared to a gain of approximately \$2,825,000 in the three months ended March 31, 2016. These amounts represent the change in fair value (resulting primarily from changes in the Company's stock price as well as a reduction in term, during the respective periods), of outstanding warrants which are classified as liabilities because they contain a certain type of cash settlement feature, "down-round" anti-dilution provisions whereby the number of shares for which the warrants are exercisable and/or the exercise price of the warrants is subject to change in the event of certain issuances of stock at prices below the then-effective exercise prices of the warrants. The fluctuations we experienced in historical periods have been substantially reduced as a result of the renegotiation or extinguishment of a significant portion of the liability-classified warrants.

Interest income, net. Interest income, net, for the three months ended March 31, 2017 was relatively consistent with that recorded in the three months ended March 31, 2016.

Liquidity and Capital Resources

We have financed our operations since inception primarily through the sale of equity and debt securities. As of March 31, 2017, we had approximately \$11,238,000 in cash and cash equivalents. To that date, we have raised capital aggregating approximately \$167 million.

During the three months ended March 31, 2017, we reported net loss of approximately \$2,891,000, while using approximately \$2,987,000 in cash in operations. The net loss included an approximately \$83,000 loss on the revaluation of derivative warrants, approximately \$166,000 in stock-based compensation expense and approximately \$87,000 in depreciation and amortization expense. After adjustment for these non-cash items, changes in working capital used approximately \$431,000 of cash, of which \$230,000 was the result of the timing of payments of accounts payable and accrued expenses and the remainder was an increase in prepaid and other assets of approximately \$201,000. Also during this period, Series C warrants representing 1,956,506 shares of common stock were exercised by the holders, for proceeds of \$2,934,759.

The accompanying consolidated financial statements have been prepared on a basis that assumes that we will continue as a going concern and that contemplates the continuity of operations, realization of assets and the satisfaction of liabilities and commitments in the normal course of business. During the three months ended March 31, 2017, we generated an operating loss of approximately \$2,812,000 and we expect that we will continue to generate operating losses for the foreseeable future. At March 31, 2017, our consolidated cash balance was approximately \$11,238,000.

On November 29, 2016, the Company closed on an underwritten public offering (the “November 2016 Underwritten Offering”) of 1.6 million shares of common stock, 68 shares of Series A preferred stock convertible into 4,533,336 shares of common stock, and Series C warrants to purchase 6.3 million shares of common stock, reflecting the exercise in full of the Underwriter’s over-allotment option. The gross proceeds of the offering amounted to \$9.2 million with net proceeds to the Company of approximately \$8.3 million.

On April 20, 2016, the Company closed on its underwritten public offering of approximately 1.87 million shares of its common stock and Series B pre-funded warrants to purchase approximately 1.91 million shares of common stock, plus the issuance of Series A warrants to purchase approximately 3.78 million shares of common stock, reflecting the exercise in full of the Underwriter’s over-allotment option (the “April 2016 Underwritten Offering”). The gross proceeds of the offering amounted to approximately \$8.0 million with net proceeds to the Company of approximately \$7.2 million.

We believe our March 31, 2017 cash balance of approximately \$11,238,000 is adequate to fund operations into the second quarter of 2018. Our ability to execute our operating plan beyond that time depends on our ability to obtain additional funding via the sale of equity and/or debt securities, a strategic transaction or otherwise. We have, in the past, successfully completed multiple rounds of financings, but due to market conditions and other factors, including our development stage, the proceeds we have been able to secure have been less than the amounts we sought to obtain. We plan to actively pursue all available financing alternatives; however, we have not entered into negotiations for any such transactions and there can be no assurance that we will obtain the necessary funding. Other than the uncertainties regarding our ability to obtain additional funding, there are currently no known trends, demands, commitments, events or uncertainties that are likely to materially affect our liquidity.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Based on our management’s evaluation (with the participation of our principal executive officer and principal financial officer), as of March 31, 2017, our management has concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in internal control over financial reporting. There have not been any significant changes in the Company’s internal control of financial reporting.

The Chief Executive Officer and the Audit Committee perform significant roles in ensuring the accuracy and completeness of our financial reporting and the effectiveness of our disclosure controls and procedures. We have not identified any changes that occurred during the Company’s fiscal quarter ended March 31, 2017 that materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Important Considerations. Any system of controls, however well designed and operated, can provide only reasonable, and not absolute assurance that the objectives of the system are met. In addition, the design of any control system is based in part on certain assumptions about the likelihood of future events. The effectiveness of our disclosure controls and procedures is subject to various inherent limitations, including cost limitations, judgments used in decision making, assumptions about the likelihood of future events, the soundness of our systems, the possibility of human error, and the risk of fraud. Because of these and other inherent limitations of control systems, there can be no assurance that any system of disclosure controls and procedures will be successful in achieving its stated goals, including but not limited to preventing all errors or fraud or in making all material information known in a timely manner to the appropriate levels of management, under all potential future conditions, regardless of how remote.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

We will require additional capital in order to continue our operations, and may have difficulty raising additional capital.

We expect that we will continue to generate significant operating losses for the foreseeable future. At March 31, 2017, our consolidated cash balance was approximately \$11.2 million. We believe our cash balance at March 31, 2017, is adequate to fund operations into the second quarter of 2018. We will require additional funds to conduct research and development, establish and conduct clinical and preclinical trials, establish commercial-scale manufacturing arrangements and provide for the marketing and distribution of our products. Our ability to execute our operating plan depends on our ability to obtain additional funding via the sale of equity and/or debt securities, a strategic transaction or otherwise. We plan to actively pursue financing alternatives. However, there can be no assurance that we will obtain the necessary funding in the amounts we seek or that it will be available on a timely basis or upon terms acceptable to us. If we obtain capital by issuing debt or preferred stock, the holders of such securities would likely obtain rights that are superior to those of holders of our common stock.

Our capital requirements and our ability to meet them depend on many factors, including:

- the number of potential products and technologies in development;
- continued progress and cost of our research and development programs;
- progress with preclinical studies and clinical trials;
- the time and costs involved in obtaining regulatory clearance;
- costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims;
- costs of developing sales, marketing and distribution channels and our ability to sell our drugs;
- costs involved in establishing manufacturing capabilities for clinical trial and commercial quantities of our drugs;
- competing technological and market developments;
- market acceptance of our products;
- costs for recruiting and retaining management, employees and consultants;
- costs for educating physicians regarding the application and use of our products;
- whether we are able to maintain our listing on a national exchange;
- uncertainty and economic instability resulting from terrorist acts and other acts of violence or war; and
- the condition of capital markets and the economy generally, both in the U.S. and globally.

We may consume available resources more rapidly than currently anticipated, resulting in the need for additional funding sooner than expected. We may seek to raise any necessary additional funds through the issuance of warrants, equity or debt financings or executing collaborative arrangements with corporate partners or other sources, which may be dilutive to existing stockholders or have a material effect on our current or future business prospects. In addition, in the event that additional funds are obtained through arrangements with collaborative partners or other sources, we may have to relinquish economic and/or proprietary rights to some of our technologies or products under development that we would otherwise seek to develop or commercialize by ourselves. If we cannot secure adequate financing when needed, we may be required to delay, scale back or eliminate one or more of our research and development programs or to enter into license or other arrangements with third parties to commercialize products or technologies that we would otherwise seek to develop ourselves and commercialize ourselves. In such an event, our business, prospects, financial condition, and results of operations may be adversely affected.

We will require additional funds to conduct research and development, establish and conduct preclinical and clinical trials, establish commercial-scale manufacturing arrangements and provide for the marketing and distribution of our products. Our ability to execute our operating plan depends on our ability to obtain additional funding via the sale of equity and/or debt securities, a strategic transaction or otherwise.

We have incurred net losses and negative cash flows since inception. We currently have no product revenues, and may not succeed in developing or commercializing any products that will generate product or licensing revenues. We do not expect to have any products on the market for several years. Our primary activity to date has been research and development and conducting clinical trials. Development of our product candidates requires a process of preclinical and clinical testing, during which our product candidates could fail. We may not be able to enter into agreements with one or more companies experienced in the manufacturing and marketing of therapeutic drugs and, to the extent that we are unable to do so, we may not be able to market our product candidates. Whether we achieve profitability or not will depend on our success in developing, manufacturing, and marketing our product candidates. We have experienced net losses and negative cash flows from operating activities since inception and we expect such losses and negative cash flows to continue for the foreseeable future. As of March 31, 2017, we had a stockholders' equity of approximately \$13,749,000. The operating loss for the three months ended March 31, 2017 was approximately \$2,812,000, and we may never achieve profitability.

Item 6. Exhibits

Exhibit No.	Description	Filed with this Form 10-Q	Incorporation by Reference		Exhibit No.
			Form	Filing Date	
31.1	Certification of chief executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
31.2	Certification of chief financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
32.1	Certification of chief executive officer and chief financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X			
101	Interactive Data Files	X			

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CELLECTAR BIOSCIENCES, INC.

Date: May 11, 2017

By: /s/ James V. Caruso

James V. Caruso
President and Chief Executive Officer

I, JAMES V. CARUSO, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Collectar Biosciences, Inc., a Delaware Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2017

/s/ James V. Caruso

James V. Caruso

President and Chief Executive Officer (Principal Executive Officer)

I, CHAD KOLEAN, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Collectar Biosciences, Inc., a Delaware Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2017

/s/ Chad Kolean

Chad Kolean

Chief Financial Officer (Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. § 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Collectar Biosciences, Inc. (the “Company”) for the quarter ended March 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, James V. Caruso, President and Chief Executive Officer of the Company, and Chad J. Kolean, Vice President, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to our knowledge, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ James V. Caruso

James V. Caruso
President and Chief Executive Officer (Principal Executive Officer)
Date: May 11, 2017

/s/ Chad Kolean

Chad Kolean
Chief Financial Officer (Principal Financial and Accounting Officer)
Date: May 11, 2017
