GENTA INC DE/
Form 10-Q
November 12, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from _______ to _______

Commission File Number 0-19635

GENTA INCORPORATED
(Exact name of Registrant as specified in its charter)

Delaware	33-0326866
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

200 Connell Drive Berkeley Heights, NJ	07922
(Address of principal executive offices)	(Zip Code)

(908) 286-9800
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x   No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “large accelerated filer, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of November 11, 2010 the registrant had 110,776,005 shares of common stock outstanding.

Genta Incorporated

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GENTA INCORPORATED
CONSOLIDATED BALANCE SHEETS

(In thousands, except par value data) ASSETS		September 30, 2010 (unaudited)		December 31, 2009
Current assets:				
Cash and cash equivalents	$	11,681	$	1,216
Accounts receivable - net of allowances of $39 at September 30, 2010 and $23 at December 31, 2009, respectively		2		2
Receivable on sale of New Jersey tax losses		-		2,873
Inventory (Note 4)		38		81
Prepaid expenses and other current assets		505		971
Total current assets		12,226		5,143
Property and equipment, net		171		205
Deferred financing costs on sale of convertible notes, warrants and common stock (Note 6)		2,013		6,881
Restricted cash account		5,005		-
Total assets	$	19,415	$	12,229
LIABILITIES AND STOCKHOLDERS' EQUITY/(DEFICIT)				
Current liabilities:				
Accounts payable and accrued expenses	$	5,387	$	8,829
Convertible notes due June 9, 2011, $1,890 outstanding, net of debt discount of ($967) at September 30, 2010 (Note 6)		923		-
Convertible notes due June 9, 2010, $1,787 outstanding, net of debt discount of ($115) at December 31, 2009 (Note 6)		-		1,672
Convertible notes due July 7, 2011, $291 outstanding, net of debt discount of ($133) at September 30, 2010 (Note 6)		158		-
Convertible notes due September 4, 2011, $3,768 outstanding, net of debt discount of ($2,132) at September 30, 2010 (Note 6)		1,636		-
Total current liabilities		8,104		10,501
Long-term liabilities:				
Office lease settlement obligation (Note 5)		1,893		1,979
Convertible notes due April 2, 2012, $251 outstanding, net of debt discount of ($94) at September 30, 2010 and $4,452 outstanding,		157		1,302

net of debt discount of ($3,150) at December 31, 2009 (Note 6)				
Convertible notes due July 7, 2011, $751 outstanding, net of debt discount of ($570) at December 31, 2009 (Note 6)		-		181
Convertible notes due September 4, 2011, $7,000 outstanding, net of debt discount of ($5,872) at December 31, 2009 (Note 6)		-		1,128
Convertible notes due March 9, 2013, $25,949 outstanding, net of debt discount of ($19,859) at September 30, 2010 (Note 6)		6,090		-
Total long-term liabilities		8,140		4,590
Commitments and contingencies (Note 9)				
Stockholders' equity/(deficit):				
Preferred stock, 5,000 shares authorized:				
Series A convertible preferred stock, $.001 par value; 8 shares issued and outstanding, liquidation value of $385 at September 30, 2010 and December 31, 2009, respectively		-		-
Series G participating cumulative preferred stock, $.001 par value; 0 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively		-		-
Common stock, $.001 par value; 6,000,000 and 6,000,000 shares authorized, 12,899 and 1,928 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively (Note 1)		13		2
Additional paid-in capital		1,167,018		1,027,563
Accumulated deficit		(1,163,860)		(1,030,427)
Total stockholders' equity/(deficit)		3,171		(2,862)
Total liabilities and stockholders' equity/(deficit)	$	19,415	$	12,229

See accompanying notes to consolidated financial statements.

GENTA INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(In thousands, except per share data)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Product sales - net	$ 82	$ 49	$ 192	$ 180
Cost of goods sold	13	10	40	12
Gross margin	69	39	152	168
Operating expenses:				
Research and development	2,395	5,874	7,255	11,846
Selling, general and administrative	2,239	8,869	7,845	13,008
Total operating expenses	4,634	14,743	15,100	24,854
Other income/(expense):				
Interest income and other income/(expense), net	12	(12)	47	4
Interest expense	(973)	(265)	(2,456)	(841)
Amortization of deferred financing costs and debt discount (Note 6)	(7,758)	(5,450)	(24,363)	(22,362)
Fair value - conversion feature liability (Note 6)	14,625	-	(55,813)	(19,040)
Fair value - warrant liability (Note 6)	6,401	-	(35,900)	(7,655)
Total other income/(expense)	12,307	(5,727)	(118,485)	(49,894)
Net income/(loss)	$ 7,742	$ (20,431)	$ (133,433)	$ (74,580)
Net income/(loss) per basic share (Note 8)	$ 0.88	$ (14.66)	$ (22.29)	$ (98.32)
Net income/(loss) per diluted share (Note 8)	$ 0.16	$ (14.66)	$ (22.29)	$ (98.32)
Shares used in computing net income/(loss) per basic share (Note 8)	8,757	1,393	5,986	759
Shares used in computing net income/(loss) per diluted share (Note 8)	53,151	1,393	5,986	759

See accompanying notes to consolidated financial statements.

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GENTA INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	Nine Months Ended September 30, 2010	2009
Operating activities:		
Net loss	$(133,433)	$(74,580)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	97	112
Amortization of deferred financing costs and debt discount (Note 6)	24,363	22,362
Share-based compensation (Note 7)	3,997	9,624
Change in fair value - conversion feature liability (Note 6)	55,813	19,040
Change in fair value - warrant liability (Note 6)	35,900	7,655
Changes in operating assets and liabilities:		
Accounts receivable	-	1
Receivable on sale of New Jersey tax losses	2,873	-
Inventory	43	12
Prepaid expenses and other current assets	466	463
Accounts payable and accrued expenses	(370)	257
Net cash used in operating activities	(10,251)	(15,054)
Investing activities:		
Purchase of property and equipment	(63)	(51)
Interest on restricted cash	(5)	-
Net cash used in investing activities	(68)	(51)
Financing activities:		
Sale of convertible notes net of financing costs (Note 6)	25,784	17,580
Deposits in restricted cash account	(5,000)	-
Net cash provided by financing activities	20,784	17,580
Increase in cash and cash equivalents	10,465	2,475
Cash and cash equivalents at beginning of period	1,216	4,908
Cash and cash equivalents at end of period	$11,681	$7,383

See accompanying notes to consolidated financial statements.

GENTA INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

1. Reverse Stock Split

At the Annual Meeting of Stockholders of Genta Incorporated ("Genta" or the "Company") held on June 15, 2010, the Company's stockholders authorized its Board of Directors to effect a reverse stock split of all outstanding shares of common stock. The Board of Directors subsequently approved the implementation of a reverse stock split at a ratio of 1-for-100 shares and the reverse stock split became effective on August 2, 2010. All common share and per common share data in these consolidated financial statements and related notes hereto have been retroactively adjusted to account for the effect of the reverse stock split for all periods presented prior to the reverse stock split.

2. Organization and Liquidity

Genta is a biopharmaceutical company engaged in pharmaceutical (drug) research and development, its sole reportable segment. The Company is dedicated to the identification, development and commercialization of novel drugs for the treatment of cancer and related diseases.

The Company has had recurring annual operating losses and negative cash flows from operations since its inception. The Company expects that such losses will continue at least until one or more of its product candidates are approved by one or more regulatory authorities for commercial sale in one or more indications. As of September 30, 2010, the Company had an accumulated deficit of $1,163.9 million. Cash and cash equivalents as of September 30, 2010 were $11.7 million. The Company has historically financed its activities from the sale of shares of common stock, convertible notes, warrants and proceeds from partnerships with other companies.

The Company has prepared its financial statements under the assumption that it is a going concern. The Company's recurring losses and negative cash flows from operations raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

On March 9, 2010, the Company issued $25 million of units consisting of $20 million of various senior unsecured convertible notes and $5 million of senior secured convertible notes. In connection with the sale of the units, the Company also agreed to issue warrants in an amount equal to 40% of the purchase price paid for each such unit. The Company had direct access to $20 million of the proceeds, and the remaining $5 million of the proceeds were placed in a blocked account as collateral security for the $5 million secured notes. In March 2010 and April 2010, four investors who had participated in the Company's April 2009 financing exercised their rights under the April 2009 securities purchase agreement and the April 2009 consent agreement to acquire convertible notes of $1.0 million.

Presently, with no further financing, the Company projects that it will run out of funds in the second quarter of 2011. The terms of the April 2009 Notes enable those noteholders, at their option, to purchase additional notes with similar terms. The Company is only able to access $5 million held in a blocked account as collateral security for the March 2010 D Notes (as defined in Note 6 of the Consolidated Financial Statements), if certain stock price and daily trading volume targets are met, as noteholders convert their March 2010 D Notes, or upon the approval of holders of 2/3 of the March 2010 D Notes. There is no guarantee that the Company will be able to access these funds. The Company currently does not have any additional financing in place. If it is unable to raise additional funds, it could be required to reduce its spending plans, reduce its workforce, license one or more of its products or technologies that it would otherwise seek to commercialize itself, or sell certain assets. There can be no assurance that the Company can obtain financing, if at all, on terms acceptable to it.

A special meeting of the Company's stockholders is planned for December 29, 2010. The Company has recommended to its stockholders that they provide authorization to the Company's Board of Directors to effect up to two reverse stock splits by December 31, 2011, with each reverse stock split in the ratio of 1-for-2 up to 1-for-100, and to approve the Company's Restated Certificate of Incorporation, as amended, to increase the total number of authorized shares of capital stock available for issuance from 6,005,000,000, consisting of 6,000,000,000 shares of Common Stock and 5,000,000 shares of Preferred Stock to 100,000,000,000 shares of Common Stock and 5,000,000 shares of Preferred Stock.

The Company's historical operating results cannot be relied on to be an indicator of future performance, and management cannot predict whether the Company will obtain or sustain positive operating cash flow or generate net income in the future.

3. Summary of Significant Accounting Policies

Accounting Standards Updates

In January 2010, the FASB issued ASU 2010-06- Improving Disclosures about Fair Value Measurements. ASU 2010-06 requires additional disclosures about fair value measurements including transfers in and out of Levels 1 and 2 and a higher level of disaggregation for the different types of financial instruments. For the reconciliation of Level 3 fair value measurements, information about purchases, sales, issuances and settlements should be presented separately. This ASU is effective for annual and interim reporting periods beginning after December 15, 2009 for most of the new disclosures and for periods beginning after December 15, 2010 for the new Level 3 disclosures. Comparative disclosures are not required in the first year the disclosures are required.

Other Accounting Standards Updates not effective until after September 30, 2010 are not expected to have a significant effect on the Company's consolidated financial position or results of operations.

Basis of Presentation

The foregoing consolidated financial statements are unaudited and have been prepared from the books and records of the Company. In the Company's opinion, all normal and recurring adjustments necessary for a fair presentation of the financial position of the Company as of September 30, 2010 and the results of operations and cash flows for the three and nine months ended September 30, 2010 and 2009 have been made in conformity with generally accepted accounting principles. The results of ope