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

FORM 10-QSB

[mark one]

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

For the quarterly period ended: September 30, 2006

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 333-119366

NOVELOS THERAPEUTICS, INC.

(*Exact name of small business issuer as specified in its charter*)

DELAWARE	**04-3321804**
(*State or other jurisdiction of incorporation or organization*)	(*IRS Employer Identification No.*)

One Gateway Center, Suite 504, Newton, Massachusetts 02458
(*Address of principal executive offices*)

(617) 244-1616
(*Issuer's telephone number, including area code*)

(*Former name, former address, if changed since last report)*

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

Indicate by check mark whether the registrant is 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: 39,235,272 shares of common stock, $.00001 par value per share, as of November 1, 2006.

Transitional Small Business Disclosure Format (check one):
Yes ☐ No ☒

NOVELOS THERAPEUTICS, INC.

10-QSB INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

NOVELOS THERAPEUTICS, INC.
BALANCE SHEETS

	September 30, 2006 (unaudited)	December 31, 2005 (audited)
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	$ 11,711,402	$ 4,267,115
Restricted cash	2,210,768	196,908
Prepaid expenses and other current assets	371,183	337,902
Total current assets	14,293,353	4,801,925
PROPERTY AND EQUIPMENT, NET	26,134	22,610
DEFERRED FINANCING COSTS	—	24,612
PREPAID EXPENSES	—	79,896
DEPOSITS	10,875	9,656
TOTAL ASSETS	$ 14,330,362	$ 4,938,699
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 1,102,067	$ 211,456
Accrued interest	5,700	5,700
Total current liabilities	1,107,767	217,156
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, $.00001 par value; 7,000 shares authorized:		
Series A 8% cumulative convertible preferred stock; 3,264 shares issued and outstanding (liquidation preference $3,264,000)	—	—
Common stock, $.00001 par value; 100,000,000 shares authorized; 39,235,272 and 27,921,199 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively	392	279
Additional paid-in capital	34,233,883	20,119,820
Accumulated deficit	(21,011,680)	(15,398,556)
Total stockholders' equity	13,222,595	4,721,543
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 14,330,362	$ 4,938,699

See notes to financial statements.

NOVELOS THERAPEUTICS, INC.
STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005 (Restated)**	**2006**	**2005 (Restated)**
REVENUES:				
Sales of samples	$ —	$ 12,584	$ —	$ 12,584
Total revenue	—	12,584	—	12,584
COSTS AND EXPENSES:				
Research and development	2,408,658	376,461	4,200,465	927,169
General and administrative	586,542	596,863	1,889,182	905,224
Total costs and expenses	2,995,200	973,324	6,089,647	1,832,393
OTHER INCOME (EXPENSE):				
Interest income	192,017	8,077	472,023	9,693
Interest expense	—	(3,209)	—	(109,102)
Miscellaneous	1,500	1,000	4,500	4,297
Gain on forgiveness of debt	—	—	—	2,087,531
Restructuring expense	—	—	—	(2,521,118)
Total other income (expense)	193,517	5,868	476,523	(528,699)
NET LOSS	(2,801,683)	(954,872)	(5,613,124)	(2,348,508)
PREFERRED STOCK DEEMED DIVIDEND	—	(1,943,377)	—	(1,943,377)
PREFERRED STOCK DIVIDEND	(65,280)	—	(195,840)	—
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (2,866,963)	$ (2,898,249)	$ (5,808,964)	$ (4,291,885)
BASIC AND DILUTED NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS PER COMMON SHARE	$ (0.07)	$ (0.11)	$ (0.16)	$ (0.22)
SHARES USED IN COMPUTING BASIC AND DILUTED NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS PER COMMON SHARE	39,226,250	27,228,700	36,487,218	19,689,732

See notes to financial statements.

NOVELOS THERAPEUTICS, INC.
STATEMENTS OF CASH FLOWS
(unaudited)

	Nine Months Ended September 30,	
	2006	**2005**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (5,613,124)	$ (2,348,508)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	7,192	1,303
Stock-based compensation	462,492	168,186
Gain on forgiveness of debt	—	(2,087,531)
Common stock issued for restructuring expense	—	2,521,118
Increase (decrease) in:		
Accounts receivable	—	12,584
Prepaid expenses and other current assets	46,615	(50,556)
Accounts payable and accrued expenses	890,611	(40,325)
Accrued interest	—	51,451
Deferred revenue	—	(12,584)
Deferred rent	—	250
Cash used in operating activities	(4,206,214)	(1,784,612)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(10,716)	(22,963)
Change in restricted cash	(2,013,860)	(195,726)
Deferred financing costs	24,612	—
Deposits	(1,219)	(4,798)
Cash used in investing activities	(2,001,183)	(223,487)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of preferred stock	—	2,680,000
Net proceeds from issuance of common stock	13,846,774	3,819,034
Dividends paid to preferred stockholders	(195,840)	—
Proceeds from exercise of stock option	750	—
Payments of long-term debt	—	(1,840)
Proceeds from issuance of promissory notes	—	850,000
Payment of promissory notes	—	(519,000)
Cash provided by financing activities	13,651,684	6,828,194
INCREASE IN CASH AND EQUIVALENTS	7,444,287	4,820,095
CASH AND EQUIVALENTS, BEGINNING OF YEAR	4,267,115	10,356
CASH AND EQUIVALENTS, END OF PERIOD	$ 11,711,402	$ 4,830,451

See notes to financial statements

NOVELOS THERAPEUTICS, INC.
STATEMENTS OF CASH FLOWS (continued)
(unaudited)

	Nine Months Ended September 30,	
	2006	**2005 (Restated)**
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for:		
Interest	$ —	$ 57,461
SUPPLEMENTAL DISCLOSURES OF NON-CASH ACTIVITIES		
Common stock issued for services	$ 144,050	$ 156,250
Deemed dividend for preferred stock conversion feature	$ —	$ 1,943,377
Common stock issued for accrued services	$ —	$ 216,000
Common stock issued on conversion of promissory notes	$ —	$ 1,727,000
Common stock issued in exchange for accounts payable	$ —	$ 544,221
Common stock issued for accrued interest	$ —	$ 100,000
Accounts payable forgiven	$ —	$ 773,599
Accrued compensation forgiven	$ —	$ 360,357
Accrued interest forgiven	$ —	$ 343,363
Accrued liability for amounts included in prepaid expenses	$ —	$ 372,450

See notes to financial statements.

NOVELOS THERAPEUTICS, INC.
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements of Novelos Therapeutics, Inc. ("Novelos" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-QSB and Item 310 of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for the fair presentation of the results for the interim periods have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Interim results are not necessarily indicative of results to be expected for the entire year ending December 31, 2006. These unaudited financial statements should be read in conjunction with the audited financial statements and related notes thereto included in the Company's latest annual report for the year ended December 31, 2005 on Form 10-KSB/A which was filed with the Securities and Exchange Commission ("SEC") on November 1, 2006.

Cash - Restricted cash consists of $152,438 of cash placed in escrow as contractually required under an employment agreement with an officer and $2,058,330 of cash pledged as security on a letter of credit agreement with a bank. See Note 9.

Reclassifications - Certain amounts in prior periods have been reclassified to conform to the current period presentation.

Restatement - Subsequent to the initial filing of the Company's quarterly report on Form 10-QSB for the quarter ended September 30, 2005 and the Company's annual report on Form 10-KSB for the year ended December 31, 2005 (the "Relevant Periods") and in connection with an internal review of the terms associated with the Company's historical financing transactions, the Company determined that the intrinsic value associated with the beneficial conversion feature ("BCF") of the Company's Series A 8% Cumulative Convertible Preferred Stock had not been properly presented as a deemed (non-cash) dividend nor deducted from net loss in determining net loss attributable to common stockholders in the Relevant Periods. As the terms of the Series A 8% Convertible Preferred Stock allowed immediate conversion, the deemed (non-cash) dividend related to the BCF should have been recorded upon issuance. The Statements of Operations for the three and nine months ended September 30, 2005, the Statements of Cash Flows for the nine months ended September 30, 2005 (supplemental disclosures of non-cash activities) and the related footnote disclosures included in this Form 10-QSB have been revised to include the deemed dividend of $1,943,377 related to the quarter ended September 30, 2005.

2. REVERSE MERGER AND RESTRUCTURING

In May and June 2005, the Company completed a merger with Common Horizons, Inc. ("Common Horizons"), a Nevada-based developer of web portals. In connection with that transaction, all outstanding shares of Novelos (net of shares of treasury stock) were converted into an equal number of shares of common stock of Common Horizons and all outstanding options and warrants to purchase shares of Novelos common stock were converted into an equal number of options and warrants to purchase shares of Common Horizons with the same terms and conditions as the original options and warrants. In connection with the merger all but 4,500,000 shares of outstanding common stock of Common Horizons were cancelled. Following these transactions, Novelos shareholders owned approximately 83% of the combined company on a fully diluted basis after giving effect to the transaction. Common Horizons changed its state of incorporation, by-laws, certificate of incorporation and fiscal year to that of Novelos and Novelos became the surviving corporation. The business of Common Horizons, which was insignificant, was abandoned and the business of Novelos was adopted. The transaction was therefore accounted for as a reverse acquisition with Novelos as the acquiring party and Common Horizons as the acquired party for accounting purposes. Accordingly, all historical information in these financial statements is that of the Novelos business. The results of operations of Common Horizons prior to the merger were not material for purposes of pro forma presentation. The 4,500,000 remaining shares of Common Horizons outstanding at the completion of the merger, net of cancellations, were deemed, for accounting purposes, to be an issuance by Novelos. Since Common Horizons had no remaining financial assets or liabilities, the merger with Common Horizons did not have any significant effects on the Company's assets or liabilities or on the Company's results of operations subsequent to the date of the merger.

On May 26, 2005, indebtedness of Novelos in the amount of $3,139,185 was exchanged for 586,352 shares of common stock of Novelos with an aggregate deemed value of $732,940 and cash in the amount of $318,714, which resulted in forgiveness of debt income of $2,087,531. Also on May 26, 2005, holders of convertible notes of Novelos in the principal amount of $1,100,000 converted their notes into 1,760,000 shares of common stock of Novelos at a price of $0.625 per share. In addition, Novelos amended an arrangement for future royalty payments to a related party (see Note 10), which resulted in the issuance of 2,016,894 shares of its common stock with an aggregate deemed value of $2,521,118. These amounts were reflected in Novelos' Statements of Operations for the nine months ended September 30, 2005 as "Gain on forgiveness of debt" and "Restructuring expense."

3. STOCK-BASED COMPENSATION

The Company's stock-based compensation plans are summarized below:

2000 Stock Option Plan. The Company's incentive stock option plan established in August 2000 (the "2000 Plan") provides for grants of options to purchase up to 73,873 post-split shares of common stock. Grants may be in the form of incentive stock options or nonqualified options. The board of directors determines exercise prices and vesting periods on the date of grant. Options generally vest annually over three years and expire on the tenth anniversary of the grant date. No options were granted, exercised or cancelled under the 2000 Plan during 2005 or during the three- and nine-month periods ending September 30, 2006.

2006 Stock Incentive Plan. On May 1, 2006, the Company's board of directors adopted and on July 21, 2006 the Company's stockholders approved, the 2006 Stock Incentive Plan (the "2006 Plan"). A total of 5,000,000 shares of common stock are reserved for issuance under the 2006 Plan for grants of incentive or nonqualified stock options, rights to purchase restricted and unrestricted shares of common stock, stock appreciation rights and performance share grants. A committee of the board of directors determines exercise prices, vesting periods and any performance requirements on the date of grant, subject to the provisions of the 2006 Plan. Options are granted at or above the fair market value of the common stock at the grant date and expire on the tenth anniversary of the grant date. In the nine months ended September 30, 2006, stock options for the purchase of 210,000 shares of common stock were granted under the 2006 Plan.

Other Stock Option Activity. During 2005 and 2004, the Company issued stock options to employees, directors and consultants outside of any formalized plan. These options are exercisable within a ten-year period from the date of grant, and vest at various intervals with all options being fully vested within two-to-three years of the grant date. The options are not transferable except by will or domestic relations order. The option price per share is not less than the fair market value of the shares on the date of the grant. During the nine months ended September 30, 2006, options to purchase 75,000 shares were exercised. There have been no other exercises.

Adoption of SFAS No. 123(R)

Effective January 1, 2006, the Company adopted the fair-value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123(R), *Share-Based Payment* ("SFAS 123R"), using the modified-prospective-transition method. SFAS 123R requires all share-based payments to employees including grants of employee stock options to be recognized in the financial statements based on their fair values. SFAS 123R did not change the accounting guidance for share-based payments granted to non-employees provided in *SFAS No. 123, Accounting for Stock Based Compensation*, as originally issued and Emerging Issues Task Force ("EITF") No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*. EITF 96-18 requires that companies recognize compensation 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 by such non-employees. The fair value of unvested non-employee stock awards is re-measured at each reporting period.

Under the modified prospective transition method, compensation cost recognized for the three and nine months ended September 30, 2006 includes: (a) compensation cost for all stock-based payments granted, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, *Accounting for Stock Based Compensation*, and (b) compensation cost for all stock-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. Results for prior periods have not been restated. As a result of the adoption of SFAS 123R, the Company recorded incremental stock-based compensation expense of $70,522 and $191,974, respectively, in the three and nine months ended September 30, 2006.

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

	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2006
Employee and director stock option grants:		
Research and development	$ 47,820	$ 139,050
General and administrative	22,702	52,924
	70,522	191,974
Non-employee consultants stock option grants and restricted stock awards:		
Research and development	3,969	3,969
General and administrative	47,723	266,549
	51,692	270,518
Total stock-based compensation	$ 122,214	$ 462,492

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.

Volatility. Volatility is determined based on the Company's estimate of fluctuation in its common stock price and its review of comparable public company data due to the limited amount of time that the Company's common stock has been publicly traded.

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 life assumption.

Expected term. The expected term of stock options granted is based on the Company's estimate of when options will be exercised in the future as there have been limited stock option exercises to date. The expected term is generally applied to one group as a whole as the Company does not expect substantially different exercise or post-vesting termination behavior within its employee population. The expected term of options that were granted prior to the Company's stock becoming publicly traded was generally longer (10 years) than is currently estimated.

Forfeitures. As required by SFAS 123R, the Company records share-based compensation expense only for those awards that are expected to vest. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The term "forfeitures" is distinct from "cancellations" or "expirations" and represents only the unvested portion of the surrendered option. The Company has applied an annual forfeiture rate of 0% to all unvested options as of September 30, 2006 as the Company believes that there is insufficient history to develop an accurate estimate of future forfeitures. This analysis will be re-evaluated quarterly and the forfeiture rate will be adjusted as necessary. Ultimately, the actual expense recognized over the vesting period will be for only those shares that vest.

The following table summarizes weighted average values and assumptions used for options granted to employees, directors and consultants in the three and nine months periods ended September 30:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Volatility	80%	80%	80%	0-80%
Weighted-average volatility	80%	80%	80%	20.1%
Risk-free interest rate	4.59%-5.05%	3.84%-4.30%	4.59%-5.05%	3.84%-4.81%
Expected life (years)	5-10	5-10	5-10	5-10
Dividend	0	0	0	0
Weighted-average exercise price	$ 1.23	$ 3.22	$ 1.23	$ 0.66
Weighted-average grant-date fair value	$ 0.56	$ 2.22	$ 0.56	$ 0.45

Pro Forma Information Under SFAS 123 for Periods Prior to January 1, 2006

The following table illustrates the effect on net loss and net loss per share had the Company applied the fair-value recognition provisions of SFAS 123R in the three and nine months ended September 30, 2005. For purposes of this pro-forma disclosure, the value of the options is estimated using the Black-Scholes option-pricing model and amortized to expense over the options' vesting periods.

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net loss available to common stockholders as reported	$ (2,898,249)	$ (4,291,885)
Deduct: Stock-based employee compensation expense determined under fair value based method	(45,915)	(50,244)
Pro forma net loss	$ (2,944,164)	$ (4,342,129)
Basic and diluted net loss per share:		
As reported	$ (0.11)	$ (0.22)
Pro forma	$ (0.11)	$ (0.22)

Stock Option Activity

A summary of stock option activity under the 2000 Plan, the 2006 Plan and outside of any formalized plan during the nine months ended September 30, 2006 is as follows:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contracted Term in Years	Aggregate Intrinsic Value
Outstanding at December 31, 2005	2,727,651	$ 0.60	8.9	$ 4,294,257
Granted	210,000	$ 1.23		
Exercised	(75,000)	$ 0.01		
Outstanding at September 30, 2006	2,862,651	$ 0.66	8.3	$ 1,836,718
Exercisable at September 30, 2006	2,230,312	$ 0.41	8.1	$ 1,700,076

The aggregate intrinsic value of options outstanding at September 30, 2006 is calculated based on the positive difference between the closing market price of the Company's common stock at the end of the respective period and the exercise price of the underlying options. The weighted average grant-date fair value of options granted in the three and nine months ended September 30, 2006 was $0.56 per share. During the nine months ended September 30, 2006, the total intrinsic value of options exercised was $134,250 and the total amount of cash received from exercise of these options was $750.

The following tables summarize information about stock options outstanding at September 30, 2006:

	Options Outstanding			Options Exercisable	
Exercise Price	Number of Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$ 0.01	2,053,778	8.1	$ 0.01	1,900,627	$ 0.01
$ 0.70 - $1.95	255,705	9.2	$ 1.14	51,517	$ 0.88
$ 2.00 - $3.22	525,000	8.9	$ 2.63	250,000	$ 2.65
$ 7.01	28,168	5.8	$ 7.01	28,168	$ 7.01
	2,862,651	8.30	$ 0.66	2,230,312	$ 0.41

As of September 30, 2006, there was approximately $462,000 of total unrecognized compensation cost related to unvested share-based compensation arrangements. This cost is expected to be recognized over a weighted average period of 1.25 years. The Company expects 632,339 in unvested options to vest in the future.

4. COMPREHENSIVE INCOME (LOSS)

The Company had no components of comprehensive income (loss) other than net loss in all of the periods presented.

5. NET LOSS PER SHARE

Basic net loss per share is computed by dividing net loss attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by dividing net loss attributable to common stockholders by 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, warrants and convertible preferred stock. Since the Company has a net loss for all periods presented, the inclusion of stock options and warrants in the computation would be antidilutive. Accordingly, basic and diluted net loss per share are the same.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Stock options	2,862,651	2,627,651	2,862,651	2,627,651
Warrants	14,561,449	4,768,402	14,561,449	4.768,402
Conversion of preferred stock	2,417,774	1,818,182	2,417,774	1,818,182

6. INCOME TAXES

The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes* (“SFAS 109”). Under SFAS 109, 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, 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 for federal, state or foreign income taxes for the three and nine months ended September 30, 2006 and September 30, 2005, respectively, because the Company has experienced losses since inception. The Company has not recorded a benefit for deferred tax assets as their realizability is uncertain.

7. NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 157, *Fair Value Measurements* (“SFAS 157”), to define fair value, establish a framework for measuring fair value in generally accepted accounting principles and expand disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, with earlier application allowed. The Company is currently evaluating the effect of this standard on its future reported financial position and results of operations.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140* (“SFAS 155”), to simplify and make more consistent the accounting for certain financial instruments. SFAS 155 amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, to permit fair-value remeasurement for any hybrid financial instrument with an embedded derivative that otherwise would require bifurcation, provided that the whole instrument is accounted for on a fair-value basis. SFAS 155 amends SFAS No. 140, *Accounting for the Impairment or Disposal of Long-Lived Assets*, to allow a qualifying special-purpose entity to hold a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 applies to all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006, with earlier application allowed. This standard is not expected to have a significant effect on the Company’s future reported financial position or results of operations.

8. STOCKHOLDERS' EQUITY

2005 PIPE - From May 27, 2005 through August 9, 2005, the Company completed a private offering of securities structured as a "PIPE" (Private Investment in Public Equity), exempt from registration under Section 4(2) of the Securities Act of 1933, in which it sold to accredited investors 4,000,000 shares of common stock and issued 2,000,000 common stock warrants (initially exercisable at $2.25 per share) for net cash proceeds of approximately $3,715,000 (net of issuance costs of approximately $891,000) and conversion of debt of $550,000. In connection with the private placement, the Company also issued 125,000 shares of common stock to placement agents and issued 340,000 common stock warrants to placement agents and finders at an initial exercise price of $2.00 per share. Pursuant to anti-dilution provisions, the number of warrants issued to investors, placement agents and finders was subsequently increased to 3,139,312 and the exercise price of the warrants was reduced to $1.65 per share as a result of the Series A Preferred financing described below. The 2006 PIPE transaction in March 2006 described below resulted in a further adjustment to the warrants, increasing the number of warrants to 3,836,967 and reducing the exercise price of the warrants to $1.35 per share.

Series A Preferred - On September 30, 2005 and October 3, 2005, the Company sold, in a private placement, a total of 3,200 shares of its Series A 8% Cumulative Convertible Preferred Stock and 969,696 common stock warrants for net proceeds of $2,864,000, net of issuance costs of $336,000. The preferred shares were originally convertible at a price of $1.65 per common share into 1,939,393 shares of common stock and the warrants were exercisable at $2.50 per share. The fair value of the 969,696 warrants, determined on a relative fair-value basis, was $786,679, which is included in additional paid-in capital. Since the conversion price of the preferred stock was less than the market value of the Company's common stock at the time of the closings, the Company determined that there was a beneficial conversion feature. After allocating the value of the warrants, the intrinsic value of the beneficial conversion feature was determined to be $4,344,252. However, there were not sufficient net proceeds remaining to allocate the full intrinsic value to the beneficial conversion feature. Therefore, the remaining net proceeds of $2,077,321 were allocated to the beneficial conversion feature and that amount was recorded as a deemed dividend in the year ended December 31, 2005. The deemed dividend associated with the September 30, 2005 closing of $1,943,377 is reflected as an adjustment to arrive at net loss attributable to common stockholders for the three and nine months ended September 30, 2005.

Pursuant to anti-dilution provisions, both the conversion price of the preferred stock and the exercise price of the warrants were subsequently adjusted to $1.35 per share on March 7, 2006 in connection with a subsequent offering of common stock described below and the preferred stock became convertible into 2,370,370 shares of common stock. The intrinsic value associated with this contingent beneficial conversion feature was $1,501,686. However, the proceeds had been fully allocated to the warrants and initial beneficial conversion feature as described above and therefore no additional deemed dividend was recorded in the quarter ended March 31, 2006.

2006 PIPE - On March 7, 2006, the Company completed a private offering of securities structured as a PIPE, exempt from registration under Section 4(2) of the Securities Act of 1933, in which it sold to accredited investors 11,154,073 shares of common stock at $1.35 per share and warrants to purchase 8,365,542 common stock warrants exercisable at $2.50 per share for net cash proceeds of approximately $13,847,000 (net of issuance costs of approximately $1,211,000). In connection with the private placement, the Company issued 669,244 common stock warrants (exercisable at $2.50 per share) to the placement agents.

Common Stock Warrants - The following table summarizes information with regard to outstanding warrants issued in connection with equity and debt financings as of September 30, 2006:

Offering	Outstanding (as adjusted)		Exercise Price (as adjusted)	Expiration Date
2005 Bridge Loans	720,000	$	0.625	April 1, 2010
2005 PIPE				
Investors	3,333,275	$	1.35	August 9, 2008
Placement Agents/Finders	503,692	$	1.35	August 9, 2010
Series A Preferred				
Investors - September 30, 2005 closing	909,090	$	1.35	September 30, 2010
Investors - October 3, 2005 closing	60,606	$	1.35	October 3, 2010
2006 PIPE				
Investors	8,365,542	$	2.50	March 7, 2011
Placement Agents	669,244	$	2.50	March 7, 2011
Total	14,561,449			

None of the above warrants have been exercised as of September 30, 2006.

On April 1, 2005, in connection with the issuance of $450,000 bridge notes payable, the Company issued warrants to purchase 720,000 shares of Novelos stock at $0.625 per share that expire in 5 years.

9. COMMITMENTS

Novelos issued 50,000 shares of common stock to a vendor in connection with the restructuring of debt described in Note 2. Novelos has agreed to reimburse the vendor for the shortfall, if any, between the market value of shares still held at November 18, 2006, plus any proceeds received as of that date on the sale of the shares and $79,000. As of September 30, 2006, $34,000 is included in accrued expenses representing the estimated obligation in connection with this agreement.

In July, 2006, the Company entered into a contract with a supplier of pharmaceutical products that will provide chemotherapy drugs to be used in connection with Phase 3 clinical trial activities outside of the United States. Pursuant to the contract, the Company was obligated to purchase a minimum of approximately $2.6 million of chemotherapy drugs at specified intervals through March 2008. As of September 30, 2006, approximately $1.8 million is remaining under that commitment. In connection with that agreement, the Company was required to enter into a standby letter of credit arrangement with a bank. The balance on the standby letter of credit at September 30, 2006 equals the remaining purchase commitment of $1.8 million. In connection with the letter of credit, the Company has pledged cash of approximately $2.1 million to the bank as collateral on the letter of credit. The pledged cash is included in restricted cash at September 30, 2006.

10. RELATED-PARTY TRANSACTIONS

Pursuant to a royalty and technology transfer agreement between the Company and ZAO BAM dated April 1, 2005, the Company is required to make royalty payments equal to 1.2% of net sales of oxidized glutathione-based products. The Company is also required to pay ZAO BAM $2 million for each new oxidized glutathione-based drug within eighteen months following FDA approval of such drug. Under this agreement, if the Company licenses any such products to third parties, the Company is required to pay ZAO BAM 3% of all license revenues, as defined, and an additional 9% of such revenue in excess of the Company's expenditures associated therewith, including but not limited to, preclinical and clinical studies, testing, FDA and other regulatory agency submission and approval costs, general and administrative costs, and patent expenses. The majority shareholder of ZAO BAM was one of the Company's directors.

Pursuant to an agreement that became effective on May 26, 2005, the Company is required to pay Oxford Group, Ltd. a royalty in the amount of 0.8% of the Company's net sales of oxidized glutathione-based products. One of the Company's directors and employees is president of Oxford Group, Ltd. As described in Note 2, the Company revised an arrangement for future royalty payments to Oxford Group, Ltd., which resulted in the issuance of 2,016,894 shares of common stock, including 907,602 shares to each of two directors of the Company, with an aggregate deemed value of $2,521,118.

The obligations of ZAO BAM and Oxford Group resulted from their assignment of the exclusive intellectual property and marketing rights to a drug development platform technology, worldwide, excluding Russia and other states of the former Soviet Union. The royalty payments will be recorded as royalty expense when the obligations are incurred.

11. SUBSEQUENT EVENTS

On November 3, 2006, Mark Balazovsky resigned for personal reasons from the Company's Board of Directors. Mr. Balazovsky is the majority shareholder of ZAO BAM (See Note 10).

On October 24, 2006, the Company filed a Current Report on Form 8-K. The report described an error in the financial statements and related notes to financial statements for the quarter ended September 30, 2005 and the year ended December 31, 2005 relating to the accounting and disclosure of the beneficial conversion feature of the Company's Series A 8% Cumulative Convertible Preferred Stock. On November 1, 2006 the Company filed amendments to the Annual Report on Form 10-KSB for the year ended December 31, 2005 and the Quarterly Report on Form 10-QSB for the quarter ended September 30, 2005. The related amounts and disclosures have been updated accordingly in this Quarterly Report on Form 10-QSB. Following the filing of the Form 8-K on October 24, 2006, the Company advised the selling stockholders named in two registration statements related to the resale of securities purchased in the 2005 PIPE, the Series A 8% Cumulative Convertible Preferred, and 2006 PIPE financings that the use of the respective prospectuses had been suspended. The Company plans to amend these registration statements as soon as practicable to include the restated financial statements. Pursuant to the registration rights associated with these financings, the Company may become obligated to these selling stockholders in the event that the suspension of the use of the prospectuses exceeds the grace periods specified. The amount of such obligation, if any, will be determined during the fourth quarter of 2006.

Item 2. Management's Discussion and Analysis or Plan of Operation

Forward-Looking Statements

This quarterly report on Form 10-QSB 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 "critical accounting estimates" and the risk factors set forth below under the caption "Factors That May Affect Future Results." 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

We are a biotechnology company, established in 1996, commercializing oxidized glutathione-based compounds for the treatment of cancer and hepatitis.

NOV-002, our lead compound currently in Phase 3 development for non-small cell lung cancer (NSCLC), acts as a chemoprotectant and an immunomodulator. In May 2006, we finalized a Special Protocol Assesment (SPA) with the FDA for a single pivotal Phase 3 trial in advanced NSCLC in combination with first-line chemotherapy, and received Fast Track designation in August 2006. The primary endpoint of this trial will be overall survival and patient enrollment is expected to begin in November 2006. NOV-002 is also in Phase 2 development for chemotherapy-resistant ovarian cancer and early-stage breast cancer, and is in addition being developed for treatment of acute radiation injury.

NOV-205, a second compound, acts as a hepatoprotective agent with immunomodulating and anti-inflammatory properties. Our Investigational New Drug Application for NOV-205 as mono-therapy for chronic hepatitic C has been accepted by the FDA, and a U.S. Phase 1b clinical trial in patients who previously failed treatment with pegylated interferon plus ribavirin is ongoing.

Both compounds have completed clinical trials in humans and have been approved for use in the Russian Federation where they were originally developed. We own all intellectual property rights worldwide (excluding Russia and other states of the former Soviet Union) related to compounds based on oxidized glutathione, including NOV-002 and NOV-205. Our patent portfolio includes 4 U.S. issued patents (plus one notice of allowance), 2 European issued patents and 2 Japanese issued patents.

We have devoted substantially all of our efforts towards the research and development of our product candidates. As of September 30, 2006, we have incurred approximately $9.3 million in research and development expense since our inception. We have had no revenue from product sales to date and have funded our operations through the sale of equity securities and debt financings. From our inception through September 30, 2006, we have raised approximately $27.8 million in equity and debt financings. We have never been profitable and have incurred an accumulated deficit of $21.0 million as of September 30, 2006.

On May 26, 2005, we restructured certain of our indebtedness. We exchanged indebtedness of $3,139,185 for 586,352 shares of our common stock with an aggregate deemed value of $732,940, $318,714 in cash, and forgiveness of debt of $2,087,531. Also on May 26, 2005, holders of $1,100,000 of convertible notes payable exercised their option to convert their notes into 1,760,000 shares of common stock at a price of $0.625 per share. On May 26, 2005, we also revised certain of our royalty obligations. As a result, we issued 2,016,894 shares of our common stock with an aggregate deemed value of $2,521,118.

Following the restructuring of debt, the Company completed a reverse merger with Common Horizons, Inc. ("Common Horizons"), a Nevada-based developer of web portals. In connection with that transaction, all outstanding shares of Novelos (net of shares of treasury stock) were converted into an equal number of shares of common stock of Common Horizons and all outstanding options and warrants to purchase shares of Novelos common stock were converted into an equal number of options and warrants to purchase shares of Common Horizons with the same terms and conditions as the original options and warrants. In connection with the merger all but 4,500,000 shares of outstanding common stock of Common Horizons were canceled. Common Horizons changed its state of incorporation, by-laws, certificate of incorporation and fiscal year to that of Novelos and Novelos became the surviving corporation. The business of Common Horizons, which was insignificant, was abandoned and the business of Novelos was adopted. The transaction was therefore treated as a reverse acquisition recapitalization with Novelos as the acquiring party and Common Horizons as the acquired party for accounting purposes. Accordingly, all historical information in these financial statements is that of the Novelos business. The results of operations of Common Horizons prior to the merger were not material for purposes of pro forma presentation. The 4,500,000 remaining shares of Common Horizons outstanding at the completion of the merger, net of cancellations, were deemed, for accounting purposes, to be an issuance by Novelos. Since Common Horizons had no remaining financial assets or liabilities, the merger with Common Horizons did not have any significant effects on the Company's assets or liabilities or on the Company's results of operations subsequent to the date of the merger.

During 2005 and 2006 we completed various private placements of securities. In May through August of 2005 we sold an aggregate of 4,000,000 shares of common stock and warrants to purchase 2,000,000 shares of common stock for net cash proceeds of $3,714,468 and the conversion of $550,000 of convertible debt. In September and October, 2005, we sold in a private placement 3,200 shares of Series A preferred stock and warrants to purchase 909,090 shares of common stock for aggregate net proceeds of $2,864,000. The preferred stock was initially convertible into 1,939,393, and is currently convertible into 2,370,370, shares of common stock. On March 7, 2006, we sold 11,154,073 shares of our common stock and warrants to purchase 8,365,542 shares of our common stock for net proceeds of $13,847,000.

Critical Accounting Policies

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States. These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based on information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented. Those estimates and judgments are based on management's historical experience, the terms of existing agreements, our observation of trends in the industry, and outside sources, and on various other assumptions that management believes to be reasonable and appropriate under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our financial statements will be affected.

We believe that the following accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements.

Accrued Expenses. As part of the process of preparing financial statements, we are required to estimate accrued expenses. This process involves identifying services that have been performed on our behalf, and estimating the level of service performed and the associated cost incurred for such service as of each balance sheet date in our financial statements. Examples of estimated expenses for which we accrue include: contract service fees such as amounts paid to clinical monitors, data management organizations and investigators in conjunction with clinical trials; fees paid to contract manufacturers in conjunction with the production of clinical materials; consulting fees; and professional service fees, such as to lawyers and accountants. In connection with such service fees, our estimates are most affected by our understanding of the status and timing of services provided relative to the actual billings received from such service providers. The majority of our service providers invoice us monthly in arrears for services performed. In the event that we do not identify certain costs that have begun to be incurred, or we over- or underestimate the level of services performed or the costs of such services, our reported expenses for such period would be too low or too high. The date on which certain services commence, the level of services performed on or before a given date and the cost of such services are often determined based on subjective judgments. We make these judgments based on the facts and circumstances known to us in accordance with generally accepted accounting principles.

Stock-Based Compensation. Commencing on January 1, 2006 we began applying the provisions of SFAS 123R in accounting for stock-based compensation. SFAS 123R requires measurement of the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award, the requisite service period (usually the vesting period). Prior to January 1, 2006, we followed Accounting Principles Board (APB), Opinion No. 25, *Accounting for Stock Issued to Employees*, or APB 25, and related interpretations, in accounting for our stock-based compensation plans, rather than the alternative fair-value method provided for under SFAS No. 123, *Accounting for Stock-Based Compensation*, or SFAS 123. In the notes to our financial statements, we provide pro-forma disclosures in accordance with SFAS 123. We account for transactions in which services are received from non-employees in exchange for equity instruments based on the fair value of such services received or of the equity instruments issued, whichever is more reliably measured, in accordance with SFAS 123 and the Emerging Issues Task Force (EITF) Issue 96-18, *Accounting for Equity Instruments That Are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*, or EITF 96-18.

Accounting for equity instruments granted or sold by us under APB 25, SFAS 123, SFAS 123R and EITF 96-18 requires fair-value estimates of the equity instrument granted or sold. If our estimates of the fair value of these equity instruments are too high or too low, our expenses may be over- or understated. For equity instruments granted or sold in exchange for the receipt of goods or services, we estimate the fair value of the equity instruments based on consideration of factors that we deem to be relevant at that time. Because shares of our common stock were not publicly traded prior to the corporate restructuring described in Note 2 to the financial statements above, market factors historically considered in valuing stock and stock option grants included corresponding values of comparable public companies discounted for the risk and limited liquidity provided for in the shares we are issuing; pricing of private sales of our convertible preferred stock; prior valuations of stock grants and the effect of events that occurred between the times of such grants; economic trends; and the comparative rights and preferences of the security being granted compared to the rights and preferences of our other outstanding equity.

Prior to our corporate restructuring, the fair value of our common stock was determined by our board of directors contemporaneously with the grant. In the absence of a public trading market for our common stock, our board of directors considered numerous objective and subjective factors in determining the fair value of our common stock. At the time of option grants and other stock issuances, our board of directors considered the liquidation preferences, dividend rights, voting control and anti-dilution protection attributable to our then-outstanding convertible preferred stock; the status of private and public financial markets; valuations of comparable private and public companies; the likelihood of achieving a liquidity event such as an initial public offering; our existing financial resources; our anticipated continuing operating losses and increased spending levels required to complete our clinical trials; dilution to common stockholders from anticipated future financings; and a general assessment of future business risks.

Results of Operations

Research and Development expense. Research and development expense consists of costs incurred in identifying, developing and testing product candidates, which primarily consist of salaries and related expenses for personnel, fees paid to professional service providers for independent monitoring and analysis of our clinical trials, costs of contract research and manufacturing, and costs to secure intellectual property. We currently have two compounds, NOV-002 and NOV-205. However, to date, most of our research and development costs have been associated with our NOV-002 compound.

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 facility costs, insurance, costs for public and investor relations, directors' fees and professional fees for legal and accounting services.

Three Months Ended September 30, 2006 and 2005

Research and Development. Research and development expense for the three months ended September 30, 2006 was $2,409,000 compared to $376,000 for the three months ended September 30, 2005. The $2,033,000, or 541%, increase in research and development expense was primarily due to increased funding of our clinical, contract manufacturing and non-clinical activities. In particular, progress relating to our pivotal Phase 3 clinical trial of NOV-002 for non-small cell lung cancer resulted in increased expenses during the three months ended September 30, 2006, including an increase of $844,000 for contract research and consulting services and an increase of $223,000 in drug packaging and manufacturing costs. We also purchased $864,000 of chemotherapy drugs during the third quarter of 2006 to be used in the Phase 3 clinical trial, specifically for European and Eastern European clinical sites. Since we do not anticipate recovering any of the chemotherapy costs and we do not have a reliable method for tracking the drugs that have been administered to patients or evaluating any losses associated with spoilage, we recorded the entire amount as an expense in the period purchased. As disclosed in Note 9, we have a commitment to purchase an additional $1.8 million of chemotherapy drugs at specified intervals through March 2008. Lastly, as a result of hiring that occurred during the third quarter of 2005, research and development salaries and related costs increased $86,000 in the third quarter of 2006 compared to the third quarter of 2005. These increases were offset by a decrease of $15,000 in non-cash stock-based compensation expense.

General and Administrative. General and administrative expense for the three months ended September 30, 2006 was $587,000 compared to $597,000 for the three months ended September 30, 2005. The $10,000, or 2%, decrease in general and administrative expense was largely due to a $225,000 charge in the third quarter of 2005 that we estimated we would be required to pay in penalties for late registrations. However, waivers from the associated requirements were received from stockholders and the accrual was reduced by $200,000 in the fourth quarter of 2005. This decline was offset by a $94,000 increase in salary and directors fees; a $46,000 increase in overhead costs to support the research activities described above and an increase of $16,000 related to professional and consulting fees and insurance costs. We also incurred an increase of $61,000 in non-cash stock-based compensation expense related to stock option grants principally resulting from the adoption of SFAS 123R in January 2006.

Interest Income. Interest income for the three months ended September 30, 2006 was $192,000 compared to $8,000 for the three months ended September 30, 2005. The increase in interest income during the three months ended September 30, 2006 related to higher average cash balances in 2006, as a result of the financings described in Notes 2 and 8, being placed in interest-bearing accounts.

Interest Expense. Interest expense for the three months ended September 30, 2006 was $0 compared to $3,000 for the three months ended September 30, 2005. The decrease was due to all interest-bearing debt balances being paid off during 2005.

Preferred Stock Dividends and Deemed Dividend. During the three months ended September 30, 2006 we paid dividends to preferred stockholders of $65,280. There were no dividends paid to preferred stockholders in the three months ended September 30, 2005, however, during that period we recorded a non-cash deemed dividend to preferred stockholders of $1,943,377. This amount represents the value attributed to the beneficial conversion feature of the Series A 8% Cumulative Convertible Preferred Stock issued during September 2005. There were no deemed dividends in the three months ended September 30, 2006. The deemed dividend and cash dividends have been included in the calculation of net loss attributable to common stockholders for the respective periods.

Nine Months Ended September 30, 2006 and 2005

Research and Development. Research and development expense for the nine months ended September 30, 2006 was $4,200,000 compared to $927,000 for the nine months ended September 30, 2005. The $3,273,000, or 353%, increase in research and development expense was primarily due to increased funding of our clinical, contract manufacturing and non-clinical activities. In particular, activities relating to the commencement of our pivotal Phase 3 clinical trial of NOV-002 for non-small cell lung cancer resulted in increased expenses during the nine months ended September 30, 2006, including an increase of $1,522,000 for contract research and consulting services and an increase of $259,000 in drug manufacturing costs. We also purchased $864,000 of chemotherapy drugs during the third quarter of 2006 to be used in the Phase 3 clinical trial, specifically for European and Eastern European clinical sites. Since we do not anticipate recovering any of the costs of the chemotherapy and we do not have a reliable method for tracking the drugs that have been administered to patients or evaluating any losses associated with spoilage, we recorded the entire amount as an expense in the period purchased. As disclosed in Note 9, we have a commitment to purchase an additional $1.8 million of chemotherapy drugs at specified intervals through March 2008. Additionally, as a result of hiring that occurred during the third quarter of 2005, research and development salaries and related costs also increased $487,000 in the first nine months of 2006 compared to the same period in 2005. Lastly, stock compensation expense increased $76,000 during the first nine months of 2006 compared to the first nine months of 2005 relating to stock option grants principally resulting from the adoption of SFAS 123R in January 2006.

General and Administrative. General and administrative expense for the nine months ended September 30, 2006 was $1,889,000 compared to $905,000 for the nine months ended September 30, 2005. The $984,000, or 109%, increase in general and administrative expense was primarily due to increased costs associated with corporate governance and periodic filing requirements as a public company, increased overhead costs to support the research activities described above, as well as expanded investor relations activities,. The total increase includes an increase of $346,000 in compensation and directors' fees; an increase of $389,000 in public and investor relations costs and public company recordkeeping costs (including a $174,000 increase in non-cash stock compensation related to restricted stock awards); an increase of $190,000 related to professional and consulting fees; and an increase of $30,000 in insurance costs. We also incurred an increase of $171,000 in non-cash stock compensation expense related to stock option grants and an increase of $80,000 in travel and overhead expenses. These increases were offset in 2006 by a $225,000 reduction in accrued registration filing penalties that were recorded in the first nine months of 2005. However, waivers from the associated requirements were received from certain stockholders and the accrual was reduced in the fourth quarter of 2005.

Interest Income. Interest income for the nine months ended September 30, 2006 was $472,000 compared to $10,000 for the nine months ended September 30, 2005. The increase in interest income during the nine months ended September 30, 2006 related to higher average cash balances in 2006, as a result of the financings described in Notes 2 and 8, being placed in interest-bearing accounts.

Interest Expense. Interest expense for the nine months ended September 30, 2006 was $0 compared to $109,000 for the nine months ended September 30, 2005. The decrease was due to all interest-bearing debt balances being paid off during 2005.

Gain on Forgiveness of Debt. Gain on forgiveness of debt for the nine months ended September 30, 2006 was $0 compared to $2,087,531 for the nine months ended September 30, 2005. On May 26, 2005, we exchanged indebtedness of $3,139,185 for 586,352 shares of our common stock with an aggregate deemed value of $732,940 and $318,714 in cash, which resulted in forgiveness of debt income of $2,087,531.

Restructuring Expense. Restructuring expense for the nine months ended September 30, 2006 was $0 compared to $2,521,118 for the nine months ended September 30, 2005. On May 26, 2005, we revised an arrangement that requires us to pay future royalties, which resulted in the issuance of 2,016,894 shares of our common stock with an aggregate deemed value of $2,521,118.

Preferred Stock Dividends and Deemed Dividend. During the nine months ended September 30, 2006 we paid dividends to preferred stockholders of $195,840. There were no dividends paid to preferred stockholders in the nine months ended September 30, 2005, however, during that period we recorded a deemed dividend to preferred stockholders of $1,943,377. This amount represents the value attributed to the beneficial conversion feature of the Series A 8% Cumulative Convertible Preferred Stock issued in September 2005. There were no deemed dividends in the nine months ended September 30, 2006. The deemed dividends and cash dividends have been included in the calculation of net loss attributable to common stockholders for the respective periods.

Liquidity and Capital Resources

We have financed our operations since inception through the sale of equity securities and the issuance of debt. As of September 30, 2006, we had $13,922,000 in cash and equivalents, including $2,211,000 of restricted cash that is reserved for research and development activities.

During the nine months ended September 30, 2006, cash of approximately $4,206,000 was used in operations, primarily due to a net loss of $5,613,000, offset by non-cash stock-based compensation expense of $462,000, depreciation and amortization of $7,000, a decrease in prepaid expenses of $47,000 and an increase in accounts payable and accrued expenses of $891,000. During the nine months ended September 30, 2006, cash of approximately $2,001,000 was used in investing activities primarily due to the outstanding pledge of $2,058,000 in cash and equivalents associated with a letter of credit agreement with a bank as described in Note 9.

During the nine months ended September 30, 2006, cash of approximately $13,652,000 was provided by financing activities. The sale of common stock generated net proceeds of $13,847,000 after issuance costs, offset by the payment of $196,000 in dividends on the Series A cumulative convertible preferred stock.

We believe that our available cash and equivalents will be sufficient to meet our working capital requirements, including operating losses, and capital expenditure requirements into the third quarter of 2007, assuming that our business plan is implemented successfully.

However, we believe that we will need to raise additional capital during 2007 in order to support the pivotal Phase 3 clinical trial for NOV-002 and other research and development activities. Furthermore, we may license or acquire other compounds that will require capital for development. We may seek additional funding through collaborative arrangements and public or private financings. Additional funding may not be available to us on acceptable terms or at all. In addition, the terms of any financing may adversely affect the holdings or the rights of our stockholders. For example, if we raise additional funds by issuing equity securities, further dilution to our existing stockholders may result. If we are unable to obtain funding on a timely basis, we may be required to significantly curtail one or more of our research or development programs. We also could be required to seek funds through arrangements with collaborators or others that may require us to relinquish rights to some of our technologies, product candidates, or products which we would otherwise pursue on our own.

Even if we are able to raise additional funds in a timely manner, our future capital requirements may vary from what we expect and will depend on many factors, including the following:

- the resources required to successfully complete our clinical trials;
- the time and costs involved in obtaining regulatory approvals;
- continued progress in our research and development programs, as well as the magnitude of these programs;
- the cost of manufacturing activities;
- the costs involved in preparing, filing, prosecuting, maintaining, and enforcing patent claims;
- the timing, receipt, and amount of milestone and other payments, if any, from collaborators; and
- fluctuations in foreign exchange rates.

Factors That May Affect Future Results

Our business involves a high degree of risk. If any of these risks, or other risks not presently known to us or that we currently believe are not significant, develops into an actual event, then our business, financial condition and results of operations could be adversely affected. If that happens, the market price of our common stock could decline.

The failure to complete development of the Company's therapeutic technology, obtain government approvals, including required FDA approvals, or to comply with ongoing governmental regulations could prevent, delay or limit introduction or sale of proposed products and result in failure to achieve revenues or maintain the Company's ongoing business.

The Company's research and development activities and the manufacture and marketing of the Company's intended products are subject to extensive regulation for safety, efficacy and quality by numerous government authorities in the United States and abroad. Before receiving FDA clearance to market the Company's proposed products, the Company will have to demonstrate that the Company's products are safe and effective on the patient population and for the diseases that are to be treated. Clinical trials, manufacturing and marketing of drugs are subject to the rigorous testing and approval process of the FDA and equivalent foreign regulatory authorities. The Federal Food, Drug and Cosmetic Act and other federal, state and foreign statutes and regulations govern and influence the testing, manufacture, labeling, advertising, distribution and promotion of drugs and medical devices. As a result, clinical trials and regulatory approval can take many years to accomplish and require the expenditure of substantial financial, managerial and other resources.

In order to be commercially viable, the Company must successfully research, develop, obtain regulatory approval for, manufacture, introduce, market and distribute the Company's technologies. For each drug utilizing oxidized glutathione-based compounds, including NOV-002 and NOV-205, the Company must successfully meet a number of critical developmental milestones including:

- demonstrate benefit from delivery of each specific drug for specific medical indications;
- demonstrate through pre-clinical and clinical trials that each drug is safe and effective; and
- demonstrate that the Company has established a viable Good Manufacturing Process capable of potential scale-up.

The time-frame necessary to achieve these developmental milestones may be long and uncertain, and the Company may not successfully complete these milestones for any of the Company's intended products in development.

In addition to the risks previously discussed, the Company's technology is subject to additional developmental risks that include the following:

- the uncertainties arising from the rapidly growing scientific aspects of drug therapies and potential treatments;
- uncertainties arising as a result of the broad array of alternative potential treatments related to cancer, hepatitis and other diseases; and
- anticipated expense and time believed to be associated with the development and regulatory approval of treatments for cancer, hepatitis and other diseases.

In order to conduct clinical trials that are necessary to obtain approval by the FDA to market a product, it is necessary to receive clearance from the FDA to conduct such clinical trials. The FDA can halt clinical trials at any time for safety reasons or because the Company or the Company's clinical investigators do not follow the FDA's requirements for conducting clinical trials. If the Company is unable to receive clearance to conduct clinical trials or the trials are halted by the FDA, the Company would not be able to achieve any revenue from such product, as it is illegal to sell any drug or medical device for human consumption without FDA approval.

Data obtained from clinical trials is susceptible to varying interpretations, which could delay, limit or prevent regulatory clearances.

Data already obtained, or in the future obtained, from pre-clinical studies and clinical trials do not necessarily predict the results that will be obtained from later pre-clinical studies and clinical trials. Moreover, pre-clinical and clinical data are susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. A number of companies in the pharmaceutical industry have suffered significant setbacks in advanced clinical trials, even after promising results in earlier trials. The failure to adequately demonstrate the safety and effectiveness of an intended product under development could delay or prevent regulatory clearance of the potential drug, resulting in delays to commercialization, and could materially harm the Company's business. The Company's clinical trials may not demonstrate sufficient levels of safety and efficacy necessary to obtain the requisite regulatory approvals for the Company's drugs, and thus the Company's proposed drugs may not be approved for marketing.

The Company may encounter delays or rejections based on additional government regulation from future legislation or administrative action or changes in FDA policy during the period of development, clinical trials and FDA regulatory review. The Company may encounter similar delays in foreign countries. Sales of the Company's products outside the U.S. would be subject to foreign regulatory approvals that vary from country to country. The time required to obtain approvals from foreign countries may be shorter or longer than that required for FDA approval, and requirements for foreign licensing may differ from FDA requirements. The Company may be unable to obtain requisite approvals from the FDA and foreign regulatory authorities, and even if obtained, such approvals may not be on a timely basis, or they may not cover the uses that the Company requests.

Even if the Company does ultimately receive FDA approval for any of its products, it will be subject to extensive ongoing regulation. This includes regulations governing manufacturing, labeling, packaging, testing, dispensing, prescription and procurement quotas, record keeping, reporting, handling, shipment and disposal of any such drug. Failure to obtain and maintain required registrations or comply with any applicable regulations could further delay or preclude the Company from developing and commercializing its drugs and subject it to enforcement action.

The Company's drugs or technology may not gain FDA approval in clinical trials or be effective as a therapeutic agent, which could affect the Company's future profitability and prospects.

In order to obtain regulatory approvals, the Company must demonstrate that each drug is safe and effective for use in humans and functions as a therapeutic against the effects of disease or other physiological response. To date, studies conducted in Russia involving the Company's NOV-002 and NOV-205 products have shown what the Company believes to be promising results. In fact, NOV-002 has been approved for use in Russia for general medicinal use as an immunostimulant in combination with chemotherapy and antimicrobial therapy, and specifically for indications such as tuberculosis and psoraisis, and NOV-205 has been approved in Russia as a mono-therapy agent for the treatment of hepatitis B and C. However, Russian regulatory approval is not equivalent to FDA approval. Pivotal Phase 3 studies with a large number of patients, typically required for FDA approval, were not conducted for NOV-002 and NOV-205 in Russia. Further, all of the Company's Russian clinical studies were completed prior to 2000 and may not have been conducted in accordance with current guidelines either in Russia or the United States.

A U.S.-based Phase 1/2 clinical study involving 44 non-small cell lung cancer patients provided what the Company believes to be a favorable outcome. As a result, the Company anticipates enrolling the first patient in the Phase 3 study of NOV-002 for non-small cell lung cancer in the fourth quarter of 2006. The Company enrolled the first patient in the Phase 2 clinical study for NOV-002 for chemotherapy-resistant ovarian cancer in July 2006 and anticipates completing that study in 2007. The Company enrolled the first patient in the Phase 1b clinical study for NOV-205 for chronic hepatitis C in September 2006 and anticipates completing that study in 2007. There can be no assurance, however, that the Company can demonstrate that these products are safe or effective in advanced clinical trials. The Company is also not able to give assurances that the results of the tests already conducted can be repeated or that further testing will support its applications for regulatory approval. As a result, the Company's drug and technology research program may be curtailed, redirected or eliminated at any time.

There is no guarantee that the Company will ever generate revenue or become profitable even if one or more of the Company's drugs are approved for commercialization.

The Company expects to incur increasing operating losses over the next several years as it incurs increasing costs for research and development and clinical trials. The Company's ability to generate revenue and achieve profitability depends upon the Company's ability, alone or with others, to complete the development of the Company's proposed products, obtain the required regulatory approvals and manufacture, market and sell the Company's proposed products. Development is costly and requires significant investment. In addition, if the Company chooses to license or obtain the assignment of rights to additional drugs, the license fees for such drugs may increase the Company's costs.

To date, the Company has not generated any revenue from the commercial sale of its proposed products or any drugs and does not expect to receive such revenue in the near future. The Company's primary activity to date has been research and development. A substantial portion of the research results and observations on which the Company relies were performed by third-parties at those parties' sole or shared cost and expense. The Company cannot be certain as to when or whether to anticipate commercializing and marketing the Company's proposed products in development, and does not expect to generate sufficient revenues from proposed product sales to cover the Company's expenses or achieve profitability in the near future.

The Company relies solely on research and manufacturing facilities at various universities, hospitals, contract research organizations and contract manufacturers for all of its research, development, and manufacturing, which could be materially delayed should the Company lose access to those facilities.

At the present time, the Company has no research, development or manufacturing facilities of its own. The Company is entirely dependent on contracting with third parties to use their facilities to conduct research, development and manufacturing. The Company's inability to have the facilities to conduct research, development and manufacturing may delay or impair the Company's ability to gain FDA approval and commercialization of the Company's drug delivery technology and products.

The Company currently maintains a good working relationship with such contractors. Should the situation change and the Company is required to relocate these activities on short notice, the Company does not currently have an alternate facility where the Company could relocate its research, development and/or manufacturing activities. The cost and time to establish or locate an alternative research, development and manufacturing facility to develop the Company's technology would be substantial and would delay gaining FDA approval and commercializing the Company's products.

The Company is dependent on the Company's collaborative agreements for the development of the Company's technologies and business development, which exposes the Company to the risk of reliance on the viability of third parties.

In conducting the Company's research, development and manufacturing activities, the Company relies and expects to continue to rely on numerous collaborative agreements with universities, hospitals, governmental agencies, charitable foundations, manufacturers and others. The loss of or failure to perform under any of these arrangements, by any of these entities, may substantially disrupt or delay the Company's research, development and manufacturing activities including the Company's anticipated clinical trials.

The Company may rely on third-party contract research organizations, service providers and suppliers to support development and clinical testing of the Company's products. Failure of any of these contractors to provide the required services in a timely manner or on reasonable commercial terms could materially delay the development and approval of the Company's products, increase the Company's expenses and materially harm the Company's business, financial condition and results of operations.

The Company is exposed to product, clinical and preclinical liability risks that could create a substantial financial burden should the Company be sued.

The Company's business exposes it to potential product liability and other liability risks that are inherent in the testing, manufacturing and marketing of pharmaceutical products. The Company cannot assure that such potential claims will not be asserted against it. In addition, the use in the Company's clinical trials of pharmaceutical products that the Company may develop and then subsequently sell, or the Company's collaborators may sell, may cause the Company to bear a portion of or all product liability risks. A successful liability claim or series of claims brought against the Company could have a material adverse effect on its business, financial condition and results of operations.

Although the Company has not received any product liability claims to date and has an insurance policy of $5,000,000 per occurrence and $5,000,000 in the aggregate to cover such claims should they arise, there can be no assurance that material claims will not arise in the future or that the Company's insurance will be adequate to cover all situations. Moreover, there can be no assurance that such insurance, or additional insurance, if required, will be available in the future or, if available, will be available on commercially reasonable terms. Any product liability claim, if successful, could have a material adverse effect on the Company's business, financial condition and results of operations. Furthermore, the Company's current and potential partners with whom it has collaborative agreements or the Company's future licensees may not be willing to indemnify the Company against these types of liabilities and may not themselves be sufficiently insured or have a net worth sufficient to satisfy any product liability claims. Claims or losses in excess of any product liability insurance coverage that may be obtained by the Company could have a material adverse effect on its business, financial condition and results of operations.

Acceptance of the Company's products in the marketplace is uncertain and failure to achieve market acceptance will prevent or delay the Company's ability to generate revenues.

The Company's future financial performance will depend, at least in part, on the introduction and customer acceptance of the Company's proposed products. Even if approved for marketing by the necessary regulatory authorities, the Company's products may not achieve market acceptance. The degree of market acceptance will depend on a number of factors including:

- the receipt of regulatory clearance of marketing claims for the uses that the Company is developing;
- the establishment and demonstration of the advantages, safety and efficacy of the Company's technologies;
- pricing and reimbursement policies of government and third-party payers such as insurance companies, health maintenance organizations and other health plan administrators;
- the Company's ability to attract corporate partners, including pharmaceutical companies, to assist in commercializing the Company's intended products; and
- the Company's ability to market the Company's products.

Physicians, patients, payers or the medical community in general may be unwilling to accept, utilize or recommend any of the Company's products. If the Company is unable to obtain regulatory approval or commercialize and market the Company's proposed products when planned, the Company may not achieve any market acceptance or generate revenue.

The Company may face litigation from third parties who claim that the Company's products infringe on their intellectual property rights, particularly because there is often substantial uncertainty about the validity and breadth of medical patents.

The Company may be exposed to future litigation by third parties based on claims that the Company's technologies, products or activities infringe the intellectual property rights of others or that the Company has misappropriated the trade secrets of others. This risk is exacerbated by the fact that the validity and breadth of claims covered in medical technology patents and the breadth and scope of trade secret protection involve complex legal and factual questions for which important legal principles are unresolved. Any litigation or claims against the Company, whether or not valid, could result in substantial costs, could place a significant strain on the Company's financial and managerial resources and could harm the Company's reputation. Most of the Company's license agreements would likely require that the Company pay the costs associated with defending this type of litigation. In addition, intellectual property litigation or claims could force the Company to do one or more of the following:

- cease selling, incorporating or using any of the Company's technologies and/or products that incorporate the challenged intellectual property, which would adversely affect the Company's future revenue;
- obtain a license from the holder of the infringed intellectual property right, which license may be costly or may not be available on reasonable terms, if at all; or
- redesign the Company's products, which would be costly and time-consuming.

If the Company is unable to adequately protect or enforce the Company's rights to intellectual property or secure rights to third-party patents, the Company may lose valuable rights, experience reduced market share, assuming any, or incur costly litigation to protect such rights.

The Company's ability to obtain licenses to patents, maintain trade secret protection and operate without infringing the proprietary rights of others will be important to the Company's commercializing any products under development. Therefore, any disruption in access to the technology could substantially delay the development of the Company's technology.

The patent positions of biotechnology and pharmaceutical companies, including the Company, that involve licensing agreements, are frequently uncertain and involve complex legal and factual questions. In addition, the coverage claimed in a patent application can be significantly reduced before the patent is issued or in subsequent legal proceedings. Consequently, the Company's patent applications and any issued and licensed patents may not provide protection against competitive technologies or may be held invalid if challenged or circumvented. The Company's competitors may also independently develop products similar to the Company's or design around or otherwise circumvent patents issued or licensed to the Company. In addition, the laws of some foreign countries may not protect the Company's proprietary rights to the same extent as U.S. law.

The Company also relies on trade secrets, technical know-how and continuing technological innovation to develop and maintain the Company's competitive position. The Company generally requires the Company's employees, consultants, advisors and collaborators to execute appropriate confidentiality and assignment-of-inventions agreements. The Company's competitors may independently develop substantially equivalent proprietary information and techniques, reverse engineer the Company's information and techniques, or otherwise gain access to the Company's proprietary technology. The Company may be unable to meaningfully protect the Company's rights in trade secrets, technical know-how and other non-patented technology.

Although the Company's trade secrets and technical know-how are important, the Company's continued access to the patents is a significant factor in the development and commercialization of the Company's products. Aside from the general body of scientific knowledge from other drug delivery processes and technology, these patents, to the best of the Company's knowledge and based on the Company's current scientific data, are the only intellectual property necessary to develop the Company's products, including NOV-002 and NOV-205. The Company does not believe that it is or will be violating any patents in developing its technology.

The Company may have to resort to litigation to protect its rights for certain intellectual property, or to determine their scope, validity or enforceability. Enforcing or defending the Company's rights is expensive, could cause diversion of the Company's resources and may not prove successful. Any failure to enforce or protect the Company's rights could cause it to lose the ability to exclude others from using the Company's technology to develop or sell competing products.

The Company has limited manufacturing experience and if the Company's products are approved the Company may not be able to manufacture sufficient quantities at an acceptable cost, or may be subject to risk that contract manufacturers could experience shut-downs or delays.

The Company remains in the research, development and clinical and pre-clinical trial Phase of product commercialization. Accordingly, if the Company's products are approved for commercial sale, the Company will need to establish the capability to commercially manufacture the Company's product(s) in accordance with FDA and other regulatory requirements. The Company has limited experience in establishing, supervising and conducting commercial manufacturing. If the Company fails to adequately establish, supervise and conduct all aspects of the manufacturing processes, the Company may not be able to commercialize its products.

The Company presently plans to rely on third-party contractors to manufacture its products. This may expose the Company to the risk of not being able to directly oversee the production and quality of the manufacturing process. Furthermore, these contractors, whether foreign or domestic, may experience regulatory compliance difficulties, mechanical shutdowns, employee strikes or other unforeseeable acts that may delay production.

Due to the Company's limited marketing, sales and distribution experience, the Company may be unsuccessful in its efforts to sell its products, enter into relationships with third parties or develop a direct sales organization.

The Company has not yet had to establish marketing, sales or distribution capabilities for its proposed products. Until such time as the Company's products are further along in the regulatory process, the Company will not devote any meaningful time and resources to this effort. At the appropriate time, the Company intends to enter into agreements with third parties to sell its products or the Company may develop its own sales and marketing force. The Company may be unable to establish or maintain third-party relationships on a commercially reasonable basis, if at all. In addition, these third parties may have similar or more established relationships with the Company's competitors.

If the Company does not enter into relationships with third parties for the sale and marketing of the Company's products, the Company will need to develop the Company's own sales and marketing capabilities. The Company has limited experience in developing, training or managing a sales force. If the Company chooses to establish a direct sales force, the Company may incur substantial additional expenses in developing, training and managing such an organization. The Company may be unable to build a sales force on a cost-effective basis or at all. Any such direct marketing and sales efforts may prove to be unsuccessful. In addition, the Company will compete with many other companies that currently have extensive marketing and sales operations. The Company's marketing and sales efforts may be unable to compete against these other companies. The Company may be unable to establish a sufficient sales and marketing organization on a timely basis, if at all.

The Company may be unable to engage qualified distributors. Even if engaged, these distributors may:

- fail to satisfy financial or contractual obligations to the Company;
- fail to adequately market the Company's products;
- cease operations with little or no notice; or
- offer, design, manufacture or promote competing products.

If the Company fails to develop sales, marketing and distribution channels, the Company would experience delays in product sales and incur increased costs, which would harm the Company's financial results.

If the Company is unable to convince physicians as to the benefits of the Company's intended products, the Company may incur delays or additional expense in the Company's attempt to establish market acceptance.

Broad use of the Company's products may require physicians to be informed regarding these products and their intended benefits. The time and cost of such an educational process may be substantial. Inability to successfully carry out this physician education process may adversely affect market acceptance of the Company's products. The Company may be unable to timely educate physicians regarding the Company's intended products in sufficient numbers to achieve the Company's marketing plans or to achieve product acceptance. Any delay in physician education may materially delay or reduce demand for the Company's products. In addition, the Company may expend significant funds towards physician education before any acceptance or demand for the Company's products is created, if at all.

The Company may have difficulty raising needed capital in the future because of market risks or business risks associated with the Company.

The Company currently generates no revenue from its proposed products or otherwise. The Company does not know when this will change. The Company has expended and will continue to expend substantial funds in the research, development and clinical and pre-clinical testing of its drug compounds. The Company will require additional funds to conduct research and development, establish and conduct clinical and pre-clinical trials, establish commercial-scale manufacturing arrangements and provide for the marketing and distribution of its products. Additional funds may not be available on acceptable terms, if at all. In particular, secondary sales of shares of registered common stock and shares of unregistered stock as restrictions lapse or pursuant to Rule 144 could adversely affect the market price of the Company's common stock and thereby make it less attractive to sell additional equity to provide financing for the Company's operations. If adequate funds are unavailable from any available source, the Company may have to delay, reduce the scope of or eliminate one or more of the Company's research or development programs or product launches or marketing efforts, which may materially harm the Company's business, financial condition and results of operations.

The Company's long-term capital requirements and our ability to raise capital are expected to depend on many factors, including:

- the number of potential products and technologies in development;
- continued progress and cost of the Company's research and development programs;
- progress with pre-clinical 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 the Company's ability to sell the Company's drugs;
- costs involved in establishing manufacturing capabilities for clinical trial and commercial quantities of the Company's drugs;
- competing technological and market developments;
- market acceptance of the Company's products;
- costs for recruiting and retaining management, employees and consultants;
- costs for training physicians;
- our status as a bulletin board listed company and the prospects for our stock to be listed on a national exchange; and
- uncertainty and economic instability resulting from terrorist acts and other acts of violence or war.

The Company may consume available resources more rapidly than currently anticipated, resulting in the need for additional funding. The Company may seek to raise any necessary additional funds through the exercising of warrants, equity or debt financings, collaborative arrangements with corporate partners or other sources, which may be dilutive to existing stockholders or otherwise have a material effect on the Company's current or future business prospects. In addition, in the event that additional funds are obtained through arrangements with collaborative partners or other sources, the Company may have to relinquish economic and/or proprietary rights to some of the Company's technologies or products under development that the Company would otherwise seek to develop or commercialize by itself. If adequate funds are not available, the Company may be required to significantly reduce or refocus its development efforts with regard to its drug compounds.

Fluctuations in foreign exchange rates could increase costs to complete international clinical trial activities.

The Company has initiated a portion of its clinical trial activities in Europe. Significant depreciation in the value of the U.S. Dollar against principally the EURO could adversely affect our ability to complete the trials, particularly if we are unable to redirect funding or raise additional funds. Since the timing and amount of foreign denominated payments are uncertain and dependent on a number of factors, it is difficult to cost-effectively hedge the potential exposure. Therefore, to date, we have not entered into any foreign currency hedges to mitigate the potential exposure.

The market for the Company's products is rapidly changing and competitive, and new therapeutics, new drugs and new treatments that may be developed by others could impair the Company's ability to maintain and grow the Company's business and remain competitive.

The pharmaceutical and biotechnology industries are subject to rapid and substantial technological change. Developments by others may render the Company's technologies and intended products noncompetitive or obsolete, or the Company may be unable to keep pace with technological developments or other market factors. Technological competition from pharmaceutical and biotechnology companies, universities, governmental entities and others diversifying into the field is intense and is expected to increase. Many of these entities have significantly greater research and development capabilities and budgets than the Company does, as well as substantially more marketing, manufacturing, financial and managerial resources. These entities represent significant competition for the Company. Acquisitions of, or investments in, competing pharmaceutical or biotechnology companies by large corporations could increase such competitors' financial, marketing, manufacturing and other resources.

The Company is an early-stage enterprise that has heretofore operated with limited day-to-day business management, operating as a vehicle to hold certain technology for possible future exploration, and has been and will continue to be engaged in the development of new drugs and therapeutic technologies. As a result, the Company's resources are limited and the Company may experience management, operational or technical challenges inherent in such activities and novel technologies. Competitors have developed or are in the process of developing technologies that are, or in the future may be, the basis for competition. Some of these technologies may have an entirely different approach or means of accomplishing similar therapeutic effects compared to the Company's technology. The Company's competitors may develop drug delivery technologies and drugs that are more effective than the Company's intended products and, therefore, present a serious competitive threat to the Company.

The potential widespread acceptance of therapies that are alternatives to the Company's may limit market acceptance of the Company's products even if commercialized. Many of the Company's targeted diseases and conditions can also be treated by other medication or drug delivery technologies. These treatments may be widely accepted in medical communities and have a longer history of use. The established use of these competitive drugs may limit the potential for the Company's technologies and products to receive widespread acceptance if commercialized.

If users of the Company's products are unable to obtain adequate reimbursement from third-party payers, or if new restrictive legislation is adopted, market acceptance of the Company's products may be limited and the Company may not achieve anticipated revenues.

The continuing efforts of government and insurance companies, health maintenance organizations and other payers of healthcare costs to contain or reduce costs of health care may affect the Company's future revenues and profitability, and the future revenues and profitability of the Company's potential customers, suppliers and collaborative partners and the availability of capital. For example, in certain foreign markets, pricing or profitability of prescription pharmaceuticals is subject to government control. In the United States, given recent federal and state government initiatives directed at lowering the total cost of health care, the U.S. Congress and state legislatures will likely continue to focus on healthcare reform, the cost of prescription pharmaceuticals and on the reform of the Medicare and Medicaid systems. While the Company cannot predict whether any such legislative or regulatory proposals will be adopted, the announcement or adoption of such proposals could materially harm the Company's business, financial condition and results of operations.

The Company's ability to commercialize its products will depend in part on the extent to which appropriate reimbursement levels for the cost of its products and related treatment are obtained by governmental authorities, private health insurers and other organizations, such as health maintenance organizations ("HMO's"). Third-party payers are increasingly challenging the prices charged for medical drugs and services. Also, the trend toward managed health care in the United States and the concurrent growth of organizations such as HMO's, which could control or significantly influence the purchase of healthcare services and drugs, as well as legislative proposals to reform health care or reduce government insurance programs, may all result in lower prices for or rejection of the Company's drugs. The cost containment measures that healthcare payers and providers are instituting and the effect of any healthcare reform could materially harm the Company's ability to operate profitably.

The Company depends upon key personnel who may terminate their employment with the Company at any time, and the Company would need to hire additional qualified personnel.

The Company's success will depend to a significant degree on the continued services of key management and advisors of the Company. There can be no assurance that these individuals will continue to provide service to the Company. In addition, the Company's success will depend on its ability to attract and retain other highly skilled personnel. The Company may be unable to recruit such personnel on a timely basis, if at all. The Company's management and other employees may voluntarily terminate their employment with the Company at any time. The loss of services of key personnel, or the inability to attract and retain additional qualified personnel, could result in delays in development or approval of the Company's products, loss of sales and diversion of management resources.

Compliance with changing corporate governance and public disclosure regulations may result in additional expense.

Keeping abreast of, and in compliance with, changing laws, regulations and standards relating to corporate governance, public disclosure and internal controls, including the Sarbanes-Oxley Act of 2002, new SEC regulations and, in the event the Company seeks and is approved for listing on a registered national securities exchange, the stock exchange rules will require an increased amount of management attention and external resources. The Company intends to continue to invest all reasonably necessary resources to comply with evolving standards, which may result in increased general and administrative expense and a diversion of management time and attention from revenue-generating activities to compliance activities.

The Company's executive officers, directors and principal stockholders have substantial holdings, which could delay or prevent a change in corporate control favored by the Company's other stockholders.

The Company's directors, officers and owners of more than 5% of our common stock beneficially own, in the aggregate, approximately 34% of the Company's outstanding voting stock. As a result, they may have the ability to determine the Company's direction and decisions. The interests of the Company's current officers and directors may differ from the interests of other stockholders. Further, the Company's current officers and directors may have the ability to significantly affect the outcome of all corporate actions requiring stockholder approval, including the following actions:

- the election of directors;
- the amendment of charter documents;
- issuance of blank-check preferred or convertible stock, notes or instruments of indebtedness which may have conversion, liquidation and similar features, or effecting other financing arrangements; or
- the approval of certain mergers and other significant corporate transactions, including a sale of substantially all of the Company's assets, or merger with a publicly-traded shell or other company.

The Company's common stock could be further diluted as the result of the issuance of additional shares of common stock, convertible securities, warrants or options.

In the past, the Company has issued common stock, convertible securities, such as its Series A preferred stock, and warrants in order to raise money. The Company has also issued options and warrants as compensation for services and incentive compensation for its employees and directors. The Company has a substantial number of shares of common stock reserved for issuance on the conversion and exercise of these securities. The Company's issuance of additional common stock, convertible securities, options and warrants could affect the rights of the Company's stockholders, and could reduce the market price of the Company's common stock.

The Company sold shares of its Series A preferred stock and common stock purchase warrants in violation of certain provisions of the securities purchase agreement and registration rights agreement executed in connection with the Company's private placement of units. While the Company has received waivers from such investors representing approximately 96% of the outstanding units as of September 30, 2006, other investors who do not waive such rights could sue the Company seeking damages arising from the breach of such agreements.

On May 27, 2005, June 29, 2005, July 29, 2005 and August 9, 2005, the Company sold units, consisting of shares of its common stock and common stock purchase warrants pursuant to a securities purchase agreement and registration rights agreement.

The registration rights agreement required that the Company file a registration statement on Form SB-2 with the SEC to register the shares of common stock and the shares of common stock issuable upon the exercise of the warrants on or before October 8, 2005. The Company filed the registration statement with the SEC on November 16, 2005, which became effective on December 15, 2005. The Company recorded an accrued liability of $8,000 as of September 30, 2006 for payments in connection with this late filing.

The securities purchase agreement also prohibited the Company from effecting or entering into an agreement to effect any financing involving a variable rate transaction for two years.

The use of the prospectus included in the Post-Effective Amendment No. 1 to the Registration Statement on Form SB-2 (previously declared effective on April 3, 2006) and the prospectus included in the Registration Statement on Form SB-2 (previously declared effective on April 19, 2006) were suspended on October 24, 2006.

On October 24, 2006, the Company filed a Current Report on Form 8-K. The report described an error in the financial statements and related notes to financial statements for the quarter ended September 30, 2005 and the year ended December 31, 2005 relating to the accounting and disclosure of the beneficial conversion feature of the Company's Series A 8% Cumulative Convertible Preferred Stock. On November 1, 2006 the Company filed amendments to the Annual Report on Form 10-KSB for the year ended December 31, 2005 and the Quarterly Report on Form 10-QSB for the quarter ended September 30, 2005. Following the filing of the Form 8-K on October 24, 2006, the Company advised the selling stockholders named in two registration statements related to the resale of securities purchased in the 2005 PIPE, the Series A 8% Cumulative Convertible Preferred, and 2006 PIPE financings that the use of the respective prospectuses had been suspended. The Company plans to amend these registration statements as soon as practicable to include the restated financial statements. Pursuant to the registration rights associated with these financings, the Company may become obligated to these selling stockholders in the event that the suspension of the use of the prospectuses exceeds the grace periods specified. The amount of such obligation, if any, will be determined during the fourth quarter of 2006.

Item 3. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2006. Disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, are controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our principal executive and financial officers, to allow timely decisions regarding required disclosures.

Based on the evaluation of our disclosure controls and procedures as of September 30, 2006, our Chief Executive Officer and our Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were operating effectively.

Change in Internal Control over Financial Reporting

In the fourth quarter of 2005 we identified the need to establish the full-time position of Director of Finance. At that time, we began discussions regarding permanent employment with a consultant who had provided part-time finance and accounting services to us for several years. Over the course of the next two months, this individual worked to complete outstanding consulting engagements with a view to becoming a full-time Novelos employee during the first quarter of 2006. In February 2006 it became apparent to us that this individual would be unable to accept this full-time role. We then renewed our search and upgraded the required qualifications for a suitable candidate. In April 2006 we identified a candidate who is a CPA with extensive experience at a "big four" public accounting firm as well as substantial public company experience at the management level in the areas of finance and accounting, including the accounting for and reporting of complex financial transactions. In May 2006, the candidate began performing consulting services for us on a part-time basis and in June 2006 the candidate accepted the position of Director of Finance and Controller. Shortly after beginning employment, this individual began an internal review of our historical financing transactions. Based on the results of this internal review, on October 18, 2006, our management concluded that our audited financial statements for the year ended December 31, 2005 and our unaudited financial statements and financial information for the quarter ended September 30, 2005 should be restated in order to reflect a deemed (non-cash) dividend associated with the beneficial conversion feature of the Series A 8% Cumulative Convertible Preferred Stock. The restated financial statements were filed with the Securities and Exchange Commission on November 1, 2006.

The Director of Finance and Controller is performing a major role in ensuring the accuracy and completeness of our financial reporting and the effectiveness of our disclosure controls and procedures. We have identified the addition of this individual in this key position as a change in internal control over the financial reporting process that occurred during the Company's third fiscal quarter of 2006 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations on Effectiveness of Controls

In designing and evaluating our disclosure controls and procedures, our management recognizes that 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 upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

We held our Annual Meeting of Stockholders at the offices of Foley Hoag LLP, 155 Seaport Boulevard, Boston, Massachusetts on July 21, 2006.

(i) The stockholders elected seven directors to serve until the next Annual Meeting of Stockholders. The stockholders present in person or by proxy cast the following numbers of votes in connection with the election of directors, resulting in the election of all nominees:

Nominee	Votes For	Votes Withheld
Simyon Palmin	25,565,313	62,675
Harry S. Palmin	25,565,113	62,875
Mark Balazovsky	25,565,313	62,675
Michael J. Doyle	25,565,313	62,675
Sim Fass	25,565,313	62,675
David B. McWilliams	25,565,313	62,675
Howard M. Schneider	25,560,313	67,675

(ii) The stockholders ratified and approved our 2006 Stock Incentive Plan. There were 24,972,867 votes cast for the proposal; 414,397 votes were cast against the proposal; 240,724 votes abstained; and there were no broker non-votes.

(iii) The stockholders ratified the appointment of Stowe & Degon as the Company's independent registered public accounting firm for the 2006 fiscal year. There were 25,587,488 votes cast for the proposal; 39,000 votes were cast against the proposal; 1,500 votes abstained; and there were no broker non-votes.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description	Filed with this Form 10-QSB	Incorporated by Reference		
			Form	Filing Date	Exhibit No.
2.1	Agreement and plan of merger among Common Horizons, Inc., Nove Acquisition, Inc. and Novelos Therapeutics, Inc. dated May 26, 2005		8-K	June 2, 2005	99.2
2.2	Agreement and plan of merger between Common Horizons and Novelos Therapeutics, Inc. dated June 7, 2005		10-QSB	August 15, 2005	2.2
3.1	Certificate of Incorporation		8-K	June 17, 2005	1
3.2	Certificate of Designations of Series A cumulative convertible preferred stock		8-K	October 3, 2005	99.2
3.3	By-Laws		8-K	June 17, 2005	2
10.1	2006 Stock Incentive Plan	X			
31.1	Certification of the chief executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
31.2	Certification of the chief financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
32.1	Certificate pursuant to 18 U.S.C. Section 1350 of the chief executive officer	X			
32.2	Certificate pursuant to 18 U.S.C. Section 1350 of the chief financial officer	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.

NOVELOS THERAPEUTICS, INC.

Date: November 6, 2006

By: /s/ Harry S. Palmin

Harry S. Palmin
President, Chief Executive Officer

EXHIBIT INDEX

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Exhibit 10.1

Novelos Therapeutics, Inc.

2006 STOCK INCENTIVE PLAN

SECTION 1. General Purpose of the Plan; Definitions

The purpose of this 2006 Stock Incentive Plan (the "Plan") is to encourage and enable officers and employees of, and other persons providing services to, Novelos Therapeutics, Inc. (the "Company") and its Affiliates to acquire a proprietary interest in the Company. It is anticipated that providing such persons with a direct stake in the Company's welfare will assure a closer identification of their interests with those of the Company and its shareholders, thereby stimulating their efforts on the Company's behalf and strengthening their desire to remain with the Company.

The following terms shall be defined as set forth below:

"Affiliate" means a parent corporation, if any, and each subsidiary corporation of the Company, as those terms are defined in Section 424 of the Code.

"Award" or "Awards", except where referring to a particular category of grant under the Plan, shall include Incentive Stock Options, Non-Statutory Stock Options, Restricted Stock Awards, Unrestricted Stock Awards, Performance Share Awards and Stock Appreciation Rights. Awards shall be evidenced by a written agreement (which may be in electronic form and may be electronically acknowledged and accepted by the recipient) containing such terms and conditions not inconsistent with the provisions of this Plan as the Committee shall determine.

"Board" means the Board of Directors of the Company.

"Cause" shall mean, with respect to any Award holder, a determination by the Company (including the Board) or any Affiliate that the Holder's employment or other relationship with the Company or any such Affiliate should be terminated as a result of (i) a material breach by the Award holder of any agreement to which the Award holder and the Company (or any such Affiliate) are parties, (ii) any act (other than retirement) or omission to act by the Award holder that may have a material and adverse effect on the business of the Company, such Affiliate or any other Affiliate or on the Award holder's ability to perform services for the Company or any such Affiliate, including, without limitation, the proven or admitted commission of any crime (other than an ordinary traffic violation), or (iii) any material misconduct or material neglect of duties by the Award holder in connection with the business or affairs of the Company or any such Affiliate.

"Change of Control" shall have the meaning set forth in Section 15.

"Code" means the Internal Revenue Code of 1986, as amended, and any successor Code, and related rules, regulations and interpretations.

"Committee" shall have the meaning set forth in Section 2.

"Disability" means disability as set forth in Section 22(e)(3) of the Code.

"Effective Date" means the date on which the Plan is approved by the Board of Directors as set forth in Section 17.

"Eligible Person" shall have the meaning set forth in Section 4.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Fair Market Value" on any given date means the closing price per share of the Stock on such date as reported by such registered national securities exchange on which the Stock is listed, or, if the Stock is not listed on such an exchange, as quoted on NASDAQ; provided, that, if there is no trading on such date, Fair Market Value shall be deemed to be the closing price per share on the last preceding date on which the Stock was traded. If the Stock is not listed on any registered national securities exchange or quoted on NASDAQ, the Fair Market Value of the Stock shall be determined in good faith by the Committee.

"Incentive Stock Option" means any Stock Option designated and qualified as an "incentive stock option" as defined in Section 422 of the Code.

"Non-Employee Director" means any director who: (i) is not currently an officer of the Company or an Affiliate, or otherwise currently employed by the Company or an Affiliate, (ii) does not receive compensation, either directly or indirectly, from the Company or an Affiliate, for services rendered as a consultant or in any capacity other than as a director, except for an amount that does not exceed the dollar amount for which disclosure would be required pursuant to Rule 404(a) of Regulation S-K promulgated by the SEC, (iii) does not possess an interest in any other transaction for which disclosure would be required pursuant to Rule 404(a) of Regulation S-K, and (iv) is not engaged in a business relationship for which disclosure would be required pursuant to Rule 404(b) of Regulation S-K.

"Non-Statutory Stock Option" means any Stock Option that is not an Incentive Stock Option.

"Normal Retirement" means retirement in good standing from active employment with the Company and its Affiliates in accordance with the retirement policies of the Company and its Affiliates then in effect.

"Option" or "Stock Option" means any option to purchase shares of Stock granted pursuant to Section 5.

"Outside Director" means any director who (i) is not an employee of the Company or of any "affiliated group," as such term is defined in Section 1504(a) of the Code, which includes the Company (an "Affiliated Group Member"), (ii) is not a former employee of the Company or any Affiliated Group Member who is receiving compensation for prior services (other than benefits under a tax-qualified retirement plan) during the Company's or any Affiliated Group Member's taxable year, (iii) has not been an officer of the Company or any Affiliated Group Member and (iv) does not receive remuneration from the Company or any Affiliated Group Member, either directly or indirectly, in any capacity other than as a director. "Outside Director" shall be determined in accordance with Section 162(m) of the Code and the Treasury regulations issued thereunder.

"Performance Share Award" means an Award pursuant to Section 8.

"Restricted Stock Award" means an Award granted pursuant to Section 6.

"SEC" means the Securities and Exchange Commission or any successor authority.

"Stock" means the common stock, $0.00001 par value per share, of the Company, subject to adjustments pursuant to Section 3.

"Stock Appreciation Right" means an Award granted pursuant to Section 9.

"Unrestricted Stock Award" means Awards granted pursuant to Section 7.

SECTION 2. Administration of Plan; Committee Authority to Select Participants and Determine Awards.

(a) *Committee*. It is intended that the Plan shall be administered by the Compensation Committee of the Board (the "Committee"), consisting of not less than two (2) persons each of whom qualifies as an Outside Director and a Non-Employee Director, but the authority and validity of any act taken or not taken by the Committee shall not be affected if any person administering the Plan is not an Outside Director or a Non-Employee Director. Except as specifically reserved to the Board under the terms of the Plan, and subject to any limitations set forth in the charter of the Committee, the Committee shall have full and final authority to operate, manage and administer the Plan on behalf of the Company.

(b) *Powers of Committee*. The Committee shall have the power and authority to grant and modify Awards consistent with the terms of the Plan, including the power and authority:

(i) to select the persons to whom Awards may from time to time be granted;

(ii) to determine the time or times of grant, and the extent, if any, of Incentive Stock Options, Non-Statutory Stock Options, Restricted Stock, Unrestricted Stock, Performance Shares and Stock Appreciation Rights, or any combination of the foregoing, granted to any one or more participants;

(iii) to determine the number of shares to be covered by any Award;

(iv) to determine and modify the terms and conditions, including restrictions, not inconsistent with the terms of the Plan, of any Award, which terms and conditions may differ among individual Awards and participants, and to approve the form of written instruments evidencing the Awards; provided, however, that no such action shall adversely affect rights under any outstanding Award without the participant's consent;

(v) to accelerate the exercisability or vesting of all or any portion of any Award;

(vi) to extend the period in which any outstanding Stock Option or Stock Appreciation Right may be exercised; and

(vii) to adopt, alter and repeal such rules, guidelines and practices for administration of the Plan and for its own acts and proceedings as it shall deem advisable; to interpret the terms and provisions of the Plan and any Award (including related written instruments); to make all determinations it deems advisable for the administration of the Plan; to decide all disputes arising in connection with the Plan; and to otherwise supervise the administration of the Plan.

All decisions and interpretations of the Committee shall be binding on all persons, including the Company and Plan participants. No member or former member of the Committee or the Board shall be liable for any action or determination made in good faith with respect to this Plan.

SECTION 3. Shares Issuable under the Plan; Mergers; Substitution.

(a) *Shares Issuable*. The maximum number of shares of Stock which may be issued in respect of Awards (including Stock Appreciation Rights) granted under the Plan, subject to adjustment upon changes in capitalization of the Company as provided in this Section 3, shall be 5,000,000 shares, subject to adjustment upon changes in capitalization of the Company as provided in this Section 3. For purposes of this limitation, the shares of Stock underlying any Awards which are forfeited, cancelled, reacquired by the Company or otherwise terminated (other than by exercise) shall be added back to the shares of Stock with respect to which Awards may be granted under the Plan. Shares issued under the Plan may be authorized but unissued shares or shares reacquired by the Company.

(b) *Limitation on Awards*. In no event may any Plan participant be granted Awards (including Stock Appreciation Rights) with respect to more than 750,000 shares of Stock in any calendar year. The number of shares of Stock relating to an Award granted to a Plan participant in a calendar year that is subsequently forfeited, cancelled or otherwise terminated shall continue to count toward the foregoing limitation in such calendar year. In addition, if the exercise price of an Award is subsequently reduced, the transaction shall be deemed a cancellation of the original Award and the grant of a new one so that both transactions shall count toward the maximum shares issuable in the calendar year of each respective transaction.

(c) *Stock Dividends, Mergers, etc.* In the event that after approval of the Plan by the stockholders of the Company in accordance with Section 17, the Company effects a stock dividend, stock split or similar change in capitalization affecting the Stock, the Committee shall make appropriate adjustments in (i) the number and kind of shares of stock or securities with respect to which Awards may thereafter be granted (including without limitation the limitations set forth in Sections 3(a) and (b) above), (ii) the number and kind of shares remaining subject to outstanding Awards, and (iii) the option or purchase price in respect of such shares. In the event of any merger, consolidation, dissolution or liquidation of the Company, the Committee in its sole discretion may, as to any outstanding Awards, make such substitution or adjustment in the aggregate number of shares reserved for issuance under the Plan and in the number and purchase price (if any) of shares subject to such Awards as it may determine and as may be permitted by the terms of such transaction, or accelerate, amend or terminate such Awards upon such terms and conditions as it shall provide (which, in the case of the termination of the vested portion of any Award, shall require payment or other consideration which the Committee deems equitable in the circumstances), subject, however, to the provisions of Section 15.

(d) *Substitute Awards*. The Committee may grant Awards under the Plan in substitution for stock and stock based awards held by employees of another corporation who concurrently become employees of the Company or an Affiliate as the result of a merger or consolidation of the employing corporation with the Company or an Affiliate or the acquisition by the Company or an Affiliate of property or stock of the employing corporation. The Committee may direct that the substitute awards be granted on such terms and conditions as the Committee considers appropriate in the circumstances.

SECTION 4. Eligibility.

Awards may be granted to officers, directors and employees of, and consultants and advisers to, the Company or its Affiliates ("Eligible Persons").

SECTION 5. Stock Options.

The Committee may grant to Eligible Persons options to purchase stock.

Any Stock Option granted under the Plan shall be in such form as the Committee may from time to time approve.

Stock Options granted under the Plan may be either Incentive Stock Options (subject to compliance with applicable law) or Non-Statutory Stock Options. Unless otherwise so designated, an Option shall be a Non-Statutory Stock Option. To the extent that any option does not qualify as an Incentive Stock Option, it shall constitute a Non-Statutory Stock Option.

No Incentive Stock Option shall be granted under the Plan after the tenth anniversary of the date of adoption of the Plan by the Board.

The Committee in its discretion may determine the effective date of Stock Options, provided, however, that grants of Incentive Stock Options shall be made only to persons who are, on the effective date of the grant, employees of the Company or an Affiliate. Stock Options granted pursuant to this Section 5 shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Committee shall deem desirable.

(a) *Exercise Price*. The exercise price per share for the Stock covered by a Stock Option granted pursuant to this Section 5 shall be determined by the Committee at the time of grant but shall be not less than one hundred percent (100%) of Fair Market Value on the day immediately preceding the date of grant. If an employee owns or is deemed to own (by reason of the attribution rules applicable under Section 424(d) of the Code) more than ten percent (10%) of the combined voting power of all classes of stock of the Company or any subsidiary or parent corporation and an Incentive Stock Option is granted to such employee, the option price shall be not less than one hundred ten percent (110%) of Fair Market Value on the day immediately preceding the date of grant.

(b) *Option Term*. The term of each Stock Option shall be fixed by the Committee, but no Incentive Stock Option shall be exercisable more than ten (10) years after the date the option is granted. If an employee owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than ten percent (10%) of the combined voting power of all classes of stock of the Company or any subsidiary or parent corporation and an Incentive Stock Option is granted to such employee, the term of such option shall be no more than five (5) years from the date of grant.

(c) *Exercisability; Rights of a Shareholder*. Stock Options shall become vested and exercisable at such time or times, whether or not in installments, as shall be determined by the Committee. The Committee may at any time accelerate the exercisability of all or any portion of any Stock Option. An optionee shall have the rights of a shareholder only as to shares acquired upon the exercise of a Stock Option and not as to unexercised Stock Options.

(d) *Method of Exercise*. Stock Options may be exercised in whole or in part, by delivering written notice of exercise to the Company, specifying the number of shares to be purchased. Payment of the purchase price may be made by delivery of cash or bank check or other instrument acceptable to the Committee in an amount equal to the exercise price of such Options, or, to the extent provided in the applicable Option Agreement, by one or more of the following methods:

(i) by delivery to the Company of shares of Stock of the Company having a Fair Market Value equal in amount to the aggregate exercise price of the Options being exercised; or

(ii) if the class of Stock is registered under the Exchange Act at such time, by delivery to the Company of a properly executed exercise notice along with irrevocable instructions to a broker to deliver promptly to the Company cash or a check payable and acceptable to the Company for the purchase price; provided that in the event that the optionee chooses to pay the purchase price as so provided, the optionee and the broker shall comply with such procedures and enter into such agreements of indemnity and other agreements as the Committee shall prescribe as a condition of such payment procedure (including, in the case of an optionee who is an executive officer of the Company, such procedures and agreements as the Committee deems appropriate in order to avoid any extension of credit in the form of a personal loan to such officer). The Company need not act upon such exercise notice until the Company receives full payment of the exercise price; or

(iii) by reducing the number of Option shares otherwise issuable to the optionee upon exercise of the Option by a number of shares of Common Stock having a Fair Market Value equal to such aggregate exercise price of the Options being exercised; or

(iv) by any combination of such methods of payment.

The delivery of certificates representing shares of Stock to be purchased pursuant to the exercise of a Stock Option will be contingent upon receipt from the Optionee (or a purchaser acting in his stead in accordance with the provisions of the Stock Option) by the Company of the full purchase price for such shares and the fulfillment of any other requirements contained in the Stock Option or imposed by applicable law.

(e) *Non-transferability of Options*. Except as the Committee may provide with respect to a Non-Statutory Stock Option, no Stock Option shall be transferable other than by will or by the laws of descent and distribution and all Stock Options shall be exercisable, during the optionee's lifetime, only by the optionee.

(f) *Annual Limit on Incentive Stock Options*. To the extent required for "incentive stock option" treatment under Section 422 of the Code, the aggregate Fair Market Value (determined as of the time of grant) of the Stock with respect to which Incentive Stock Options granted under this Plan and any other plan of the Company or its Affiliates become exercisable for the first time by an optionee during any calendar year shall not exceed $100,000.

SECTION 6. Restricted Stock Awards.

(a) *Nature of Restricted Stock Award*. The Committee in its discretion may grant Restricted Stock Awards to any Eligible Person, entitling the recipient to acquire, for such purchase price, if any, as may be determined by the Committee, shares of Stock subject to such restrictions and conditions as the Committee may determine at the time of grant ("Restricted Stock"), including continued employment and/or achievement of pre-established performance goals and objectives.

(b) *Acceptance of Award.* A participant who is granted a Restricted Stock Award shall have no rights with respect to such Award unless the participant shall have accepted the Award within sixty (60) days (or such shorter date as the Committee may specify) following the award date by making payment to the Company of the specified purchase price, if any, of the shares covered by the Award and by executing and delivering to the Company a written instrument that sets forth the terms and conditions applicable to the Restricted Stock in such form as the Committee shall determine.

(c) *Rights as a Shareholder*. Upon complying with Section 6(b) above, a participant shall have all the rights of a shareholder with respect to the Restricted Stock, including voting and dividend rights, subject to non-transferability restrictions and Company repurchase or forfeiture rights described in this Section 6 and subject to such other conditions contained in the written instrument evidencing the Restricted Award. Unless the Committee shall otherwise determine, certificates evidencing shares of Restricted Stock Award shall remain in the possession of the Company until such shares are vested as provided in Section 6(e) below.

(d) *Restrictions*. Shares of Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided herein. In the event of termination of employment by the Company and its Affiliates for any reason (including death, Disability, Normal Retirement and for Cause), any shares of Restricted Stock which have not then vested shall automatically be forfeited to the Company.

(e) *Vesting of Restricted Stock*. The Committee at the time of grant shall specify the date or dates and/or the attainment of pre-established performance goals, objectives and other conditions on which the non-transferability of the Restricted Stock and the Company's right of forfeiture shall lapse. Subsequent to such date or dates and/or the attainment of such pre-established performance goals, objectives and other conditions, the shares on which all restrictions have lapsed shall no longer be Restricted Stock and shall be deemed "vested." The Committee at any time may accelerate such date or dates and otherwise waive or, subject to Section 13, amend any conditions of the Award.

(f) *Waiver, Deferral and Reinvestment of Dividends*. The written instrument evidencing the Restricted Stock Award may require or permit the immediate payment, waiver, deferral or investment of dividends paid on the Restricted Stock.

SECTION 7. Unrestricted Stock Awards.

(a) *Grant or Sale of Unrestricted Stock.* The Committee in its discretion may grant or sell to any Eligible Person shares of Stock free of any restrictions under the Plan ("Unrestricted Stock") at a purchase price determined by the Committee. Shares of Unrestricted Stock may be granted or sold as described in the preceding sentence in respect of past services or other valid consideration.

(b) *Restrictions on Transfers*. The right to receive unrestricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered, other than by will or the laws of descent and distribution.

SECTION 8. Performance Share Awards.

A Performance Share Award is an award entitling the recipient to acquire shares of Stock upon the attainment of specified performance goals. The Committee may make Performance Share Awards independent of or in connection with the granting of any other Award under the Plan. Performance Share Awards may be granted under the Plan to any Eligible Person. The Committee in its discretion shall determine whether and to whom Performance Share Awards shall be made, the performance goals applicable under each such Award (which may include, without limitation, continued employment by the recipient or a specified achievement by the recipient, the Company or any business unit of the Company), the periods during which performance is to be measured, and all other limitations and conditions applicable to the Award or the Stock issuable thereunder. Upon the attainment of the specified performance goal shares of Stock shall be issued pursuant to the Performance Share Award as soon as practicable thereafter, but in no event later than two and one-half months after the calendar year in which such performance goal is attained.

SECTION 9. Stock Appreciation Rights.

The Committee in its discretion may grant Stock Appreciation Rights to any Eligible Person. A Stock Appreciation Right shall entitle the participant upon exercise thereof to receive from the Company, upon written request to the Company at its principal offices (the "Request"), a number of shares of Stock, a cash payment, or a combination of shares and cash (as provided in the Stock Appreciation Right) having an aggregate Fair Market Value equal to the product of (a) the excess of Fair Market Value, on the date of such Request, over the exercise price per share of Stock specified in such Stock Appreciation Right (which exercise price shall be not less than one hundred percent (100%) of Fair Market Value on the date of grant), multiplied by (b) the number of shares of Stock for which such Stock Appreciation Right shall be exercised.

SECTION 10. Termination of Stock Options and Stock Appreciation Rights.

(a) *Incentive Stock Options:*

(i) *Termination by Death*. If any participant's employment by the Company and its Affiliates terminates by reason of death, any Incentive Stock Option owned by such participant may thereafter be exercised to the extent exercisable at the date of death, by the legal representative or legatee of the participant, for a period of one hundred eighty (180) days from the date of death, or until the expiration of the stated term of the Incentive Stock Option, if earlier.

(ii) *Termination by Reason of Disability or Normal Retirement*.

(A) Any Incentive Stock Option held by a participant whose employment by the Company and its Affiliates has terminated by reason of Disability may thereafter be exercised, to the extent it was exercisable at the time of such termination, for a period of ninety (90) days from the date of such termination of employment, or until the expiration of the stated term of the Option, if earlier.

(B) Any Incentive Stock Option held by a participant whose employment by the Company and its Affiliates has terminated by reason of Normal Retirement may thereafter be exercised, to the extent it was exercisable at the time of such termination, for a period of ninety (90) days from the date of such termination of employment, or until the expiration of the stated term of the Option, if earlier.

(C) The Committee shall have sole authority and discretion to determine whether a participant's employment has been terminated by reason of Disability or Normal Retirement.

(iii) *Involuntary Termination without Cause*. If any participant's employment by the Company and its Affiliates has been terminated by the Company without Cause, as determined by the Committee in its sole discretion, any Incentive Stock Option held by such participant may thereafter be exercised, to the extent it was exercisable on the date of termination of employment, for ninety (90) days from the date of termination of employment or until the expiration of the stated term of the Option, if earlier.

(iv) *Termination for Cause*. If any participant's employment by the Company and its Affiliates has been terminated for Cause, as determined by the Committee in its sole discretion, any Incentive Stock Option held by such participant shall immediately terminate and be of no further force and effect.

(v) *Other Termination.* Unless otherwise determined by the Committee, if a participant's employment by the Company and its Affiliates terminates for any reason other than death, Disability, or Normal Retirement, involuntary termination without Cause, or termination for Cause, any Incentive Stock Option held by such participant may thereafter be exercised, to the extent it was exercisable on the date of termination of employment, for thirty (30) days from the date of termination of employment or until the expiration of the stated term of the Option, if earlier.

(b) *Non-Statutory Stock Options and Stock Appreciation Rights.* Any Non-Statutory Stock Option or Stock Appreciation Right granted under the Plan shall contain such terms and conditions with respect to its termination as the Committee, in its discretion, may from time to time determine.

SECTION 11. Tax Withholding and Notice.

(a) *Payment by Participant*. Each participant shall, no later than the date as of which the value of an Award or of any Stock or other amounts received thereunder first becomes includable in the gross income of the participant for Federal income tax purposes, pay to the Company, or make arrangements satisfactory to the Committee regarding payment of any Federal, state, local and/or payroll taxes of any kind required by law to be withheld with respect to such income. The Company and its Affiliates shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the participant.

(b) *Payment in Shares*. A Participant may elect, with the consent of the Committee, to have such tax withholding obligation satisfied, in whole or in part, by (i) authorizing the Company to withhold from shares of Stock to be issued pursuant to an Award a number of shares with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due with respect to such Award, or (ii) delivering to the Company a number of shares of Stock with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due.

(c) *Notice of Disqualifying Disposition.* Each holder of an Incentive Option shall agree to notify the Company in writing immediately after making a disqualifying disposition (as defined in Section 421(b) of the Code) of any Stock purchased upon exercise of an Incentive Stock Option.

SECTION 12. Transfer and Leave of Absence.

For purposes of the Plan, the following events shall not be deemed a termination of employment:

(a) a transfer to the employment of the Company from an Affiliate or from the Company to an Affiliate, or from one Affiliate to another;

(b) an approved leave of absence for military service or sickness, or for any other purpose approved by the Company, if the employee's right to re-employment is guaranteed either by a statute or by contract or under the policy pursuant to which the leave of absence was granted or if the Committee otherwise so provides in writing; provided, that the vesting date or dates of any unvested Award held by such employee shall automatically be extended by a period of time equal to the period of such approved leave of absence.

SECTION 13. Amendments and Termination.

The Board may at any time amend or discontinue the Plan and the Committee may at any time amend or cancel any outstanding Award for the purpose of satisfying changes in law or for any other lawful purpose, but no such action shall adversely affect rights under any outstanding Award without the holder's consent. Notwithstanding the foregoing, neither the Board nor the Committee shall have the power or authority to decrease the exercise price of any outstanding Stock Option or Stock Appreciation Right, whether through amendment, cancellation and regrant, exchange or any other means, except for changes made pursuant to Section 3(c).

This Plan shall terminate as of the tenth anniversary of its effective date. The Board may terminate this Plan at any earlier time for any reason. No Award may be granted after the Plan has been terminated. No Award granted while this Plan is in effect shall be adversely altered or impaired by termination of this Plan, except upon the consent of the holder of such Award. The power of the Committee to construe and interpret this Plan and the Awards granted prior to the termination of this Plan shall continue after such termination.

SECTION 14. Status of Plan.

With respect to the portion of any Award which has not been exercised and any payments in cash, Stock or other consideration not received by a participant, a participant shall have no rights greater than those of a general creditor of the Company unless the Committee shall otherwise expressly determine in connection with any Award or Awards.

SECTION 15. Change of Control Provisions.

(a) Upon the occurrence of a Change of Control as defined in this Section 15:

(i) subject to the provisions of clause (iii) below, after the effective date of such Change of Control, each holder of an outstanding Stock Option, Restricted Stock Award, Performance Share Award or Stock Appreciation Right shall be entitled, upon exercise of such Award, to receive, in lieu of shares of Stock (or consideration based upon the Fair Market Value of Stock), shares of such stock or other securities, cash or property (or consideration based upon shares of such stock or other securities, cash or property) as the holders of shares of Stock received in connection with the Change of Control;

(ii) the Committee may accelerate, fully or in part, the time for exercise of, and waive any or all conditions and restrictions on, each unexercised and unexpired Stock Option, Restricted Stock Award, Performance Share Award and Stock Appreciation Right, effective upon a date prior or subsequent to the effective date of such Change of Control, as specified by the Committee; or

(iii) each outstanding Stock Option, Restricted Stock Award, Performance Share Award and Stock Appreciation Right may be cancelled by the Committee as of the effective date of any such Change of Control provided that (x) prior written notice of such cancellation shall be given to each holder of such an Award and (y) each holder of such an Award shall have the right to exercise such Award to the extent that the same is then exercisable or, in full, if the Committee shall have accelerated the time for exercise of all such unexercised and unexpired Awards, during the thirty (30) day period preceding the effective date of such Change of Control.

(b) "Change of Control" shall mean the occurrence of any one of the following events:

(i) any "person" (as such term is used in Sections 13(d) and 14(d)(2) of the Exchange Act) becomes, after the Effective Date of this Plan, a "beneficial owner" (as such term is defined in Rule 13d-3 promulgated under the Exchange Act) (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities; or

(ii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation or other entity, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or

(iii) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

SECTION 16. General Provisions.

(a) *No Distribution; Compliance with Legal Requirements*. The Committee may require each person acquiring shares pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the shares without a view to distribution thereof.

No shares of Stock shall be issued pursuant to an Award until all applicable securities laws and other legal and stock exchange requirements have been satisfied. The Committee may require the placing of such stop orders and restrictive legends on certificates for Stock and Awards as it deems appropriate.

(b) *Delivery of Stock Certificates*. Delivery of stock certificates to participants under this Plan shall be deemed effected for all purposes when the Company or a stock transfer agent of the Company shall have delivered such certificates in the United States mail, addressed to the participant, at the participant's last known address on file with the Company.

(c) *Other Compensation Arrangements; No Employment Rights*. Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, including trusts, subject to stockholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases. The adoption of the Plan or any Award under the Plan does not confer upon any employee any right to continued employment with the Company or any Affiliate.

(d) *Lock-Up Agreement.* By accepting any Award, the recipient shall be deemed to have agreed that, if so requested by the Company or by the underwriters managing any underwritten offering of the Company's securities, the recipient will not, without the prior written consent of the Company or such underwriters, as the case may be, sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any shares subject to any such Award during the Lock-up Period, as defined below. The "Lock-Up Period" shall mean a period of time not exceeding 180 days or, if greater, such number of days as shall have been agreed to by each director and executive officer of the Company in connection with such offering in a substantially similar lock-up agreement by which each such director and executive officer is bound. If requested by the Company or such underwriters, the recipient shall enter into an agreement with such underwriters consistent with the foregoing.

SECTION 17. Effective Date of Plan.

This Plan shall become effective upon its adoption by the Company's Board of Directors. If the Plan shall not be approved by the shareholders of the Company within twelve months following its adoption, this Plan shall terminate and be of no further force or effect.

SECTION 18. Governing Law.

This Plan shall be governed by, and construed and enforced in accordance with, the substantive laws of the State of Delaware without regard to its principles of conflicts of laws.

* * *

Exhibit 31.1

CERTIFICATION

I, HARRY S. PALMIN, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Novelos Therapeutics, 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 small business issuer as of, and for, the periods presented in this report;

4. The small business issuer'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)) for the small business issuer 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 small business issuer, 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) Evaluated the effectiveness of the small business issuer'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

   (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer'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 small business issuer'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 small business issuer's internal control over financial reporting.

Date: November 6, 2006

/s/ Harry S. Palmin

Harry S. Palmin
President, Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, GEORGE R. VAUGHN, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Novelos Therapeutics, 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 small business issuer as of, and for, the periods presented in this report;

4. The small business issuer'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)) for the small business issuer 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 small business issuer, 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) Evaluated the effectiveness of the small business issuer'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

   (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer'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 small business issuer'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 small business issuer's internal control over financial reporting.

Date: November 6, 2006

/s/ George R. Vaughn

George R. Vaughn
Chief Financial Officer

EXHIBIT 32.1

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-QSB of Novelos Therapeutics, Inc., (the "Company") for the quarter ended September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned chief executive officer of the Company certifies, to his best knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Harry S. Palmin

Harry S. Palmin
President, Chief Executive Officer

Date: November 6, 2006

EXHIBIT 32.2

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-QSB of Novelos Therapeutics, Inc., (the "Company") for the quarter ended September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned chief financial officer of the Company certifies, to his best knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ George R. Vaughn

George R. Vaughn
Chief Financial Officer

Date: November 6, 2006