

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

FORM 10-Q

[mark one]

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

For the quarterly period ended: June 30, 2014

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

For the transition period from _____ to _____

Commission File Number 333-119366

CELLECTAR BIOSCIENCES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

04-3321804

(IRS Employer Identification No.)

3301 Agriculture Drive

Madison, Wisconsin 53716

(Address of principal executive offices)

(608) 441-8120

(Registrant's telephone number, including area code)

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

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

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

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

(Check one):

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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: 2,869,739 shares of common stock, \$0.00001 par value per share, as of August 1, 2014.

CELLECTAR BIOSCIENCES, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,626,025	\$ 2,418,384
Restricted cash	55,000	55,000
Prepaid expenses and other current assets	334,979	294,687
Total current assets	2,016,004	2,768,071
FIXED ASSETS, NET	2,185,087	2,360,534
GOODWILL	1,675,462	1,675,462
OTHER ASSETS	12,009	11,872
TOTAL ASSETS	\$ 5,888,562	\$ 6,815,939
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Current maturities of notes payable	\$ 41,330	\$ —
Accounts payable and accrued liabilities	1,195,418	1,162,098
Derivative liability	2,840,557	3,359,363
Capital lease obligations	431	1,694
Total current liabilities	4,077,736	4,523,155
LONG-TERM LIABILITIES:		
Convertible debt	3,796,781	—
Notes payable, less current maturities	408,670	450,000
Deferred rent	145,993	143,234
Total long-term liabilities	4,351,444	593,234
TOTAL LIABILITIES	8,429,180	5,116,389
COMMITMENTS AND CONTINGENCIES (Note 9)		
STOCKHOLDERS' EQUITY (DEFICIT):		
Preferred stock, \$0.00001 par value; 7,000 shares authorized; none issued and outstanding as of June 30, 2014 and December 31, 2013	—	—
Common stock, \$0.00001 par value; 20,000,000 shares authorized; 2,869,739 shares issued and outstanding at June 30, 2014 and December 31, 2013	29	29
Additional paid-in capital	53,548,170	52,759,089
Deficit accumulated	(56,088,817)	(51,059,568)
Total stockholders' equity (deficit)	(2,540,618)	1,699,550
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 5,888,562	\$ 6,815,939

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
COSTS AND EXPENSES:				
Research and development	\$ 1,380,798	\$ 1,648,838	\$ 3,096,105	\$ 3,239,450
General and administrative	959,885	1,073,749	2,046,921	2,195,452
Restructuring costs	204,934	—	221,815	—
Total costs and expenses	<u>2,545,617</u>	<u>2,722,587</u>	<u>5,364,841</u>	<u>5,434,902</u>
LOSS FROM OPERATIONS	<u>(2,545,617)</u>	<u>(2,722,587)</u>	<u>(5,364,841)</u>	<u>(5,434,902)</u>
OTHER INCOME (EXPENSE):				
Gain on revaluation of derivative warrants	573,751	660,341	518,806	666,384
Loss on issuance of derivative warrants	—	—	—	(744,957)
Interest expense, net	(113,970)	(2,216)	(183,214)	(4,866)
Total other income (expense), net	<u>459,781</u>	<u>658,125</u>	<u>335,592</u>	<u>(83,439)</u>
NET LOSS	<u>\$ (2,085,836)</u>	<u>\$ (2,064,462)</u>	<u>\$ (5,029,249)</u>	<u>\$ (5,518,341)</u>
BASIC AND DILUTED NET LOSS PER COMMON SHARE	<u>\$ (.73)</u>	<u>\$ (.72)</u>	<u>\$ (1.75)</u>	<u>\$ (2.03)</u>
SHARES USED IN COMPUTING BASIC AND DILUTED NET LOSS PER COMMON SHARE	<u>2,869,739</u>	<u>2,869,739</u>	<u>2,869,739</u>	<u>2,717,966</u>

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

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

	Six Months Ended	
	June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (5,029,249)	\$ (5,518,341)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	188,369	219,968
Stock-based compensation expense	536,216	803,791
Non-cash interest expense related to discount on convertible debt	50,805	—
Loss on disposal of fixed assets	2,268	4,513
Gain on revaluation of derivative warrants	(518,806)	(666,384)
Loss on issuance of derivative warrants	—	744,957
Changes in:		
Accounts payable and accrued liabilities	33,320	304,484
Prepaid expenses and other current assets	132,115	180,024
Other assets and liabilities	2,622	4,391
Cash used in operating activities	<u>(4,602,340)</u>	<u>(3,922,597)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(15,191)	(92,977)
Change in restricted cash	—	121,768
Cash (used in) provided by investing activities	<u>(15,191)</u>	<u>28,791</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of convertible notes	4,000,000	—
Payments on capital lease obligations	(1,263)	(1,178)
Reverse stock split fractional shares	(1,158)	—
Proceeds from issuance of common stock, net of issuance costs	—	4,975,153
Change in deferred issuance costs	(172,407)	70,539
Cash provided by financing activities	<u>3,825,172</u>	<u>5,044,514</u>
(DECREASE) INCREASE IN CASH AND EQUIVALENTS	(792,359)	1,150,708
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	<u>2,418,384</u>	<u>4,677,545</u>
CASH AND EQUIVALENTS AT END OF PERIOD	<u>\$ 1,626,025</u>	<u>\$ 5,828,253</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Fair value of warrants classified as derivative liability	\$ —	\$ 5,720,000
Relative fair value of warrants issued with convertible debt	<u>\$ 254,024</u>	<u>\$ —</u>

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

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

1. NATURE OF BUSINESS, ORGANIZATION AND GOING CONCERN

Collectar Biosciences, Inc. (the “Company”) is a biopharmaceutical company developing compounds for the treatment and imaging of cancer. Prior to February 11, 2014, the name of the Company was Novelos Therapeutics, Inc. (“Novelos”). On April 8, 2011, Novelos entered into a business combination (the “Acquisition”) with Collectar, Inc., a privately held Wisconsin corporation that designed and developed products to detect, treat and monitor a wide variety of human cancers.

References in these financial statements and notes to “Collectar, Inc.” relate to the activities and financial information of Collectar, Inc. prior to the Acquisition, references to “Novelos” relate to the activities and financial information of Novelos prior to the Acquisition and references to “the Company” or “we” or “us” or “our” relate to the activities and obligations of the combined Company following the Acquisition.

The Company’s headquarters are located in Madison, Wisconsin.

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

The accompanying financial statements have been prepared on a basis that assumes that the Company will continue as a going concern and that contemplates the continuity of operations, realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company has devoted substantially all of its efforts toward research and development and has, during the six months ended June 30, 2014, generated a net loss of approximately \$5,029,000. The Company expects that it will continue to generate operating losses for the foreseeable future. See footnote 12 below for further information regarding the Company’s cash resources. The Company’s ability to execute its operating plan depends on its ability to obtain additional funding via the sale of equity and/or debt securities, a strategic transaction or otherwise. The Company plans to continue to actively pursue financing alternatives, but there can be no assurance that it will obtain the necessary funding. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The accompanying condensed consolidated balance sheet as of December 31, 2013 has been derived from audited financial statements. The accompanying unaudited condensed consolidated balance sheet as of June 30, 2014, the condensed consolidated statements of operations for the three months and six months ended June 30, 2014 and 2013, the condensed consolidated statements of cash flows for the six months ended June 30, 2014 and 2013 and the related interim information contained within the notes to the condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions, rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial information. Accordingly, they do not include all of the information and the notes required by U.S. GAAP for complete financial statements. In the opinion of management, the unaudited interim condensed consolidated financial statements reflect all adjustments which are of a nature necessary for the fair presentation of the Company’s consolidated financial position at June 30, 2014 and consolidated results of its operations for the three months and six months ended June 30, 2014, and its cash flows for the six months ended June 30, 2014 and 2013. The results for the six months ended June 30, 2014 are not necessarily indicative of future results.

These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and related notes thereto included in the Company’s Form 10-K for the fiscal year ended December 31, 2013, which was filed with the SEC on March 19, 2014.

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

Restricted Cash — The Company accounts for cash that is restricted for other than current operations as restricted cash. Restricted cash at June 30, 2014 and December 31, 2013 consisted of a certificate of deposit of \$55,000 required under the Company’s lease agreement for its Madison, Wisconsin facility.

Goodwill — At June 30, 2014 and December 31, 2013, the balance of goodwill resulted from the Acquisition. Goodwill is not amortized, but is required to be evaluated for impairment annually or whenever events or changes in circumstances suggest that the carrying value of an asset may not be recoverable. The Company evaluates goodwill for impairment annually in the fourth fiscal quarter and additionally on an interim basis if an event occurs or there is a change in circumstances, such as a decline in the Company’s stock price or a material adverse change in the business climate, which would more likely than not reduce the fair value of the reporting unit below its carrying amount. No such event or change in circumstances occurred; therefore no changes in goodwill were made during the six months ended June 30, 2014.

Impairment of Long-Lived Assets — Long-lived assets other than goodwill consist of fixed assets, which we periodically evaluate for potential impairment. Whenever events or circumstances change, an assessment is made as to whether there has been an impairment in the value of long-lived assets by determining whether projected undiscounted cash flows generated by the applicable asset exceed its net book value as of the assessment date. No such event or change in circumstances occurred; therefore, no such impairment occurred during the six months ended June 30, 2014.

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

Fair Value of Financial Instruments — The guidance under FASB ASC Topic 825, *Financial Instruments*, requires disclosure of the fair value of certain financial instruments. Financial instruments in the accompanying financial statements consist of cash equivalents, accounts payable, convertible debt and long-term obligations. The carrying amount of cash equivalents and accounts payable approximate their fair value due to their short-term nature. The fair value of convertible debt is equal to the fair value of the underlying common stock, which was approximately \$2,556,000 at June 30, 2014. The carrying value of remaining long-term obligations, including the current portion, approximates fair value because the fixed interest rate approximates current market interest rates available on similar instruments.

Derivative Instruments — The Company generally does not use derivative instruments to hedge exposures to cash flow or market risks. However, certain warrants to purchase common stock that do not meet the requirements for classification as equity, in accordance with the Derivatives and Hedging Topic of the FASB ASC, are classified as liabilities. In such instances, net-cash settlement is assumed for financial reporting purposes, even when the terms of the underlying contracts do not provide for a net-cash settlement. These warrants are considered derivative instruments because the agreements contain “down-round” provisions whereby the number of shares for which the warrants are exercisable and/or the exercise price of the warrants is subject to change in the event of certain issuances of stock at prices below the then-effective exercise price of the warrants. The number of shares issuable under such warrants was 551,365 and 826,365 at June 30, 2014 and December 31, 2013, respectively. The primary underlying risk exposure pertaining to the warrants is the change in fair value of the underlying common stock. Such financial instruments are initially recorded at fair value with subsequent changes in fair value recorded as a component of gain or loss on derivatives on the consolidated statements of operations in each reporting period. If these instruments subsequently meet the requirements for equity classification, the Company reclassifies the fair value to equity. At June 30, 2014 and December 31, 2013, these warrants represented the only outstanding derivative instruments issued or held by the Company.

Development Stage Entity — In previous filings, the Company has reported as a “Development Stage Entity”. However, in June 2014, the Financial Accounting Standards Board (FASB) published an Accounting Standards Update 2014-10 (ASU 2014-10) that removed the development stage entity guidance under Accounting Standards Codification Topic 915 (ASC 915) Development Stage Entities, thereby removing the financial reporting distinction between development stage entities and other reporting entities.

In addition, ASU 2014-10 eliminates the requirements for development stage entities to (1) present inception-to-date information in the statements of income, cash flows, and shareholder equity, (2) label the financial statements as those of a development stage entity, (3) disclose a description of the development stage activities in which the entity is engaged, and (4) disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage.

Presentation and disclosure requirements under ASC 915 are no longer required for the first annual period beginning after December 15, 2014, including interim periods therein. Earlier adoption of the new guidance for ASC 915 is permitted for any annual or interim period for which financial statements have not yet been issued for public business entities. Accordingly, the Company has elected to adopt these changes effective with the filing of this Form 10-Q.

2. FAIR VALUE

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

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

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

The Company had issued warrants to purchase 1,365 shares of common stock prior to the Acquisition ("Legacy Warrants") that are classified within the Level 2 hierarchy. Additionally, the Company issued warrants to purchase an aggregate of 825,000 common shares in a February 2013 public offering ("February 2013 Public Offering Warrants"). On February 20, 2014, warrants to purchase 275,000 shares of common stock issued in the February 2013 offering expired. The remaining 550,000 warrants are classified within the Level 3 hierarchy.

The following tables set forth the Company's financial instruments carried at fair value using the lowest level of input applicable to each financial instrument as of June 30, 2014 and December 31, 2013:

	June 30, 2014			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Liabilities:				
Legacy Warrants	\$ —	\$ 2,557	\$ —	\$ 2,557
February 2013 Public Offering Warrants	—	—	2,838,000	2,838,000
Total	<u>\$ —</u>	<u>\$ 2,557</u>	<u>\$ 2,838,000</u>	<u>\$ 2,840,557</u>

	December 31, 2013			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Liabilities:				
Legacy Warrants	\$ —	\$ 4,363	\$ —	\$ 4,363
February 2013 Public Offering Warrants	—	—	3,355,000	3,355,000
Total	<u>\$ —</u>	<u>\$ 4,363</u>	<u>\$ 3,355,000</u>	<u>\$ 3,359,363</u>

In order to estimate the fair value of the Legacy Warrants considered to be derivative instruments, the Company uses the Black-Scholes option pricing model and assumptions that consider, among other variables, the fair value of the underlying stock, risk-free interest rate, volatility, expected life and dividend rates. Assumptions used are generally consistent with those disclosed for stock-based compensation (see Note 6).

In order to estimate the value of the February 2013 Public Offering Warrants considered to be derivative instruments as of June 30, 2014, the Company uses a modified option-pricing model together with assumptions that consider, among other variables, the fair value of the underlying stock, risk-free interest rate of 1.76% (compared with risk-free interest rate of 0.92% as of December 31, 2013), volatility of 108% (compared with 109% as of December 31, 2013), contractual term of 6 years (also 6 years as of December 31, 2013), future financing requirements and dividend rates.

The assumptions used to estimate the value of the February 2013 Public Offering Warrants as of December 31, 2013 include the fair value of the underlying stock, risk free interest rates ranging from 0.07% to 1.27%, volatility ranging from 75% to 115%, the contractual term of the warrants ranging from 0.14 to 4.14 years, future financing requirements and dividend rates. The future financing estimates are based on the Company's estimates of anticipated cash requirements over the term of the warrants as well as the frequency of required financings based on its assessment of its historical financing trends and anticipated future events. Due to the nature of these inputs and the valuation technique utilized, these warrants are classified within the Level 3 hierarchy.

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

	June 30, 2014	December 31, 2013
Beginning balance – Fair value	\$ 3,355,000	\$ —
Fair value of warrants issued in connection with February 2013 public offering	—	5,720,000
Gain on derivatives resulting from change in fair value	(517,000)	(2,365,000)
Ending balance – Fair value	<u>\$ 2,838,000</u>	<u>\$ 3,355,000</u>

3. CONVERTIBLE DEBT

On February 5, 2014, the Company entered into a securities purchase agreement with certain accredited investors to sell \$4,000,000 in principal amount of convertible debentures and warrants to purchase 400,000 shares of its common stock for an aggregate purchase price of \$4,000,000. On February 6, 2014, the Company completed the sale of the debentures and warrants (the "February 2014 Private Placement").

Debentures

The debentures mature on February 6, 2016 and are convertible at any time at a conversion price of \$10.00 per share into an aggregate of 400,000 shares of common stock. The debentures accrue interest at an annual rate of 8%, payable upon redemption or conversion, in cash or shares of the Company's common stock. During the six months ended June 30, 2014, the Company accrued \$128,000 in interest expense, which is included in accrued liabilities as of June 30, 2014. The debenture conversion price and the common stock issuable pursuant to the debentures are subject to adjustment for stock dividends, stock splits or similar capital reorganizations so that the rights of the debenture holders after such event will be equivalent to the rights of debenture holders prior to such event.

The Company may elect to redeem the debentures prior to the maturity date upon 30-day notice to the holder. In the event of any sale of securities by the Company resulting in aggregate gross proceeds of at least \$2,000,000 (a "Subsequent Financing"), the holder shall have the right to require the Company to redeem some or all of the then outstanding principal amount of the debenture, plus all accrued but unpaid interest and other amounts due in respect of the debenture, in an amount equal to the amount of the holder's investment in the Subsequent Financing, by delivering notice to the Company on or before the consummation date of the Subsequent Financing. If, within 21 months after the issuance of the debentures, the Company raises gross proceeds of at least \$8,000,000, in the aggregate, in one or more subsequent financings (the "Minimum Proceeds"), the Company may, by notice given within three trading days after the receipt of the Minimum Proceeds, compel holders to convert all or part of the then outstanding principal amount of the debentures and accrued but unpaid interest and other amounts.

Other than as specifically permitted under in the debentures, as long as any of the debentures remain outstanding, the Company may not, without the consent of holders of a majority in principal amount of the then outstanding debentures: incur any indebtedness for borrowed money; grant any liens on its property or assets; repurchase shares of its common stock or common stock equivalents; repurchase or otherwise acquire any indebtedness; pay cash dividends or distributions on any equity securities; enter into any transaction with any affiliate of the Company which would be required to be disclosed in any public filing with the SEC, unless such transaction is made on an arm's-length basis and expressly approved by a majority of the disinterested directors of the Company; or enter into any agreement with respect to any of the foregoing. See footnote 12 for discussion of the security interest extended to these debentures as consideration for the consent of the holders to the issuance of the promissory notes in July 2014.

If any event of default occurs, the outstanding principal amount of the debentures, plus accrued but unpaid interest and other amounts owing in respect thereof through the date of acceleration, shall become, at the holder's election, immediately due and payable in cash. If such amounts are not paid within 5 days after the occurrence of any event of default, interest shall begin to accrue at the lesser of 12% per annum or the maximum rate permitted under applicable law. Events of default consist of: any default in the payment of amounts due and payable that is not cured within three trading days; failure of the Company to observe or perform any other covenant or agreement contained in the Debentures that is not cured within the earlier to occur of five trading days after notice of such failure sent by any holder of debentures or ten trading days after the Company has become aware of such failure; the occurrence of any uncured material default or event of default under the other transaction documents or any other material agreement, lease, document or instrument under which the Company or any of its subsidiaries is obligated; any representations or warranties made in the debentures or other transaction documents being materially false when made; an institution of any voluntary or involuntary bankruptcy or other insolvency proceeding or similar or related events; default on any borrowings in excess of \$150,000; the Company's common stock being ineligible for quotation on a trading market for greater than five trading days; the Company entering into any change in control transaction; the Company's failure to deliver shares of common stock as required upon conversion of the debentures; or the Company being the subject of a monetary judgment greater than \$100,000.

Common Stock Purchase Warrants

The warrants have an exercise price of \$20.00 and, if unexercised, expire on February 6, 2019. The warrants are exercisable only following the full or partial conversion of the associated debentures, and in the event of a partial conversion the warrant shall become exercisable only for a proportionate number of the total shares subject to the warrant. In the event any debentures cease to be outstanding prior to the associated warrants becoming exercisable, whether by reason of repayment, prepayment, redemption or otherwise, the associated warrants will automatically terminate.

The warrant exercise price and the number of shares of common stock issuable pursuant to the warrants are subject to adjustment for stock dividends, stock splits or similar capital reorganizations so that the rights of the warrant holders after such event will be equivalent to the rights of warrant holders prior to such event.

The Company determined that the warrants associated with the convertible debentures meet the requirements for classification as equity. Therefore, the relative fair value of the warrants at the date of issuance of \$254,000 has been included as a component of stockholders' equity. In order to estimate the value of these warrants the Company used a probability weighted valuation model together with assumptions that considered, among other variables, the fair value of the underlying stock, a risk-free interest rate of 1.52%, a volatility of 110%, a 0% dividend rate, a contractual term of 5 years, and an estimate of the probability that the warrants will become exercisable upon conversion of the associated debt.

Following the allocation of the relative fair value of the warrants to equity, the remaining value of approximately \$3,746,000, at the date of issuance, was allocated to the convertible debentures. The resulting discount on the debentures of \$254,000 will be accreted to interest expense over the shorter of the time to maturity or conversion. During the six months ended June 30, 2014, the Company recorded approximately \$51,000 of non-cash expense related to accretion of the discount on the debentures.

4. REVERSE STOCK SPLIT AND RECAPITALIZATION

At the annual meeting of stockholders held on May 22, 2014, the Company's stockholders approved an amendment to the certificate of incorporation to effect a reverse split of the Company's common stock at a ratio between 1:10 to 1:20 in order to satisfy requirements for the listing of the Company's common stock on the NASDAQ Capital Market. In addition, the proposal approved by the stockholders provided that if the reverse split was effected, the number of shares of common stock that the Company is authorized to issue would be reduced from 150,000,000 to the greater of (A) 20,000,000 and (B) the number of shares equal to three (3) times the sum of the number of all shares of common stock outstanding and the number of shares of common stock issuable upon exercise or conversion of all outstanding options, warrants and convertible debt. The Company's stockholders further authorized the board of directors to determine the ratio at which the reverse split would be effected and the corresponding reduction in authorized shares of common stock by filing an appropriate amendment to the Company's certificate of incorporation. The board of directors authorized the ratio of the reverse split and corresponding reduction in authorized shares on June 6, 2014 and effective at the close of business on June 13, 2014, the second amended and restated certificate of incorporation was amended to effect a 1-for-20 reverse split of the Company's common stock (the "Listing Reverse Split") and reduce the number of authorized shares of common stock to 20,000,000 from 150,000,000. All share and per share numbers included in this Form 10-Q give effect to the Listing Reverse Split.

5. STOCKHOLDERS' EQUITY

Common Stock Warrants

The following table summarizes information with regard to outstanding warrants to purchase common stock as of June 30, 2014.

Offering	Number of Shares Issuable Upon Exercise of Outstanding Warrants	Exercise Price	Expiration Date
February 2014 Private Placement (1)	400,000	\$ 20.00	February 6, 2019
February 2013 Public Offering (2)	550,000	10.00	February 20, 2018
February 2013 Public Offering – Placement Agents	38,496	12.50	February 4, 2018
November 2012 Private Placement	50,000	25.00	November 2, 2017
June 2012 Public Offering	149,069	25.00	June 13, 2017
December 2011 Underwritten Offering	462,411	12.00	December 6, 2016
April 2011 Private Placement	302,922	15.00	March 31, 2016
Legacy warrants (2)	1,365	10.00	July 27, 2015
Legacy warrants	5,252	321.30	July 27, 2015
Legacy warrants	4,570	1,989.00 - 2,019.60	December 31, 2015
Total	1,964,085		

- (1) Warrants issued in connection with the sale of convertible debentures. As described in Note 3, the warrants are only exercisable following conversion of the associated debentures.
- (2) The exercise prices of these warrants are subject to adjustment for "down-rounds" and the warrants have been accounted for as a derivative instrument as described in Note 2.

6. STOCK-BASED COMPENSATION

Accounting for Stock-Based Compensation

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Employee and director stock option grants:				
Research and development	\$ 47,274	\$ 106,774	\$ 110,701	\$ 212,612
General and administrative	176,581	264,243	360,965	576,282
Restructuring costs	47,853	—	47,853	—
	<u>271,708</u>	<u>371,017</u>	<u>519,519</u>	<u>788,894</u>
Non-employee consultant stock option grants:				
Research and development	1,982	3,311	16,697	4,322
General and administrative	—	3,565	—	10,575
	<u>1,982</u>	<u>6,876</u>	<u>16,697</u>	<u>14,897</u>
Total stock-based compensation	<u>\$ 273,690</u>	<u>\$ 377,893</u>	<u>\$ 536,216</u>	<u>\$ 803,791</u>

In October 2013, the Company granted options to purchase 264,278 shares of common stock in connection with the appointment of its then Acting Chief Executive Officer, including options to purchase 96,278 shares of common stock at \$15.00 per share (the “Anti-dilution Option”), exercisable as shares of the Company’s common stock are issued following the exercise of outstanding warrants to purchase up to 96,278 shares of the Company’s common stock, in the ratio of one option share for each 19 shares issued upon warrant exercise. No compensation expense was recognized related to these options as the Company was not able to conclude that the achievement of the performance condition was probable. On February 20, 2014, warrants to purchase 275,000 shares of common stock at an exercise price of \$10.00 per share expired unexercised and as a result, the number of shares subject to the Anti-dilution Option was reduced by 14,474 shares, according to its terms.

Assumptions Used In Determining Fair Value

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

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

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

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

Forfeitures. The Company records stock-based compensation expense only for those awards that are expected to vest. A forfeiture rate is estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. An annual forfeiture rate of 2% and 0% was applied to all unvested options for employees and directors, respectively for the six months ended June 30, 2014 and for the year ended December 31, 2013. 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 periods indicated:

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Volatility	108%	109%
Risk-free interest rate	1.76%	0.92%
Expected life (years)	6.0	6.0
Dividend	0%	0%
Weighted-average exercise price	\$ 7.40	\$ 14.80
Weighted-average grant-date fair value	\$ 6.20	\$ 12.20

Exercise prices for all grants made during the six months ended June 30, 2014 and 2013 were equal to the market value of the Company's common stock on the date of grant.

Stock Option Activity

A summary of stock option activity is as follows:

	Number of Shares Issuable Upon Exercise of Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Contracted Term in Years	Aggregate Intrinsic Value
Outstanding at December 31, 2013	634,658	\$ 18.20		
Granted	20,000	\$ 7.40		
Canceled	(20,521)	\$ 23.17		
Forfeited	(14,474)	\$ 15.00		
Outstanding at June 30, 2014	<u>619,663</u>	\$ 17.80		
Vested, June 30, 2014	<u>264,752</u>	\$ 29.00	4.04	\$ —
Unvested, June 30, 2014	<u>354,911</u>	\$ 9.20	9.26	\$ —
Exercisable at June 30, 2014	<u>264,752</u>	\$ 29.00	4.04	\$ —

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

As of June 30, 2014, there was approximately \$1,869,000 of total unrecognized compensation cost related to unvested stock-based compensation arrangements. Of this total amount, the Company expects to recognize approximately \$1,096,000, \$570,000, and \$203,000 during 2014, 2015, and 2016, respectively. The Company expects 273,106 unvested options to vest in the future. In addition, there are outstanding options to purchase 81,805 shares of common stock that vest upon the occurrence of future events. The Company was not able to conclude that the achievement of the performance condition is probable; therefore, the Company has not recognized any expense associated with the \$418,000 fair value of these awards. Recognition of expense will begin when and if the Company determines that achievement of the performance condition is probable. The weighted-average grant-date fair value of vested and unvested options outstanding at June 30, 2014 was \$16.66 and \$5.98, respectively.

7. INCOME TAXES

The Company accounts for income taxes in accordance with the liability method of accounting. Deferred tax assets or liabilities are computed based on the difference between the financial statement and income tax basis of assets and liabilities, and net operating loss carryforwards, (NOLs) using the enacted tax rates. Deferred income tax expense or benefit is based on changes in the asset or liability from period to period. The Company did not record a provision or benefit for federal, state or foreign income taxes for the six months ended June 30, 2014 or 2013 because the Company has experienced losses on a tax basis since inception. Because of the limited operating history, continuing losses and uncertainty associated with the utilization of the NOLs in the future, management has provided a full allowance against the value of its gross deferred tax asset.

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

8. NET LOSS PER SHARE

Basic net loss per share is computed by dividing net loss 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, as adjusted, by the sum of the weighted average number of shares of common stock and the dilutive potential common stock equivalents then outstanding. Potential common stock equivalents consist of stock options and warrants and convertible debt. Since there is a net loss attributable to common stockholders for the six months ended June 30, 2014 and 2013, the inclusion of common stock equivalents in the computation for those periods would be antidilutive. Accordingly, basic and diluted net loss per share is the same for all periods presented.

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

	Six Months Ended June 30,	
	2014	2013
Warrants	1,964,085	1,839,123
Stock options	619,663	314,582
Convertible debt	400,000	—

9. COMMITMENTS AND CONTINGENCIES

Litigation

The Company is party to the following legal matter.

BAM Dispute

From its inception through 2010, Novelos was primarily engaged in the development of certain oxidized glutathione-based compounds for application as therapies for disease, particularly cancer. These compounds were originally developed in Russia and in June 2000, Novelos acquired commercial rights from the Russian company ("ZAO BAM") which owned the compounds and related Russian patents. In April 2005, Novelos acquired worldwide rights to the compounds (except for the Russian Federation) in connection with undertaking extensive development activities in an attempt to secure US Food and Drug Administration ("FDA") approval of the compounds as therapies. These development activities culminated in early 2010 in an unsuccessful Phase 3 clinical trial of an oxidized glutathione compound (NOV-002) as a therapy for non-small cell lung cancer. After the disclosure of the negative outcome of the Phase 3 clinical trial in 2010, ZAO BAM claimed that Novelos modified the chemical composition of NOV-002 without prior notice to or approval from ZAO BAM, constituting a material breach of the June 2000 technology and assignment agreement. In September 2010, Novelos filed a complaint in Massachusetts Superior Court seeking a declaratory judgment by the court that the June 2000 agreement has been entirely superseded by the April 2005 agreement and that the obligations of the June 2000 agreement have been performed and fully satisfied. ZAO BAM answered the complaint and alleged counterclaims. In August 2011, Novelos filed a motion for judgment on the pleadings as to the declaratory judgment count and all counts of ZAO BAM's amended counterclaims. On October 17, 2011, the court ruled in favor of Novelos on each of the declaratory judgment claims and dismissed all counts of ZAO BAM's counterclaim. Judgment in our favor was entered on October 20, 2011. On November 14, 2011 ZAO BAM filed a notice of appeal. On November 1, 2013, ZAO BAM's appeal was docketed with the Massachusetts Appeals Court. BAM's appellate brief and the Company's opposition have been filed with the Appeals Court but oral arguments have not yet been scheduled. On April 14, 2014, BAM filed a motion to modify the record on appeal. The Company has opposed the motion.

We do not anticipate that this litigation matter will have a material adverse effect on the Company's future financial position, results of operations or cash flows.

10. RESTRUCTURING COSTS

During 2013 the Company had several changes to its board composition and executive management, including the relocation of the Company's principal executive offices from Newton, Massachusetts to its corporate headquarters in Madison, Wisconsin. During the six months ended June 30, 2014, the Company incurred approximately \$222,000 of costs associated with the closure of the executive offices in Newton, Massachusetts and accruals related to severance agreements. This amount has been classified as restructuring costs on the accompanying statement of operations.

In connection with the Acquisition, the responsibilities of the Company's Vice President of Finance, Chief Financial Officer and Treasurer (CFO) and those of the Director of Financial Reporting were transitioned to the Company's headquarters in Madison, Wisconsin. As a result, the Company's relationship with both employees terminated in June 2014. These two employees received lump-sum severance payments totaling approximately \$160,000, which is included in the approximately \$222,000 restructuring costs presented in the accompanying Condensed Consolidated Statement of Operations. Benefits will continue for these employees for six and four months, respectively, following termination.

In addition, all unvested options held by the former CFO were credited with an additional six months vesting and the vested options held by this employee shall be exercisable for eighteen months following termination. All unvested options held by the former Director of Financial Reporting shall be exercisable for twelve months following termination.

The Company does not anticipate any further costs related to the relocation and restructuring.

11. RELATED PARTY TRANSACTIONS

Jamey Weichert, the Company's Chief Scientific Officer and principal founder of Cellectar, and a director and shareholder of the Company, is a faculty member at the University of Wisconsin-Madison ("UW"). During the six months ended June 30, 2014, the Company was invoiced \$334,000 by UW, of which \$264,000 has been paid, for costs associated with clinical trial agreements. During the six months ended June 30, 2013, the Company made contributions to UW totaling \$62,500 for use towards unrestricted research activities.

12. SUBSEQUENT EVENT

The Company and a group of lenders entered into a Note Purchase and Security Agreement dated as of July 29, 2014 providing for borrowing by the Company of up to an aggregate of \$1,000,000 upon the issuance of the Company's secured promissory notes (the "Notes") bearing interest of 8% per annum and having a stated maturity of 60 days from issuance or the earlier closing of an equity financing with gross proceeds to the Company of \$1,000,000. The Notes are secured by a lien on substantially all assets of the Company, now existing or subsequently acquired. The Company borrowed an aggregate of \$617,500 at an initial closing on July 29, 2014. Any borrowing of the remaining \$382,500 balance of the \$1,000,000 is at the option of the lenders. In connection with the entry into the Note Purchase and Security Agreement, the Company obtained the consent of the holders of its outstanding convertible debentures in exchange for the extension of the security interest on all such assets of the Company to the convertible debentures, *pari passu* with the Notes.

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

Forward-Looking Statements

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

Overview

Cellectar Biosciences, Inc. (the Company) is a biopharmaceutical company developing compounds for the treatment and imaging of cancer. Prior to February 11, 2014, the name of the Company was Novelos Therapeutics, Inc. (Novelos). On April 8, 2011, Novelos entered into a business combination (the Acquisition) with Cellectar, Inc., a privately held Wisconsin corporation that designed and developed products to detect, treat and monitor a wide variety of human cancers.

Our cancer-targeting technology permits selective delivery of a wide range of agents to cancer cells, including cancer stem cells. By attaching different agents to our proprietary PLE cancer-targeting delivery platform, we believe we can engineer product candidates with the potential to both image and treat a wide range of solid tumors. This offers the potential for a paradigm shift in the detection and treatment of cancer by using the same delivery platform for both detecting malignancy and providing efficacy versus all three major drivers of morbidity and mortality in cancer: primary tumors, metastases and stem cell-based relapse.

The Company is currently developing three proprietary product candidates:

- I-124-CLR1404 is a small-molecule, broad-spectrum, cancer-targeting PET imaging agent that we believe has the potential to be the first of its kind for the selective detection of tumors and metastases in a broad range of cancers. Investigator-sponsored Phase 1/2 clinical trials of I-124-CLR1404 are ongoing across solid tumor indications. In March 2014, we commenced enrollment in a Phase 2 clinical trial studying I-124-CLR1404 in the imaging of glioblastoma, a type of glioma. We expect to complete this trial during the first half of 2015, subject to additional funding. In April 2014, the FDA granted I-124-CLR1404 orphan status as a diagnostic for the management of glioma.
- I-131-CLR1404 is a small-molecule, broad-spectrum, cancer-targeting molecular radiotherapeutic that delivers cytotoxic (cell-killing) radiation directly and selectively to cancer cells and cancer stem cells. We believe I-131-CLR1404 also has the potential to be the first therapeutic agent to use phospholipid ether (PLE) analogs to target cancer cells. In November 2013, we completed enrollment in a Phase 1b dose-escalation trial evaluating I-131-CLR1404 in the treatment of patients with advanced solid tumors and the results of the trial were presented to the American Society of Clinical Oncology (ASCO) June 2014 Annual Meeting. Because of the highly radiosensitive nature, clear unmet medical need in the relapse/refractory setting and the potential to receive orphan drug designation, the Company is pursuing multiple myeloma as an initial target indication for future I-131-CLR1404 development and plans to submit an Investigational New Drug Application (IND) with the FDA in 2014.
- CLR1502 is a preclinical, small-molecule, cancer-targeting, non-radioactive optical imaging agent for intraoperative tumor margin illumination and non-invasive tumor imaging. We anticipate filing an IND with the FDA for CLR1502 in 2014.

Together, we believe our compounds have the potential to improve upon current standard of care for the detection, treatment and monitoring of a wide variety of human cancers.

Results of Operations

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

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

Six Months Ended June 30, 2014 and 2013

Research and Development. Research and development expense for the six months ended June 30, 2014 was approximately \$3,096,000 (comprised of \$624,000 in clinical project costs, \$177,000 of preclinical project costs, \$368,000 of manufacturing and related costs and \$1,927,000 in general unallocated research and development costs) compared to approximately \$3,239,000 (comprised of \$343,000 in clinical project costs, \$217,000 of preclinical project costs, \$464,000 of manufacturing and related costs and \$2,215,000 in general unallocated research and development costs) for the six months ended June 30, 2013. The overall decrease in research and development expense of \$143,000, or 4.4%, was due to four primary factors: (1) the restructuring, which reduced compensation-related expenses by approximately \$237,000 (included in the \$288,000 decrease in general unallocated research and development costs); (2) the \$96,000 decrease in manufacturing and related costs in the six months ended June 30, 2014 versus 2013, which was related a decrease in manufacturing materials as a result of the completion of the Phase 1b trial for I-131-CLR1404; (3) the \$40,000 decrease in preclinical projects expense, which is primarily attributable to lower spending on studies related to CLR1502; and (4) reduced equipment costs. These lower costs were partially offset by a \$281,000 increase in clinical project expense, due primarily to incremental expenses related to the Phase 2 clinical trial studying I-124-CLR1404 in the imaging of glioblastoma.

General and Administrative. General and administrative expense for the six months ended June 30, 2014 was approximately \$2,047,000 compared to approximately \$2,195,000 in the six months ended June 30, 2013. The approximately \$148,000, or 6.7%, decrease is related to lower compensation costs as a result of the restructuring and a decrease in directors fees associated with a reduction in the number of independent directors. The decreases were partially offset by an increase in legal fees.

Restructuring Costs. During the six months ended June, 2014, the Company recorded approximately \$222,000 of restructuring expenses related to the closure of the Newton, Massachusetts executive offices. The Company did not incur any restructuring costs in the six months ended June 30, 2013.

Gain on Derivative Warrants. We recorded a gain on derivative warrants of approximately \$519,000 in the six months ended June 30, 2014 and a gain on derivative warrants of approximately \$666,000 in the six months ended June 30, 2013. These amounts represent the change in fair value, during the respective period, of outstanding warrants which contain “down-round” anti-dilution provisions whereby the number of shares for which the warrants are exercisable and/or the exercise price of the warrants is subject to change in the event of certain issuances of stock at prices below the then-effective exercise prices of the warrants.

Loss on Issuance of Derivative Warrants. Loss on derivative warrants of approximately \$745,000 was recorded in the six months ended June 30, 2013 and represents the amount by which the initial fair value of warrants issued in connection with the February Offering exceeded the net proceeds received from the offering. These warrants are classified as derivative liabilities because they include “down-round” anti-dilution protection. We had no such expense in the six months ended June 30, 2014.

Interest expense, net. Interest expense, net for the six months ended June 30, 2014 consists of approximately \$128,000 of interest expense related to the accrual of interest at the stated rate on convertible debentures, approximately \$51,000 of non-cash interest expense related to the accretion of the discount on convertible debentures and approximately \$4,000 related to the Company’s outstanding debt with the Wisconsin department of Commerce. Interest expense for six months ended June 30, 2013 was driven solely by the notes payable to the Wisconsin Department of Commerce. The increase in interest expense is attributable to the issuance of the convertible debentures issued in the February 2014 Private Placement.

Liquidity and Capital Resources

We have financed our operations since inception primarily through the sale of equity and debt securities. As of June 30, 2014, we had approximately \$1,626,000 in cash and cash equivalents. To date, including funds raised by Collectar, Inc., we have raised capital aggregating approximately \$130 million.

During the six months ended June 30, 2014, we reported a net loss of approximately \$5,029,000, while using approximately \$4,602,000 in cash in operations. This loss included the following non-cash items: an approximately \$519,000 gain on the revaluation of derivative warrants, approximately \$536,000 in stock-based compensation expense, approximately \$188,000 in expense related to depreciation and amortization, and approximately \$51,000 of non-cash interest expense related to the accretion of the discount on convertible debt. After adjustment for these non-cash items, other changes in working capital provided cash of \$170,000.

During the six months ended June 30, 2014, we purchased approximately \$15,000 in fixed assets.

In February 2014, we completed a private placement of convertible debentures and warrants for gross proceeds of \$4,000,000. The debentures mature on February 6, 2016 and are convertible at any time at \$10.00 per share into 400,000 shares of common stock. In the event of the sale of securities by the Company for minimum proceeds of at least \$2,000,000 (“Subsequent Financing”), the holders of the debentures may elect to redeem some or all of the then outstanding principal amount of the debenture, along with accrued but unpaid interest, in an amount equal to the amount of the holder’s investment in the Subsequent Financing.

If, within 21 months of the issuance of the debentures, the Company raises gross proceeds of at least \$8,000,000 in aggregate, the Company may require the holders of the debentures to convert all or part of the then outstanding principal amount and accrued but unpaid interest of the debentures. In the event that the holders of the debentures do not convert all of the debentures in a Subsequent Financing, the Company may be required to satisfy the remaining outstanding debt and accrued but unpaid interest with payments in cash.

The accompanying consolidated financial statements have been prepared on a basis that assumes that we will continue as a going concern and that contemplates the continuity of operations, realization of assets and the satisfaction of liabilities and commitments in the normal course of business. During the six months ended June 30, 2014, we generated a net loss of approximately \$5,029,000 and we expect that we will continue to generate operating losses for the foreseeable future. At June 30, 2014, our consolidated cash balance was approximately \$1,626,000. We believe this cash balance, plus the amount (approximately \$615,000) raised upon issuance of the Notes in July 2014, is adequate to fund operations through August 2014. Our ability to execute our operating plan beyond that time depends on our ability to obtain additional funding via the sale of equity and/or debt securities, a strategic transaction or otherwise. We have, in the past, successfully completed multiple rounds of financings, but, due to market conditions and other factors, including our development stage, the proceeds we have been able to secure have been less than the amounts we sought to obtain. We plan to actively pursue all available financing alternatives; however, we have not entered into negotiations for any such transactions and there can be no assurance that we will obtain the necessary funding. Other than the uncertainties regarding our ability to obtain additional funding and the repayment of convertible debt obligations, there are currently no known trends, demands, commitments, events or uncertainties that are likely to materially effect our liquidity.

Item 4. 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 June 30, 2014. 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 June 30, 2014 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

The Company's management, in connection with its evaluation of internal controls (with the participation of the Company's principal executive officer and principal financial officer), did not identify any change in internal control over the financial reporting process that occurred during the Company's second quarter of 2014 that would have materially effected, or would have been reasonably likely to materially effect, 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 on 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

From its inception through 2010, Novelos was primarily engaged in the development of certain oxidized glutathione-based compounds for application as therapies for disease, particularly cancer. These compounds were originally developed in Russia and in June 2000, Novelos acquired commercial rights from the Russian company ("ZAO BAM") which owned the compounds and related Russian patents. In April 2005, Novelos acquired worldwide rights to the compounds (except for the Russian Federation) in connection with undertaking extensive development activities in an attempt to secure US Food and Drug Administration ("FDA") approval of the compounds as therapies. These development activities culminated in early 2010 in an unsuccessful Phase 3 clinical trial of an oxidized glutathione compound (NOV-002) as a therapy for non-small cell lung cancer. After the disclosure of the negative outcome of the Phase 3 clinical trial in 2010, ZAO BAM claimed that Novelos modified the chemical composition of NOV-002 without prior notice to or approval from ZAO BAM, constituting a material breach of the June 2000 technology and assignment agreement. In September 2010, Novelos filed a complaint in Massachusetts Superior Court seeking a declaratory judgment by the court that the June 2000 agreement has been entirely superseded by the April 2005 agreement and that the obligations of the June 2000 agreement have been performed and fully satisfied. ZAO BAM answered the complaint and alleged counterclaims. In August 2011, Novelos filed a motion for judgment on the pleadings as to the declaratory judgment count and all counts of ZAO BAM's amended counterclaims. On October 17, 2011, the court ruled in favor of Novelos on each of the declaratory judgment claims and dismissed all counts of ZAO BAM's counterclaim. Judgment in our favor was entered on October 20, 2011. On November 14, 2011 ZAO BAM filed a notice of appeal. On November 1, 2013, ZAO BAM's appeal was docketed with the Massachusetts Appeals Court. BAM's appellate brief and the Company's opposition have been filed with the Appeals Court but oral arguments have not yet been scheduled. On April 14, 2014, BAM filed a motion to modify the record on appeal. The Company has opposed the motion.

Item 1A. Risk Factors

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

We expect that we will continue to generate significant operating losses for the foreseeable future. At June 30, 2014, our consolidated cash balance was approximately \$1,626,000. We believe our cash balance at June 30, 2014, plus the proceeds of the Notes issued in July 2014, is adequate to fund operations through August 2014. We will require additional funds to conduct research and development, establish and conduct clinical and preclinical trials, establish commercial-scale manufacturing arrangements and provide for the marketing and distribution of our products. Our ability to execute our operating plan depends on our ability to obtain additional funding via the sale of equity and/or debt securities, a strategic transaction or otherwise. We plan to actively pursue financing alternatives. However, there can be no assurance that we will obtain the necessary funding in the amounts we seek or that it will be available on a timely basis or upon terms acceptable to us. If we obtain capital by issuing debt or preferred stock, the holders of such securities would likely obtain rights that are superior to those of holders of our common stock.

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

- the number of potential products and technologies in development;
- continued progress and cost of our research and development programs;
- progress with preclinical studies and clinical trials;
- the time and costs involved in obtaining regulatory clearance;
- costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims;
- costs of developing sales, marketing and distribution channels and our ability to sell our drugs;
- costs involved in establishing manufacturing capabilities for clinical trial and commercial quantities of our drugs;
- competing technological and market developments;
- market acceptance of our products;

- costs for recruiting and retaining management, employees and consultants;
- costs for educating physicians regarding the application and use of our products;
- whether or not we obtain listing on a national exchange and, if not, our prospects for obtaining such listing;
- uncertainty and economic instability resulting from terrorist acts and other acts of violence or war; and
- the condition of capital markets and the economy generally, both in the U.S. and globally.

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

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

We have incurred net losses and negative cash flows since inception. We currently have no product revenues, and may not succeed in developing or commercializing any products that will generate product or licensing revenues. We do not expect to have any products on the market for several years. Our primary activity to date has been research and development. In addition, development of our product candidates requires a process of preclinical and clinical testing, during which our product candidates could fail. We may not be able to enter into agreements with one or more companies experienced in the manufacturing and marketing of therapeutic drugs and, to the extent that we are unable to do so, we may not be able to market our product candidates. Whether we achieve profitability or not will depend on our success in developing, manufacturing, and marketing our product candidates. We have experienced net losses and negative cash flows from operating activities since inception and we expect such losses and negative cash flows to continue for the foreseeable future. As of June 30, 2014, we had a stockholders' deficit of \$2,541,000. The net loss for the six months ended June 30, 2014 was approximately \$5,029,000, and we may never achieve profitability.

All of the Company's assets represent collateral security for our outstanding debt.

In July 2014, in connection with the issuance and sale of our 8% promissory notes, we granted a security interest in all of the Company's assets, now existing or subsequently acquired, as collateral for the Company's obligations under these notes. Additionally, in connection with obtaining the consent of the holders of our convertible debentures to the incurrence of this additional debt, we extended the security interest in all of our assets to our obligations under the convertible debentures. The creation of a security interest in all assets in favor of the holders of the promissory notes and the convertible debentures may make it more difficult for the Company to obtain trade credit in the future.

Item 5. Other Information

The Company and a group of lenders entered into a Note Purchase and Security Agreement dated as of July 29, 2014 providing for borrowing by the Company of up to an aggregate of \$1,000,000 upon the issuance of the Company's secured promissory notes (the "Notes") bearing interest of 8% per annum and having a stated maturity of 60 days from issuance or the earlier closing of an equity financing with gross proceeds to the Company of \$1,000,000. The Notes are secured by a lien on substantially all assets of the Company, now existing or subsequently acquired. The Company borrowed an aggregate of \$617,500 at an initial closing on July 29, 2014. Any borrowing of the remaining \$382,500 balance of the \$1,000,000 is at the option of the lenders. In connection with the entry into the Note Purchase and Security Agreement, the Company obtained the consent of the holders of its outstanding convertible debentures in exchange for the extension of the security interest on all such assets of the Company to the convertible debentures, *pari passu* with the Notes.

Item 6. Exhibits

Exhibit No.	Description	Filed with this Form 10-Q	Incorporation by Reference		
			Form	Filing Date	Exhibit No.
2.1	Agreement and Plan of Merger by and among Novelos Therapeutics, Inc., Cell Acquisition Corp. and Collectar, Inc. dated April 8, 2011		8-K	April 11, 2011	2.1
3.1	Second Amended and Restated Certificate of Incorporation		8-K	April 11, 2011	3.1
3.1.1	Amendment to the Second Amended and restated Articles of Incorporation		8-K	June 13, 2014	3.1
3.2	Amended and Restated By-laws		8-K	June 1, 2011	3.1
10.1	Form of Note Purchase and Security Agreement	X			
10.2	Form of 8% Secured Promissory Note	X			
10.3	Form of Consent Agreement with Debenture Holders	X			
31.1	Certification of chief executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
31.2	Certification of chief financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
32.1	Certification of chief executive officer and chief financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X			
101	Interactive Data Files	X			

SIGNATURES

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

CELLECTAR BIOSCIENCES, INC.

Date: August 4, 2014

By: /s/ Simon Pedder
Simon Pedder
President and Chief Executive Officer

NOTE PURCHASE AND SECURITY AGREEMENT

This Note Purchase and Security Agreement (this "Agreement") is dated as of July 29, 2014, between Cellestar Biosciences, Inc. (f/k/a Novelos Therapeutics, Inc.), a Delaware corporation (the "Company"), and each purchaser identified on the signature pages hereto (each, including its successors and assigns, a "Purchaser" and collectively, the "Purchasers").

WHEREAS, subject to the terms and conditions set forth in this Agreement and pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"), and Rule 506 promulgated thereunder, the Company desires to issue and sell to each Purchaser, and each Purchaser, severally and not jointly, desires to purchase from the Company, secured promissory notes of the Company as more fully described in this Agreement.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants contained in this Agreement, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Company and each Purchaser agree as follows:

**ARTICLE I.
DEFINITIONS**

1.1 Definitions. In addition to the terms defined elsewhere in this Agreement: (a) capitalized terms that are not otherwise defined herein have the meanings given to such terms in the Notes (as defined herein), and (b) the following terms have the meanings set forth in this Section 1.1:

"Action" shall have the meaning ascribed to such term in Section 3.1(i).

"Additional Note" shall have the meaning ascribed to such term in Section 2.2.

"Affiliate" means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person, as such terms are used in and construed under Rule 405 under the Securities Act.

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

"Closing" means any closing of the purchase and sale of the Notes pursuant to Section 2.1 or Section 2.2.

"Closing Date" means each of the Initial Closing date and the Trading Day on which any Additional Notes are issued and sold to Purchasers pursuant to Section 2.2.

"Collateral" means the Company's right, title and interest in and to all of its assets and properties, including without limitation the following, whether now owned or hereafter acquired and wherever located: (a) all accounts receivable; (b) all equipment; (c) all fixtures; (d) all general intangibles; (e) all intellectual property of the Company, (f) all inventory; (g) all investment property; (h) all deposit accounts; (i) all shares or other equity interests in its Subsidiaries; (j) all other goods and personal property of the Company, whether tangible or intangible and whether now or hereafter owned or existing, leased, consigned by or to, or acquired by, Borrower and wherever located; (k) all books and records of the Company; and (l) all proceeds of each of the foregoing and all accessions to, substitutions and replacements for, and rents, profits and products of each of the foregoing.

“Commission” means the United States Securities and Exchange Commission.

“Common Stock” means the common stock of the Company, par value \$0.00001 per share, and any other class of securities into which such securities may hereafter be reclassified or changed.

“Company Counsel” means Foley Hoag LLP with offices located at 155 Seaport Boulevard, Boston, Massachusetts 02210.

“Debentures” means the 8% Convertible Debentures due February 6, 2016 of the Company issued on February 6, 2014.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

“GAAP” shall have the meaning ascribed to such term in Section 3.1(g).

“Initial Closing Date” means the Trading Day on which all of the Transaction Documents have been executed and delivered by the applicable parties thereto, and all conditions precedent to (i) the Purchasers’ obligations to pay the Initial Subscription Amount and (ii) the Company’s obligations to deliver the Initial Notes, in each case, have been satisfied or waived.

“Initial Notes” means the Notes issued at the Initial Closing.

“Initial Subscription Amount” means, as to each Purchaser, the aggregate Subscription Amount to be paid for the Initial Notes purchased hereunder as specified below such Purchaser’s name on the signature page of this Agreement and next to the heading “Initial Subscription Amount,” in United States dollars and in immediately available funds.

“Liens” means a lien, charge, pledge, security interest, encumbrance, right of first refusal, preemptive right or other restriction.

“Material Adverse Effect” shall have the meaning assigned to such term in Section 3.1(b).

“Maximum Rate” shall have the meaning ascribed to such term in Section 5.15.

“Person” means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

“Proceeding” means an action, claim, suit, investigation or proceeding (including, without limitation, an informal investigation or partial proceeding, such as a deposition), whether commenced or threatened.

“Purchaser Party” shall have the meaning ascribed to such term in Section 4.5.

“SEC Reports” shall have the meaning ascribed to such term in Section 3.1(g).

“Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“Subscription Amount” means, as to each Purchaser, the aggregate amount to be paid for Notes purchased hereunder at any Closing.

“Subsidiary” means any subsidiary of the Company.

“Trading Day” means a day on which the principal Trading Market is open for trading.

“Trading Market” means any of the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the NYSE MKT, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market, the New York Stock Exchange, the OTC Bulletin Board or any other over-the-counter market on which the Company is listed or quoted for trading (or any successors to any of the foregoing).

“Transaction Documents” means this Agreement, the Notes, all exhibits and schedules thereto and hereto and any other documents or agreements executed in connection with the transactions contemplated hereunder.

ARTICLE II. PURCHASE AND SALE

2 . 1 Initial Closing. On the Initial Closing Date, upon the terms and subject to the conditions set forth herein, substantially concurrent with the execution and delivery of this Agreement by the parties hereto or within three Trading Days thereafter, the Company agrees to sell, and the Purchasers, severally and not jointly, agree to purchase, the Initial Notes. Each Purchaser shall deliver to an account designated by the Company in writing, via wire transfer, immediately available funds equal to such Purchaser’s Subscription Amount as set forth on the signature page hereto executed by such Purchaser, and the Company shall deliver to each Purchaser its respective Initial Note, as determined pursuant to Section 2.2(a), and the Company and each Purchaser shall deliver the other items set forth in Section 2.2 deliverable at the Closing. Upon satisfaction of the covenants and conditions set forth in Sections 2.2 and 2.3, the Closing shall occur at the offices of Company Counsel or such other location as the parties shall mutually agree.

2.2 Additional Closing. At any time prior to September 30, 2014, upon the terms and subject to the conditions set forth herein, by written notice from the Company to the Purchasers calling for an additional Closing (which shall be in the Company's sole discretion), each Purchaser shall have the option, but not the obligation, to purchase an additional Note (each, an "Additional Note"), with the aggregate principal amount of all such additional Notes to be no greater than \$1 million *less* the aggregate principal amount of all Initial Notes. The Company shall allocate any the principal amount of any Additional Notes to the Purchasers on the basis of the principal amount for which each such Purchaser elects to subscribe; provided, that if the Company receives elections to subscribe for Additional Notes having an aggregate principal amount in excess of the principal amount of Additional Notes the Company is permitted to issue and sell pursuant to this Section 2.3, then the Company shall ratably reduce the principal amount of the Additional Note to be issued and sold to each Purchaser based on the principal amount of the Additional Note for which each such Purchaser has elected to subscribe relative to the aggregate amount of all such subscriptions. Each Purchaser shall deliver to an account designated by the Company in writing, via wire transfer, immediately available funds equal to such Purchaser's Subscription Amount for its Additional Note, which shall be equal to the principal amount of the Additional Note to be purchased by such Purchaser, and the Company shall deliver to each Purchaser its respective Additional Note, as determined pursuant to Section 2.3(a), and the Company and each Purchaser shall deliver the other items set forth in Section 2.3 deliverable at such Closing. Upon satisfaction of the covenants and conditions set forth in Sections 2.3 and 2.4, the Closing shall occur at the offices of Company Counsel or such other location as the parties shall mutually agree.

2.3 Deliveries.

(a) On or prior to each Closing Date, the Company shall deliver or cause to be delivered to each Purchaser the following:

- (i) with respect to the Initial Closing, this Agreement duly executed by the Company;
- (ii) a legal opinion of Company Counsel, substantially in the form of Exhibit C attached hereto;
- (iii) a Note with a principal amount equal to such Purchaser's Subscription Amount, registered in the name of such Purchaser; and

(b) On or prior to the Closing Date, each Purchaser shall deliver or cause to be delivered to the Company, as applicable, the following:

- (i) with respect to the Initial Closing, this Agreement duly executed by such Purchaser; and
- (ii) such Purchaser's Subscription Amount by wire transfer to the account specified by the Company in writing.

2.4 Closing Conditions.

(a) The obligations of the Company hereunder in connection with the Closing are subject to the following conditions being met:

(i) the accuracy in all material respects on such Closing Date of the representations and warranties of the Purchasers contained herein (unless as of a specific date therein in which case they shall be accurate as of such date);

(ii) all obligations, covenants and agreements of each Purchaser required to be performed at or prior to such Closing Date shall have been performed; and

(iii) the delivery by each Purchaser of the items set forth in Section 2.2(b) of this Agreement.

(b) The respective obligations of the Purchasers hereunder in connection with such Closing are subject to the following conditions being met:

(i) the accuracy in all material respects when made and on such Closing Date of the representations and warranties of the Company contained herein (unless as of a specific date therein);

(ii) all obligations, covenants and agreements of the Company required to be performed at or prior to such Closing Date shall have been performed; and

(iii) the delivery by the Company of the items set forth in Section 2.2(a) of this Agreement.

**ARTICLE III.
REPRESENTATIONS AND WARRANTIES**

3.1 Representations and Warranties of the Company. Except as set forth in the SEC Reports (as defined below), which SEC Reports shall be deemed a part hereof and shall qualify any representation or otherwise made herein, the Company hereby makes the following representations and warranties to each Purchaser:

(a) Subsidiaries. The Company owns, directly or indirectly, all of the capital stock or other equity interests of each Subsidiary free and clear of any Liens, and all of the issued and outstanding shares of capital stock of each Subsidiary are validly issued and are fully paid, non-assessable and free of preemptive and similar rights to subscribe for or purchase securities. If the Company has no subsidiaries, all other references to the Subsidiaries or any of them in the Transaction Documents shall be disregarded.

(b) Organization and Qualification. The Company and each of the Subsidiaries is an entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization, with the requisite power and authority to own and use its properties and assets and to carry on its business as currently conducted. Neither the Company nor any Subsidiary is in violation nor default of any of the provisions of its respective certificate or articles of incorporation, bylaws or other organizational or charter documents. Each of the Company and the Subsidiaries is duly qualified to conduct business and is in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, could not have or reasonably be expected to result in: (i) a material adverse effect on the legality, validity or enforceability of any Transaction Document, (ii) a material adverse effect on the results of operations, assets, business, prospects or condition (financial or otherwise) of the Company and the Subsidiaries, taken as a whole, or (iii) a material adverse effect on the Company's ability to perform in any material respect on a timely basis its obligations under any Transaction Document (any of (i), (ii) or (iii), a "Material Adverse Effect") and no Proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing or seeking to revoke, limit or curtail such power and authority or qualification.

(c) Authorization; Enforcement. The Company has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by this Agreement and each of the other Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of this Agreement and each of the other Transaction Documents by the Company and the consummation by it of the transactions contemplated hereby and thereby have been duly authorized by all necessary action on the part of the Company and no further action is required by the Company, the Board of Directors or the Company's stockholders in connection herewith or therewith. This Agreement and each other Transaction Document to which it is a party has been (or upon delivery will have been) duly executed by the Company and, when delivered in accordance with the terms hereof and thereof, will constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except: (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

(d) No Conflicts. The execution, delivery and performance by the Company of this Agreement and the other Transaction Documents to which it is a party, the issuance and sale of the Notes and the consummation by it of the transactions contemplated hereby and thereby do not and will not: (i) conflict with or violate any provision of the Company's or any Subsidiary's certificate or articles of incorporation, bylaws or other organizational or charter documents, (ii) conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, result in the creation of any Lien upon any of the properties or assets of the Company or any Subsidiary, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Company or Subsidiary debt or otherwise) or other understanding to which the Company or any Subsidiary is a party or by which any property or asset of the Company or any Subsidiary is bound or affected, or (iii) conflict with or result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company or a Subsidiary is subject (including federal and state securities laws and regulations), or by which any property or asset of the Company or a Subsidiary is bound or affected; except in the case of each of clauses (ii) and (iii), such as could not have or reasonably be expected to result in a Material Adverse Effect.

(e) Filings, Consents and Approvals. The Company is not required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other federal, state, local or other governmental authority or other Person in connection with the execution, delivery and performance by the Company of the Transaction Documents.

(f) Issuance of the Notes. The Notes are duly authorized and, when issued and paid for in accordance with the applicable Transaction Documents, will be duly and validly issued, free and clear of all Liens imposed by the Company other than Liens and restrictions on transfer provided for in the Transaction Documents.

(g) SEC Reports; Financial Statements. The Company has filed all reports, schedules, forms, statements and other documents required to be filed by the Company under the Securities Act and the Exchange Act, including pursuant to Section 13(a) or 15(d) thereof, for the two years preceding the date hereof (or such shorter period as the Company was required by law or regulation to file such material) (the foregoing materials, including the exhibits thereto and documents incorporated by reference therein, being collectively referred to herein as the “SEC Reports”) on a timely basis or has received a valid extension of such time of filing and has filed any such SEC Reports prior to the expiration of any such extension. As of their respective dates, the SEC Reports complied in all material respects with the requirements of the Securities Act and the Exchange Act, as applicable, and none of the SEC Reports, when filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the SEC Reports comply in all material respects with applicable accounting requirements and the rules and regulations of the Commission with respect thereto as in effect at the time of filing. Such financial statements have been prepared in accordance with United States generally accepted accounting principles applied on a consistent basis during the periods involved (“GAAP”), except as may be otherwise specified in such financial statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP, and fairly present in all material respects the financial position of the Company and its consolidated Subsidiaries as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, immaterial, year-end audit adjustments.

(h) Material Changes; Undisclosed Events, Liabilities or Developments. Since the date of the latest audited financial statements included within the SEC Reports, except as specifically disclosed in a subsequent SEC Report filed prior to the date hereof: (i) there has been no event, occurrence or development that has had or that could reasonably be expected to result in a Material Adverse Effect, (ii) the Company has not incurred any liabilities (contingent or otherwise) other than (A) trade payables and accrued expenses incurred in the ordinary course of business consistent with past practice and (B) liabilities not required to be reflected in the Company's financial statements pursuant to GAAP or disclosed in filings made with the Commission, (iii) the Company has not altered its method of accounting, (iv) the Company has not declared or made any dividend or distribution of cash or other property to its stockholders or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock and (v) the Company has not issued any equity securities to any officer, director or Affiliate, except pursuant to existing Company stock option plans. The Company does not have pending before the Commission any request for confidential treatment of information. No event, liability, fact, circumstance, occurrence or development has occurred or exists or is reasonably expected to occur or exist with respect to the Company or its Subsidiaries or their respective businesses, properties, operations, assets or financial condition, that would be required to be disclosed by the Company under applicable securities laws at the time this representation is made or deemed made that has not been publicly disclosed at least 1 Trading Day prior to the date that this representation is made.

(i) Litigation. Except as disclosed in the SEC Reports, there is no action, suit, inquiry, notice of violation, proceeding or investigation pending or, to the knowledge of the Company, threatened against or affecting the Company, any Subsidiary or any of their respective properties before or by any court, arbitrator, governmental or administrative agency or regulatory authority (federal, state, county, local or foreign) (collectively, an "Action") which (i) adversely affects or challenges the legality, validity or enforceability of any of the Transaction Documents or the Notes or (ii) could, if there were an unfavorable decision, have or reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any Subsidiary, nor any director or officer thereof, is or has been the subject of any Action involving a claim of violation of or liability under federal or state securities laws or a claim of breach of fiduciary duty. There has not been, and to the knowledge of the Company, there is not pending or contemplated, any investigation by the Commission involving the Company or any current or former director or officer of the Company. The Commission has not issued any stop order or other order suspending the effectiveness of any registration statement filed by the Company or any Subsidiary under the Exchange Act or the Securities Act.

(j) Compliance. Neither the Company nor any Subsidiary: (i) is in default under or in violation of (and no event has occurred that has not been waived that, with notice or lapse of time or both, would result in a default by the Company or any Subsidiary under), nor has the Company or any Subsidiary received notice of a claim that it is in default under or that it is in violation of, any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound (whether or not such default or violation has been waived), (ii) is in violation of any judgment, decree or order of any court, arbitrator or other governmental authority or (iii) is or has been in violation of any statute, rule, ordinance or regulation of any governmental authority, including without limitation all foreign, federal, state and local laws relating to taxes, environmental protection, occupational health and safety, product quality and safety and employment and labor matters, except in each case as could not have or reasonably be expected to result in a Material Adverse Effect.

(k) Title to Assets. The Company and the Subsidiaries have good and marketable title in fee simple to all real property owned by them and good and marketable title in all personal property owned by them that is material to the business of the Company and the Subsidiaries, in each case free and clear of all Liens, except for (i) Liens as do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Company and the Subsidiaries and (ii) Liens for the payment of federal, state or other taxes, for which appropriate reserves have been made therefor in accordance with GAAP and, the payment of which is neither delinquent nor subject to penalties. Any real property and facilities held under lease by the Company and the Subsidiaries are held by them under valid, subsisting and enforceable leases with which the Company and the Subsidiaries are in compliance.

(l) Certain Fees. No brokerage or finder's fees or commissions are or will be payable by the Company or any Subsidiaries to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person with respect to the transactions contemplated by the Transaction Documents. The Purchasers shall have no obligation with respect to any fees or with respect to any claims made by or on behalf of other Persons for fees of a type contemplated in this Section that may be due in connection with the transactions contemplated by the Transaction Documents.

(m) Private Placement. Assuming the accuracy of the Purchasers' representations and warranties set forth in Section 3.2, no registration under the Securities Act is required for the offer and sale of the Notes by the Company to the Purchasers as contemplated hereby.

(n) Investment Company. The Company is not, and is not an Affiliate of, and immediately after receipt of payment for the Notes, will not be or be an Affiliate of, an "investment company" within the meaning of the Investment Company Act of 1940, as amended. The Company shall conduct its business in a manner so that it will not become an "investment company" subject to registration under the Investment Company Act of 1940, as amended.

(o) Disclosure. Except with respect to the material terms and conditions of the transactions contemplated by the Transaction Documents, the Company confirms that neither it nor any other Person acting on its behalf has provided any of the Purchasers or their agents or counsel with any information that it believes constitutes or might constitute material, non-public information. The Company understands and confirms that the Purchasers will rely on the foregoing representation in effecting transactions in securities of the Company. All of the disclosure furnished by or on behalf of the Company to the Purchasers regarding the Company and its Subsidiaries, their respective businesses and the transactions contemplated hereby, including the Disclosure Schedules to this Agreement, is true and correct in all material respects and does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. The Company acknowledges and agrees that no Purchaser makes or has made any representations or warranties with respect to the transactions contemplated hereby other than those specifically set forth in Section 3.2 hereof.

(p) No Integrated Offering. Assuming the accuracy of the Purchasers' representations and warranties set forth in Section 3.2, neither the Company, nor any of its Affiliates, nor any Person acting on its or their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under circumstances that would cause this offering of the Notes to be integrated with prior offerings by the Company for purposes of (i) the Securities Act which would require the registration of any such securities under the Securities Act, or (ii) any applicable shareholder approval provisions of any Trading Market on which any of the securities of the Company are listed or designated.

(q) Tax Status. Except for matters that would not, individually or in the aggregate, have or reasonably be expected to result in a Material Adverse Effect, the Company and its Subsidiaries each (i) has made or filed all United States federal, state and local income and all foreign income and franchise tax returns, reports and declarations required by any jurisdiction to which it is subject, (ii) has paid all taxes and other governmental assessments and charges that are material in amount, shown or determined to be due on such returns, reports and declarations and (iii) has set aside on its books provision reasonably adequate for the payment of all material taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and the officers of the Company or of any Subsidiary know of no basis for any such claim.

(r) No General Solicitation. Neither the Company nor any person acting on behalf of the Company has offered or sold any of the Notes by any form of general solicitation or general advertising. The Company has offered the Notes for sale only to the Purchasers and certain other "accredited investors" within the meaning of Rule 501 under the Securities Act.

(s) Seniority. As of the Closing Date, no indebtedness or other claim against the Company is senior to the Notes in right of payment, whether with respect to interest or upon liquidation or dissolution, or otherwise, other than indebtedness secured by purchase money security interests (which is senior only as to underlying assets covered thereby) and capital lease obligations (which is senior only as to the property covered thereby).

(t) Acknowledgment Regarding Purchasers' Purchase of Notes. The Company acknowledges and agrees that each of the Purchasers is acting solely in the capacity of an arm's length purchaser with respect to the Transaction Documents and the transactions contemplated thereby. The Company further acknowledges that no Purchaser is acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to the Transaction Documents and the transactions contemplated thereby and any advice given by any Purchaser or any of their respective representatives or agents in connection with the Transaction Documents and the transactions contemplated thereby is merely incidental to the Purchasers' purchase of the Notes. The Company further represents to each Purchaser that the Company's decision to enter into this Agreement and the other Transaction Documents has been based solely on the independent evaluation of the transactions contemplated hereby by the Company and its representatives.

3.2 Representations and Warranties of the Purchasers. Each Purchaser, for itself and for no other Purchaser, hereby represents and warrants as of the date hereof and as of each Closing Date to the Company as follows (unless as of a specific date therein):

(a) Organization; Authority. Such Purchaser is either an individual or an entity duly incorporated or formed, validly existing and in good standing under the laws of the jurisdiction of its incorporation or formation with full right, corporate, partnership, limited liability company or similar power and authority to enter into and to consummate the transactions contemplated by the Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of the Transaction Documents and performance by such Purchaser of the transactions contemplated by the Transaction Documents have been duly authorized by all necessary corporate, partnership, limited liability company or similar action, as applicable, on the part of such Purchaser. Each Transaction Document to which it is a party has been duly executed by such Purchaser, and when delivered by such Purchaser in accordance with the terms hereof, will constitute the valid and legally binding obligation of such Purchaser, enforceable against it in accordance with its terms, except: (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

(b) Own Account. Such Purchaser understands that the Notes are "restricted securities" and have not been registered under the Securities Act or any applicable state securities law and is acquiring the Notes as principal for its own account and not with a view to or for distributing or reselling such Notes or any part thereof in violation of the Securities Act or any applicable state securities law, has no present intention of distributing any of such Notes in violation of the Securities Act or any applicable state securities law and has no direct or indirect arrangement or understandings with any other persons to distribute or regarding the distribution of such Notes in violation of the Securities Act or any applicable state securities law. Such Purchaser is acquiring the Notes hereunder in the ordinary course of its business.

(c) Purchaser Status. At the time such Purchaser was offered the Notes, it was, and as of the date hereof it is, either: (i) an “accredited investor” as defined in Rule 501(a)(1), (a)(2), (a)(3), (a)(7) or (a)(8) under the Securities Act or (ii) a “qualified institutional buyer” as defined in Rule 144A(a) under the Securities Act.

(d) Experience of Such Purchaser. Such Purchaser, either alone or together with its representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Notes, and has so evaluated the merits and risks of such investment. Such Purchaser is able to bear the economic risk of an investment in the Notes and, at the present time, is able to afford a complete loss of such investment.

(e) General Solicitation. Such Purchaser is not purchasing the Notes as a result of any advertisement, article, notice or other communication regarding the Notes published in any newspaper, magazine or similar media or broadcast over television or radio or presented at any seminar or any other general solicitation or general advertisement.

(f) Access to Information. Such Purchaser acknowledges that it has had the opportunity to review the Transaction Documents (including all exhibits and schedules thereto) and the SEC Reports and has been afforded (i) the opportunity to ask such questions as it has deemed necessary of, and to receive answers from, representatives of the Company concerning the terms and conditions of the offering of the Notes and the merits and risks of investing in the Notes; (ii) access to information about the Company and its financial condition, results of operations, business, properties, management and prospects sufficient to enable it to evaluate its investment; and (iii) the opportunity to obtain such additional information that the Company possesses or can acquire without unreasonable effort or expense that is necessary to make an informed investment decision with respect to the investment.

(g) Certain Transactions and Confidentiality. Other than consummating the transactions contemplated hereunder, such Purchaser has not directly or indirectly, nor has any Person acting on behalf of or pursuant to any understanding with such Purchaser, executed any purchases or sales, of the securities of the Company during the period commencing as of the time that such Purchaser first received a term sheet (written or oral) from the Company or any other Person representing the Company setting forth the material terms of the transactions contemplated hereunder and ending immediately prior to the execution hereof. Notwithstanding the foregoing, in the case of a Purchaser that is a multi-managed investment vehicle whereby separate portfolio managers manage separate portions of such Purchaser’s assets and the portfolio managers have no direct knowledge of the investment decisions made by the portfolio managers managing other portions of such Purchaser’s assets, the representation set forth above shall only apply with respect to the portion of assets managed by the portfolio manager that made the investment decision to purchase the Notes covered by this Agreement. Other than to other Persons party to this Agreement, such Purchaser has maintained the confidentiality of all disclosures made to it in connection with this transaction (including the existence and terms of this transaction).

The Company acknowledges and agrees that the representations contained in Section 3.2 shall not modify, amend or affect such Purchaser's right to rely on the Company's representations and warranties contained in this Agreement or any representations and warranties contained in any other Transaction Document or any other document or instrument executed and/or delivered in connection with this Agreement or the consummation of the transaction contemplated hereby.

**ARTICLE IV.
OTHER AGREEMENTS OF THE PARTIES**

4.1 Transfer Restrictions.

(a) The Notes may only be disposed of in compliance with state and federal securities laws. In connection with any transfer of Notes, the Company may require the transferor thereof to provide to the Company an opinion of counsel selected by the transferor and reasonably acceptable to the Company, the form and substance of which opinion shall be reasonably satisfactory to the Company, to the effect that such transfer does not require registration of such transferred Notes under the Securities Act.

(b) The Purchasers agree to the imprinting, so long as is required by this Section 4.1, of a legend on any of the Notes in the following form:

THIS SECURITY HAS NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY.

4.2 Integration. The Company shall not sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any security (as defined in Section 2 of the Securities Act) that would be integrated with the offer or sale of the Notes in a manner that would require the registration under the Securities Act of the sale of the Notes.

4.3 Non-Public Information. Except with respect to the material terms and conditions of the transactions contemplated by the Transaction Documents, the Company covenants and agrees that neither it, nor any other Person acting on its behalf, will provide any Purchaser or its agents or counsel with any information that the Company believes constitutes material non-public information, unless prior thereto such Purchaser shall have entered into a written agreement with the Company regarding the confidentiality and use of such information. The Company understands and confirms that each Purchaser shall be relying on the foregoing covenant in effecting transactions in securities of the Company.

4 . 4 Use of Proceeds. The Company shall use the net proceeds from the sale of the Notes hereunder for working capital purposes.

4.5 Indemnification of Purchasers. Subject to the provisions of this Section 4.5, the Company will indemnify and hold each Purchaser and its directors, officers, shareholders, members, partners, employees and agents (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding a lack of such title or any other title), each Person who controls such Purchaser (within the meaning of Section 15 of the Securities Act and Section 20 of the Exchange Act), and the directors, officers, shareholders, agents, members, partners or employees (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding a lack of such title or any other title) of such controlling persons (each, a “Purchaser Party”) harmless from any and all losses, liabilities, obligations, claims, contingencies, damages, costs and expenses, including all judgments, amounts paid in settlements, court costs and reasonable attorneys’ fees and costs of investigation that any such Purchaser Party may suffer or incur as a result of or relating to (a) any breach of any of the representations, warranties, covenants or agreements made by the Company in this Agreement or in the other Transaction Documents or (b) any action instituted against the Purchaser Parties in any capacity, or any of them or their respective Affiliates, by any stockholder of the Company who is not an Affiliate of such Purchaser Party, with respect to any of the transactions contemplated by the Transaction Documents (unless such action is based upon a breach of such Purchaser Party’s representations, warranties or covenants under the Transaction Documents or any agreements or understandings such Purchaser Party may have with any such stockholder or any violations by such Purchaser Party of state or federal securities laws or any conduct by such Purchaser Party which constitutes fraud, gross negligence, willful misconduct or malfeasance). If any action shall be brought against any Purchaser Party in respect of which indemnity may be sought pursuant to this Agreement, such Purchaser Party shall promptly notify the Company in writing, and the Company shall have the right to assume the defense thereof with counsel of its own choosing reasonably acceptable to the Purchaser Party. Any Purchaser Party shall have the right to employ separate counsel in any such action and participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Purchaser Party except to the extent that (i) the employment thereof has been specifically authorized by the Company in writing, (ii) the Company has failed after a reasonable period of time to assume such defense and to employ counsel or (iii) in such action there is, in the reasonable opinion of counsel, a material conflict on any material issue between the position of the Company and the position of such Purchaser Party, in which case the Company shall be responsible for the reasonable fees and expenses of no more than one such separate counsel. The Company will not be liable to any Purchaser Party under this Agreement (y) for any settlement by a Purchaser Party effected without the Company’s prior written consent, which shall not be unreasonably withheld or delayed; or (z) to the extent, but only to the extent that a loss, claim, damage or liability is attributable to any Purchaser Party’s breach of any of the representations, warranties, covenants or agreements made by such Purchaser Party in this Agreement or in the other Transaction Documents. The indemnification required by this Section 4.5 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or are incurred. The indemnity agreements contained herein shall be in addition to any cause of action or similar right of any Purchaser Party against the Company or others and any liabilities the Company may be subject to pursuant to law.

4.6 Equal Treatment of Purchasers. No consideration (including any modification of any Transaction Document) shall be offered or paid to any Person to amend or consent to a waiver or modification of any provision of this Agreement unless the same consideration is also offered to all of the parties to this Agreement. Further, the Company shall not make any payment of principal or interest on the Notes in amounts which are disproportionate to the respective principal amounts outstanding on the Notes at any applicable time. For clarification purposes, this provision constitutes a separate right granted to each Purchaser by the Company and negotiated separately by each Purchaser, and is intended for the Company to treat the Purchasers as a class and shall not in any way be construed as the Purchasers acting in concert or as a group with respect to the purchase or disposition of Securities or otherwise.

4.7 Confidentiality. Each Purchaser, severally and not jointly with the other Purchasers, covenants that until such time as the transactions contemplated by this Agreement are publicly disclosed by the Company, such Purchaser will maintain the confidentiality of the existence and terms of this transaction and the information included in the Transaction Documents.

ARTICLE V. COLLATERAL SECURITY

5.1 Collateral Security. As security for the payment of the Company's obligations hereunder, and as security for the payment of the Company's obligations under the Debentures, the Company hereby grants to the Purchasers and the holders of Debentures *a pari passu* security interest in the Collateral. The existence of such security shall not limit any other rights or remedies which Lender may have in the event of a default hereunder. By its signature hereon, the Company hereby agrees file a UCC-1 financing statement and such continuation or amendment statements in all jurisdictions in which such filing is deemed by the Purchasers to be necessary or desirable in order to perfect, preserve and protect the aforesaid security interest. If required by any Purchaser, the Company will execute all documentation necessary for the Purchasers to obtain and maintain perfection of the aforesaid security interests in the Collateral. Upon the payment in full of all amounts owing under the Notes and the Debentures, the Company automatically and unconditionally be released from any liens granted pursuant to this Agreement and shall be permitted to file any required UCC termination statements. The holders of Debentures who are not Purchasers are express third party beneficiaries of this Section 5.1.

ARTICLE VI. MISCELLANEOUS

6.1 Fees and Expenses. Except as expressly set forth in the Transaction Documents to the contrary, each party shall pay the fees and expenses of its advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the negotiation, preparation, execution, delivery and performance of this Agreement.

6 . 2 Entire Agreement. The Transaction Documents, together with the exhibits and schedules thereto, contain the entire understanding of the parties with respect to the subject matter hereof and thereof and supersede all prior agreements and understandings, oral or written, with respect to such matters, which the parties acknowledge have been merged into such documents, exhibits and schedules.

6.3 Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of: (a) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number set forth on the signature pages attached hereto at or prior to 5:30 p.m. (New York City time) on a Trading Day, (b) the next Trading Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number set forth on the signature pages attached hereto on a day that is not a Trading Day or later than 5:30 p.m. (New York City time) on any Trading Day, (c) the second (2nd) Trading Day following the date of mailing, if sent by U.S. nationally recognized overnight courier service or (d) upon actual receipt by the party to whom such notice is required to be given. The address for such notices and communications shall be as set forth on the signature pages attached hereto.

6.4 Amendments; Waivers. No provision of this Agreement may be waived, modified, supplemented or amended except in a written instrument signed, in the case of an amendment, by the Company and the Purchasers holding a majority in interest of the Notes then outstanding and held by Purchasers or, in the case of a waiver, by the party against whom enforcement of any such waived provision is sought. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of any party to exercise any right hereunder in any manner impair the exercise of any such right.

6 . 5 Headings. The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof.

6.6 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns. The Company may not assign this Agreement or any rights or obligations hereunder without the prior written consent of each Purchaser (other than by merger). Any Purchaser may assign any or all of its rights under this Agreement to any Person to whom such Purchaser assigns or transfers any Notes, provided that such transferee agrees in writing to be bound, with respect to the transferred Notes, by the provisions of the Transaction Documents that apply to the "Purchasers."

6 . 7 No Third-Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person, except as otherwise set forth in Section 4.5, Section 5.1 and this Section 6.7.

6.8 Governing Law. All questions concerning the construction, validity, enforcement and interpretation of the Transaction Documents shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement and any other Transaction Documents (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, partners, members, employees or agents) shall be commenced exclusively in the state and federal courts sitting in the City of New York. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of New York, Borough of Manhattan for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of any of the Transaction Documents), and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper or is an inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law. If either party shall commence an action, suit or proceeding to enforce any provisions of the Transaction Documents, then, in addition to the obligations of the Company under Section 4.5, the prevailing party in such action, suit or proceeding shall be reimbursed by the other party for its reasonable attorneys' fees and other costs and expenses incurred with the investigation, preparation and prosecution of such action or proceeding.

6.9 Survival. The representations and warranties contained herein shall survive the Closing and the delivery of the Notes.

6.10 Execution. This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to each other party, it being understood that the parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a ".pdf" format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or ".pdf" signature page were an original thereof.

6.11 Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their commercially reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

6.12 Replacement of Notes. If any instrument evidencing any Note is mutilated, lost, stolen or destroyed, the Company shall issue or cause to be issued in exchange and substitution for and upon cancellation thereof (in the case of mutilation), or in lieu of and substitution therefor, a new certificate or instrument, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction. The applicant for a new certificate or instrument under such circumstances shall also pay any reasonable third-party costs (including customary indemnity) associated with the issuance of such replacement Notes.

6.13 Remedies. In addition to being entitled to exercise all rights provided herein or granted by law, including recovery of damages, each of the Purchasers and the Company will be entitled to specific performance under the Transaction Documents. The parties agree that monetary damages may not be adequate compensation for any loss incurred by reason of any breach of obligations contained in the Transaction Documents and hereby agree to waive and not to assert in any action for specific performance of any such obligation the defense that a remedy at law would be adequate.

6.14 Payment Set Aside. To the extent that the Company makes a payment or payments to any Purchaser pursuant to any Transaction Document or a Purchaser enforces or exercises its rights thereunder, and such payment or payments or the proceeds of such enforcement or exercise or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside, recovered from, disgorged by or are required to be refunded, repaid or otherwise restored to the Company, a trustee, receiver or any other Person under any law (including, without limitation, any bankruptcy law, state or federal law, common law or equitable cause of action), then to the extent of any such restoration the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred.

6.15 Usury. To the extent it may lawfully do so, the Company hereby agrees not to insist upon or plead or in any manner whatsoever claim, and will resist any and all efforts to be compelled to take the benefit or advantage of, usury laws wherever enacted, now or at any time hereafter in force, in connection with any claim, action or proceeding that may be brought by any Purchaser in order to enforce any right or remedy under any Transaction Document. Notwithstanding any provision to the contrary contained in any Transaction Document, it is expressly agreed and provided that the total liability of the Company under the Transaction Documents for payments in the nature of interest shall not exceed the maximum lawful rate authorized under applicable law (the "Maximum Rate"), and, without limiting the foregoing, in no event shall any rate of interest or default interest, or both of them, when aggregated with any other sums in the nature of interest that the Company may be obligated to pay under the Transaction Documents exceed such Maximum Rate. It is agreed that if the maximum contract rate of interest allowed by law and applicable to the Transaction Documents is increased or decreased by statute or any official governmental action subsequent to the date hereof, the new maximum contract rate of interest allowed by law will be the Maximum Rate applicable to the Transaction Documents from the effective date thereof forward, unless such application is precluded by applicable law. If under any circumstances whatsoever, interest in excess of the Maximum Rate is paid by the Company to any Purchaser with respect to indebtedness evidenced by the Transaction Documents, such excess shall be applied by such Purchaser to the unpaid principal balance of any such indebtedness or be refunded to the Company, the manner of handling such excess to be at such Purchaser's election.

6.16 Independent Nature of Purchasers' Obligations and Rights. The obligations of each Purchaser under any Transaction Document are several and not joint with the obligations of any other Purchaser, and no Purchaser shall be responsible in any way for the performance or non-performance of the obligations of any other Purchaser under any Transaction Document. Nothing contained herein or in any other Transaction Document, and no action taken by any Purchaser pursuant hereto or thereto, shall be deemed to constitute the Purchasers as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Purchasers are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by the Transaction Documents. Each Purchaser shall be entitled to independently protect and enforce its rights, including, without limitation, the rights arising out of this Agreement or out of the other Transaction Documents, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose. Each Purchaser has been represented by its own separate legal counsel in its review and negotiation of the Transaction Documents.

6.17 Construction. The parties agree that each of them and/or their respective counsel have reviewed and had an opportunity to revise the Transaction Documents and, therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of the Transaction Documents or any amendments thereto. In addition, each and every reference to share prices and shares of Common Stock in any Transaction Document shall be subject to adjustment for reverse and forward stock splits, stock dividends, stock combinations and other similar transactions of the Common Stock that occur after the date of this Agreement.

6.18 **WAIVER OF JURY TRIAL. IN ANY ACTION, SUIT, OR PROCEEDING IN ANY JURISDICTION BROUGHT BY ANY PARTY AGAINST ANY OTHER PARTY, THE PARTIES EACH KNOWINGLY AND INTENTIONALLY, TO THE GREATEST EXTENT PERMITTED BY APPLICABLE LAW, HEREBY ABSOLUTELY, UNCONDITIONALLY, IRREVOCABLY AND EXPRESSLY WAIVES FOREVER TRIAL BY JURY.**

(Signature Pages Follow)

IN WITNESS WHEREOF, the parties hereto have caused this Note Purchase and Security Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

CELLECTAR BIOSCIENCES, INC.

Address for Notice:

3301 Agriculture Drive
Madison, WI 53716

By: _____

Fax:

Name:

Title:

With a copy to (which shall not constitute notice):

Foley Hoag LLP
155 Seaport Boulevard
Boston, MA 02210
Attn: Paul Bork, Esq.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK
SIGNATURE PAGE FOR PURCHASER FOLLOWS]

[PURCHASER SIGNATURE PAGES TO NOTE PURCHASE AND SECURITY AGREEMENT]

IN WITNESS WHEREOF, the undersigned have caused this Note Purchase and Security Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

Name of Purchaser: _____

Signature of Authorized Signatory of Purchaser: _____

Name of Authorized Signatory: _____

Title of Authorized Signatory: _____

Email Address of Authorized Signatory: _____

Facsimile Number of Authorized Signatory: _____

Address for Notice to Purchaser:

Address for Delivery of Note to Purchaser (if not same as address for notice):

Subscription Amount: _____

EIN Number: _____

[SIGNATURE PAGES CONTINUE]

OPINION OF COUNSEL TO COMPANY

THIS SECURITY HAS NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY.

Original Issue Date: **July 29, 2014**

\$ _____

**8% SECURED PROMISSORY NOTE
DUE [60 DAYS FROM DATE OF ISSUE], 2014**

THIS 8% SECURED PROMISSORY NOTE is one of a series of duly authorized and validly issued 8% Secured Promissory Notes of Collectar Biosciences, Inc., a Delaware corporation, (the "Company"), having its principal place of business at 3301 Agriculture Drive, Madison, WI 53716, designated as its 8% Secured Promissory Notes due 2014 (this note, the "Note" and, collectively with the other notes of such series, the "Notes").

FOR VALUE RECEIVED, the Company promises to pay to _____ or its registered assigns (the "Holder"), or shall have paid pursuant to the terms hereunder, the principal sum of \$_____ ON DEMAND of the Holder at any time on or after _____, 2014 (the "Maturity Date") or such earlier date as this Note is required or permitted to be repaid as provided hereunder, and to pay interest to the Holder on the aggregate outstanding principal amount of this Note in accordance with the provisions hereof. This Note is subject to the following additional provisions:

Section 1. Definitions. For the purposes hereof, in addition to the terms defined elsewhere in this Note, (a) capitalized terms not otherwise defined herein shall have the meanings set forth in the Purchase Agreement and (b) the following terms shall have the following meanings:

“Bankruptcy Event” means any of the following events: (a) the Company or any Significant Subsidiary (as such term is defined in Rule 1-02(w) of Regulation S-X) thereof commences a case or other proceeding under any bankruptcy, reorganization, arrangement, adjustment of debt, relief of debtors, dissolution, insolvency or liquidation or similar law of any jurisdiction relating to the Company or any Significant Subsidiary thereof, (b) there is commenced against the Company or any Significant Subsidiary thereof any such case or proceeding that is not dismissed within 60 days after commencement, (c) the Company or any Significant Subsidiary thereof is adjudicated insolvent or bankrupt or any order of relief or other order approving any such case or proceeding is entered, (d) the Company or any Significant Subsidiary thereof suffers any appointment of any custodian or the like for it or any substantial part of its property that is not discharged or stayed within 60 calendar days after such appointment, (e) the Company or any Significant Subsidiary thereof makes a general assignment for the benefit of creditors, (f) the Company or any Significant Subsidiary thereof calls a meeting of its creditors with a view to arranging a composition, adjustment or restructuring of its debts or (g) the Company or any Significant Subsidiary thereof, by any act or failure to act, expressly indicates its consent to, approval of or acquiescence in any of the foregoing or takes any corporate or other action for the purpose of effecting any of the foregoing.

“Business Day” means any day except any Saturday, any Sunday, any day which is a federal legal holiday in the United States or any day on which banking institutions in the State of New York are authorized or required by law or other governmental action to close.

“Note Register” shall have the meaning set forth in Section 2(c).

“Event of Default” shall have the meaning set forth in Section 5(a).

“Late Fees” shall have the meaning set forth in Section 2(d).

“New York Courts” shall have the meaning set forth in Section 6(d).

“Original Issue Date” means the date of the first issuance of the Notes, regardless of any transfers of any Note and regardless of the number of instruments which may be issued to evidence such Notes.

“Purchase Agreement” means the Note Purchase and Security Agreement, dated as of July 29, 2014 among the Company and the original Holders, as amended, modified or supplemented from time to time in accordance with its terms.

“Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“Subsequent Financing” means the closing of any offering by the Company or a Subsidiary of Common Stock or Common Stock Equivalents for cash consideration, indebtedness or a combination thereof for aggregate gross proceeds of at least \$1,000,000.

Section 2. Interest; Repayment; Security.

a) Payment of Interest in Cash. The Company shall pay interest to the Holder on the aggregate outstanding principal amount of this Note at the rate of 8% per annum, which interest shall accrue and become payable in cash at the time the principal amount of this Note shall become payable.

b) Interest Calculations. Interest shall be calculated on the basis of a 360-day year, consisting of twelve 30 calendar day periods, and shall accrue daily commencing on the date of issue of this Note until payment in full of the outstanding principal, together with all accrued and unpaid interest, and other amounts which may become due hereunder, has been made.

c) Late Fee. All overdue accrued and unpaid interest to be paid hereunder shall entail a late fee at an interest rate equal to the lesser of 12% per annum or the maximum rate permitted by applicable law (the "Late Fees"), whichever is less, which shall accrue daily from the date such interest is due hereunder through and including the date of actual payment in full.

d) Prepayment. Except as otherwise set forth in this Note, the Company may not prepay any portion of the principal amount of this Note without the prior written consent of the Holder.

e) Repayment on Subsequent Financing. All principal, interest and any other obligations owing under this Note shall become immediately due and payable upon a Subsequent Financing.

f) Security. All obligations under this note are secured by the Collateral as set forth in the Purchase Agreement.

Section 3. Registration of Transfers and Exchanges.

a) Different Denominations. This Note is exchangeable for an equal aggregate principal amount of Notes of different authorized denominations, as requested by the Holder surrendering the same. No service charge will be payable for such registration of transfer or exchange.

b) Investment Representations. This Note has been issued subject to certain investment representations of the original Holder set forth in the Purchase Agreement and may be transferred or exchanged only in compliance with the Purchase Agreement and applicable federal and state securities laws and regulations.

c) Reliance on Note Register. Prior to due presentment for transfer to the Company of this Note, the Company and any agent of the Company may treat the Person in whose name this Note is duly registered on the Note Register as the owner hereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not this Note is overdue, and neither the Company nor any such agent shall be affected by notice to the contrary.

Section 4. Events of Default.

a) “Event of Default” means, wherever used herein, any of the following events (whatever the reason for such event and whether such event shall be voluntary or involuntary or effected by operation of law or pursuant to any judgment, decree or order of any court, or any order, rule or regulation of any administrative or governmental body):

i. any default in the payment of (A) the principal amount of any Note or (B) interest and other amounts owing to a Holder on any Note, as and when the same shall become due and payable (whether on the Maturity Date or by acceleration or otherwise) which default, solely in the case of an interest payment or other default under clause (B) above, is not cured within 3 Business Days;

ii. a material default or event of default (subject to any grace or cure period provided in the applicable agreement, document or instrument) shall occur under the Company’s 8% Convertible Debenture date February 6, 2014;

iii. the Company or any Significant Subsidiary (as such term is defined in Rule 1-02(w) of Regulation S-X) shall be subject to a Bankruptcy Event.

b) Remedies Upon Event of Default. If any Event of Default occurs, the outstanding principal amount of this Note, plus accrued but unpaid interest and other amounts owing in respect thereof through the date of acceleration, shall become, at the Holder’s election, immediately due and payable in cash at the Mandatory Default Amount. Commencing 5 days after the occurrence of any Event of Default that results in the eventual acceleration of this Note, the interest rate on this Note shall accrue at an interest rate equal to the lesser of 12% per annum or the maximum rate permitted under applicable law. Upon the payment in full of the Mandatory Default Amount, the Holder shall promptly surrender this Note to or as directed by the Company. In connection with such acceleration described herein, the Holder need not provide, and the Company hereby waives, any presentment, demand, protest or other notice of any kind, and the Holder may immediately and without expiration of any grace period enforce any and all of its rights and remedies hereunder and all other remedies available to it under applicable law. Such acceleration may be rescinded and annulled by Holder at any time prior to payment hereunder and the Holder shall have all rights as a holder of the Note until such time, if any, as the Holder receives full payment pursuant to this Section 5(b). No such rescission or annulment shall affect any subsequent Event of Default or impair any right consequent thereon.

Section 5. Miscellaneous.

a) Notices. Any and all notices or other communications or deliveries to be provided by the Holder hereunder shall be in writing and delivered personally, by facsimile, or sent by a nationally recognized overnight courier service, addressed to the Company, at the address set forth above, or such other facsimile number or address as the Company may specify for such purposes by notice to the Holder delivered in accordance with this Section 6(a). Any and all notices or other communications or deliveries to be provided by the Company hereunder shall be in writing and delivered personally, by facsimile, or sent by a nationally recognized overnight courier service addressed to each Holder at the facsimile number or address of the Holder appearing on the books of the Company, or if no such facsimile number or address appears on the books of the Company, at the principal place of business of such Holder, as set forth in the Purchase Agreement. Any notice or other communication or deliveries hereunder shall be deemed given and effective on the earliest of (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number set forth on the signature pages attached hereto prior to 5:30 p.m. (New York City time) on any date, (ii) the next Business Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number set forth on the signature pages attached hereto on a day that is not a Business Day or later than 5:30 p.m. (New York City time) on any Business Day, (iii) the second Business Day following the date of mailing, if sent by U.S. nationally recognized overnight courier service or (iv) upon actual receipt by the party to whom such notice is required to be given.

b) Absolute Obligation. Except as expressly provided herein, no provision of this Note shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and accrued interest on this Note at the time, place, and rate, and in the coin or currency, herein prescribed. This Note is a direct debt obligation of the Company. This Note ranks pari passu with all other Notes now or hereafter issued under the terms set forth herein.

c) Lost or Mutilated Note. If this Note shall be mutilated, lost, stolen or destroyed, the Company shall execute and deliver, in exchange and substitution for and upon cancellation of a mutilated Note, or in lieu of or in substitution for a lost, stolen or destroyed Note, a new Note for the principal amount of this Note so mutilated, lost, stolen or destroyed, but only upon receipt of evidence of such loss, theft or destruction of such Note, and of the ownership hereof, reasonably satisfactory to the Company.

d) Governing Law. All questions concerning the construction, validity, enforcement and interpretation of this Note shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflict of laws thereof. Each party agrees that all legal proceedings concerning the interpretation, enforcement and defense of the transactions contemplated by any of the Transaction Documents (whether brought against a party hereto or its respective Affiliates, directors, officers, shareholders, employees or agents) shall be commenced in the state and federal courts sitting in the City of New York, Borough of Manhattan (the "New York Courts"). Each party hereto hereby irrevocably submits to the exclusive jurisdiction of the New York Courts for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of any of the Transaction Documents), and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of such New York Courts, or such New York Courts are improper or inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Note and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by applicable law. Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Note or the transactions contemplated hereby. If any party shall commence an action or proceeding to enforce any provisions of this Note, then the prevailing party in such action or proceeding shall be reimbursed by the other party for its attorneys fees and other costs and expenses incurred in the investigation, preparation and prosecution of such action or proceeding.

e) Waiver. Any waiver by the Company or the Holder of a breach of any provision of this Note shall not operate as or be construed to be a waiver of any other breach of such provision or of any breach of any other provision of this Note. The failure of the Company or the Holder to insist upon strict adherence to any term of this Note on one or more occasions shall not be considered a waiver or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Note on any other occasion. Any waiver by the Company or the Holder must be in writing.

f) Severability. If any provision of this Note is invalid, illegal or unenforceable, the balance of this Note shall remain in effect, and if any provision is inapplicable to any Person or circumstance, it shall nevertheless remain applicable to all other Persons and circumstances. If it shall be found that any interest or other amount deemed interest due hereunder violates the applicable law governing usury, the applicable rate of interest due hereunder shall automatically be lowered to equal the maximum rate of interest permitted under applicable law. The Company covenants (to the extent that it may lawfully do so) that it shall not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law or other law which would prohibit or forgive the Company from paying all or any portion of the principal of or interest on this Note as contemplated herein, wherever enacted, now or at any time hereafter in force, or which may affect the covenants or the performance of this Note, and the Company (to the extent it may lawfully do so) hereby expressly waives all benefits or advantage of any such law, and covenants that it will not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Holder, but will suffer and permit the execution of every such as though no such law has been enacted.

g) Remedies, Characterizations, Other Obligations, Breaches and Injunctive Relief. The remedies provided in this Note shall be cumulative and in addition to all other remedies available under this Note and any of the other Transaction Documents at law or in equity (including a decree of specific performance and/or other injunctive relief), and nothing herein shall limit the Holder's right to pursue actual and consequential damages for any failure by the Company to comply with the terms of this Note. The Company covenants to the Holder that there shall be no characterization concerning this instrument other than as expressly provided herein. Amounts set forth or provided for herein with respect to payments, conversion and the like (and the computation thereof) shall be the amounts to be received by the Holder and shall not, except as expressly provided herein, be subject to any other obligation of the Company (or the performance thereof). The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Holder and that the remedy at law for any such breach may be inadequate. The Company therefore agrees that, in the event of any such breach or threatened breach, the Holder shall be entitled, in addition to all other available remedies, to an injunction restraining any such breach or any such threatened breach, without the necessity of showing economic loss and without any bond or other security being required. The Company shall provide all information and documentation to the Holder that is requested by the Holder to enable the Holder to confirm the Company's compliance with the terms and conditions of this Note.

h) Next Business Day. Whenever any payment or other obligation hereunder shall be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day.

i) Headings. The headings contained herein are for convenience only, do not constitute a part of this Note and shall not be deemed to limit or affect any of the provisions hereof.

(Signature Pages Follow)

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed by a duly authorized officer as of the date first above indicated.

CELLECTAR BIOSCIENCES, INC.

By: _____

Name:

Title:

Facsimile No. for delivery of Notices: _____

CONSENT AGREEMENT

This Consent Agreement (this "Agreement") is dated as of July 29, 2014, between Cellectar Biosciences, Inc. (f/k/a Novelos Therapeutics, Inc.), a Delaware corporation (the "Corporation"), and each undersigned holder of the Corporation's 8% Convertible Debentures due February 6, 2016 (the "Debentures").

WHEREAS, the undersigned are holders of Debentures, which Debentures were issued on February 6, 2014 pursuant to that certain Securities Purchase Agreement dated as of February 6, 2014 between the Corporation and the holders of the Debentures (the "Securities Purchase Agreement"), which holders are identified on Exhibit A hereto;

WHEREAS, the Corporation is seeking to issue and sell its promissory notes (the "Promissory Notes") in aggregate principal amount of up to \$1 million in one or more tranches (collectively, the "Bridge Financing"), and the Corporation requires the consent of, and certain approvals from, the holders of a majority in principal amount of the Debentures (the "Majority Holders"); and

WHEREAS, the Corporation desires to provide notice of and the opportunity to participate in the Bridge Financing to each holder of Debentures;

NOW THEREFORE, the parties hereto agree as follows:

1. Certain Defined Terms. Capitalized terms used but not otherwise defined herein shall have the meanings given to such terms in the Securities Purchase Agreement.

2. Notice of Bridge Financing. By delivery of this Agreement, notice is hereby given to each holder of the Debentures of the Corporation's intention to complete the Bridge Financing substantially on the terms set forth in the attached summary on Exhibit B. Each holder of Debentures is hereby offered the opportunity to participate in the initial tranche of the Bridge Financing based on its pro rata portion of \$500,000 (such pro rata to be determined based on the principal amount of each Debenture holder's Debenture relative to the aggregate principal amount of all Debentures). In addition, each holder of Debentures may express interest in participating above such pro rata in the initial tranche of the Bridge Financing. Any such indication of interest shall be provided in writing to the Corporation not later than July 29, 2014, and the holder may provide such indication of interest on its signature page hereto. In the event the initial tranche of the Bridge Financing is over-subscribed, the Corporation shall (1) allocate to each holder of Debentures electing to participate in the Bridge Financing its pro rata portion of \$500,000, and (2) allocate to each holder of Debentures expressing interest in participating in excess of its pro rata the amount of such oversubscription; provided that, if the aggregate amounts set forth in all indications of interest exceeds \$1 million, the Corporation shall reduce the participation of the over-subscribing holders of Debentures ratably based on the amount of their oversubscriptions. Participation in any subsequent tranche of the Bridge Financing shall be allocated and completed in accordance with, and subject to the terms and conditions of, the definitive documentation executed in connection with the Bridge Financing.

3 . Consent of Holders of Debentures. The undersigned holders of Debentures, constituting the Majority Holders, hereby consent in all respects, in accordance with Section 7 of the Debentures, to the Bridge Financing, including without limitation (i) the issuance and sale of Promissory Notes in the aggregate principal amount of up to \$1 million on substantially the terms set forth in Exhibit B, (ii) the creation of any lien, security interest or other encumbrance on the assets of the Corporation in connection therewith, and (iii) the repayment of the Promissory Notes in accordance with their terms.

4 . Amendment of Securities Purchase Agreement. The undersigned holders of Debentures, having the power to amend the Securities Purchase Agreement on behalf of themselves and all other holders of Debentures, hereby amend the definition of "Exempt Issuance" set forth therein by re-lettering the existing clause "(c)" as clause "(d)" and by inserting a new immediately preceding clause "(c)" as follows: "(c) up to \$1 million in aggregate principal amount of promissory notes issued after the date hereof,".

5 . Entire Agreement. This Agreement, the Securities Purchase Agreement, the Debentures, and the exhibits and schedules hereto and thereto, contain the entire understanding of the parties with respect to the subject matter hereof and thereof and supersede all prior agreements and understandings, oral or written, with respect to such matters, which the parties acknowledge have been merged into such documents, exhibits and schedules. Except as expressly modified herein, the Securities Purchase Agreement and the Debentures remain in full force and effect.

6. Choice of Law. All questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, partners, members, employees or agents) shall be commenced exclusively in the state and federal courts sitting in the City of New York. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of New York, Borough of Manhattan for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper or is an inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

7. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which taken together shall constitute one and the same instrument. Counterpart signature pages to this Agreement transmitted by facsimile transmission, by electronic mail in “portable document format” (“.pdf”) form, or by any other electronic means intended to preserve the original graphic and pictorial appearance of a document, will have the same effect as physical delivery of the paper document bearing an original signature.

IN WITNESS WHEREOF the undersigned have executed this Consent Agreement as of the date first above written.

THE CORPORATION:

CELLECTAR BIOSCIENCES, INC.

By: _____

[Debenture holder signature pages follow]

[DEBENTURE HOLDER SIGNATURE PAGES TO CONSENT AGREEMENT]

IN WITNESS WHEREOF, the undersigned has caused this Consent Agreement to be duly executed by its authorized signatory as of the date first indicated above.

Name of Debenture Holder: _____

Signature of Authorized Signatory of Purchaser: _____

Name of Authorized Signatory: _____

Title of Authorized Signatory: _____

_____ The holder declines to participate in the Bridge Financing

_____ The holder intends to participate in the Bridge Financing

Participation Amount (including oversubscription): \$ _____

Debenture Holders

Holder	Principal Amount of Debenture
Greenway Properties, Inc.	\$ 1,316,250
Hertzberg Family Trust (TD 6/4/96)	\$ 1,316,250
Venture Investors (ESF IV LP)	\$ 500,000
ENSO Ventures 2 Limited	\$ 350,000
MIG Commercial Real Estate, LLC	\$ 100,000
Marc Vaccaro	\$ 100,000
WIP-Novelos LLC	\$ 167,500
Dean S. Woodman	\$ 100,000
Scheinberg Family Trust	\$ 50,000
Total	\$ 4,000,000

**Collectar Biosciences, Inc.
Short-Term Bridge Note**

—CONFIDENTIAL—

The purpose of this document is to facilitate the discussion of the terms of a proposed EXTENSION OF DEBT TO the Company (the “Transaction”). The actual terms remain subject to negotiation and the completion of a mutual agreement and definitive documentation. This outline does not constitute a contractual commitment of the Company or the Investor(s) but merely represents a discussion document.

Summary of Terms for Discussion

Debt Issuer:	Collectar Biosciences, Inc. (the “Company”)
Debt Issue:	60-Day Secured Bridge Notes (the “ Bridge Notes”)
Bridge Note Security Interest:	General Business Security Agreement (GBSA) covering assets of Collectar Biosciences, Inc. GBSA also to apply to obligations under 8% Debentures assuming \$500,000 minimum commitment for Bridge Notes
Interest:	8.0% annual paid at maturity or upon repayment.
Maturity:	60-days from issuance <u>or</u> simultaneous with the closing of any equity offering of \$1,000,000 or greater, whichever event occurs first.
Required Consent	Holders of a majority of the outstanding principal amount of the 8% Convertible Debentures issued February 6, 2014, having maturity on February 6, 2016, must consent to the terms and issuance of this Bridge Note.
Debt Issuance Amount and Timing of Funding	\$500,000 minimum initial commitment. For a period of 30-days from date of execution of definitive documentation, Company will have the right to draw down any amount up to the full amount of the initial commitment by providing a three –day notice to participants. The amount of the draw down will be funded pro-rata by each Bridge Note participant, or greater in the case of oversubscription. Further, for a period of 30-days from the date issuance, participants will have the option to increase their Bridge Notes in amount that in aggregate will not exceed an additional \$500,000.
Events of Default:	All standard events
Issuance Date:	July 29, 2014 or earlier
Modifications to Terms, Actions to Seek Remedy	Require consent of the Holders of a majority of the outstanding principal amount of the 60-day Bridge Notes.

I, SIMON PEDDER, certify that:

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

Date: August 4, 2014

/s/ Simon Pedder

Simon Pedder

President and Chief Executive Officer (Principal Executive Officer)

I, CHAD KOLEAN, certify that:

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

Date: August 4, 2014

/s/ Chad Kolean

Chad Kolean

Chief Financial Officer (Principal Financial and Accounting Officer)

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

In connection with the Quarterly Report on Form 10-Q of Collectar Biosciences, Inc. (the "Company") for the quarter ended June 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Simon Pedder, President and Chief Executive Officer of the Company, and Chad J. Kolean, Vice President, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to our knowledge, that:

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

/s/ Simon Pedder

Simon Pedder
President and Chief Executive Officer (Principal Executive Officer)

Date: August 4, 2014

/s/ Chad Kolean

Chad Kolean
Chief Financial Officer (Principal Financial and Accounting Officer)

Date: August 4, 2014
