GENTA INC DE/
Form 10-Q
August 14, 2003

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

FORM 10-Q

(Mark One)

|X| QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2003

OR

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

Commission File Number 0-19635

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

Delaware	33-0326866
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
Two 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 |_| No |X|

As of July 31, 2003, the registrant had 74,954,128 shares of common stock outstanding.

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Genta Incorporated
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Genta Incorporated
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value data)	June 30, 2003	December 2002
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 38,915	$ 32,70
Short-term investments (Note 2)	58,274	81,01
Accounts receivable (Note 3)	19,585	14,57
Notes receivable	275	20
Other current assets	2,123	1,45
Total current assets	119,172	129,94
Property and equipment, net	3,565	3,25
Notes receivable	1,465	-
Intangibles, net	1,151	1,44
Other assets	1,716	1,77
Total assets	$ 127,069	$ 136,41

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	$ 5,093	$ 27,68
Note payable	--	49
Accrued expenses	7,372	4,74
Deferred revenues, current portion	5,237	5,23
Other current liabilities	212	21
Total current liabilities	17,914	38,36
Deferred revenues (Note 5)	38,736	41,35
Convertible debt (Note 6)	10,000	10,00
Line of credit (Note 7)	25,000	-
Total liabilities	91,650	89,71
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, Series A convertible preferred stock, $.001 par value; 5,000 shares authorized, 261 shares issued and outstanding at June 30, 2003 and December 31, 2002, respectively; liquidation value of $13,025	--	-
Common stock, $.001 par value; 120,000 shares authorized, 74,853 and 74,168 shares issued and 74,409 and 73,775 outstanding at June 30, 2003 and December 31, 2002, respectively	75	7
Additional paid-in capital	324,792	322,99
Accumulated deficit	(286,211)	(273,19
Deferred compensation	(409)	(69
Accumulated other comprehensive (loss) income	(19)	2
Total stockholders' equity	38,228	49,20
Cost of treasury stock: 444 and 393 shares at June 30, 2003 and December 31, 2002, respectively	(2,809)	(2,50
Total stockholders' equity	35,419	46,70
Total liabilities and stockholders' equity	$ 127,069	$ 136,41

See accompanying notes to condensed consolidated financial statements.

Genta Incorporated
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

Three Months Ended June 30, Six Months Ended

(In thousands, except per share data)	2003	2002	2003	
Revenues:				
License fees and royalties (Note 5)	$ 276	$ 214	$ 542	$
Development funding (Note 5)	1,044	696	2,087	
	1,320	910	2,629	
Costs and expenses:				
Research and development (Note 4)	(1,322)	9,693	4,978	
General and administrative (Note 4)	6,131	8,247	10,911	
Compensation expense related to stock options	144	238	288	
	4,953	18,178	16,177	
Loss from operations	(3,633)	(17,268)	(13,548)	(
Other income (expense):				
Other income, principally net interest income	435	299	887	
Interest expense	(220)	(100)	(360)	
	215	199	527	
Net loss applicable to common shares	$ (3,418)	$(17,069)	$(13,021)	$(
Net loss per common share	$ (0.05)	$ (0.25)	$ (0.18)	$
Shares used in computing net loss per common share	74,442	69,184	74,338	

See accompanying notes to condensed consolidated financial statements.

Genta Incorporated
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	Six Months Ended June 30, 2003	2002
Operating activities		
Net loss	$ (13,021)	$ (29,696)
Items reflected in net loss not requiring cash:		
Depreciation and amortization	1,040	768
Loss on disposition of patents and equipment	--	10
Compensation expense related to stock options	288	477
Changes in operating assets and liabilities:		
Accounts and notes receivable (Note 3)	(6,551)	(7,126)
Prepaids and other assets	(606)	(5,579)
Accounts payable, accrued expenses and other current liabilities	(23,066)	48,985

Net cash (used in) provided by operating activities	(41,916)	7,839
Investing activities		
Purchase of available-for-sale short-term investments	(38,000)	--
Maturities and sales of available-for-sale short-term investments	60,698	15,566
Purchase of property and equipment	(1,060)	(1,179)
Net cash provided by investing activities	21,638	14,387
Financing activities		
Issuance of common stock from private placement, net	--	71,035
Issuance of convertible debt	--	10,000
Proceeds from line of credit (Note 7)	25,000	--
Purchase of treasury stock (Note 8)	(303)	(74)
Proceeds from exercise of warrants and options	1,796	1,758
Net cash provided by financing activities	26,493	82,719
Increase in cash and cash equivalents	6,215	104,945
Cash and cash equivalents at beginning of period	32,700	38,098
Cash and cash equivalents at end of period	$ 38,915	$ 143,043

See accompanying notes to condensed consolidated financial statements.

Genta Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2003
(Unaudited)

(1) Basis of Presentation

The unaudited condensed consolidated financial statements of Genta Incorporated, a Delaware corporation ("Genta" or the "Company"), presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and note disclosures required to be presented for complete financial statements. The accompanying financial statements reflect all adjustments (consisting only of normal recurring accruals), which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented.

The unaudited condensed consolidated financial statements and related disclosures have been prepared with the presumption that users of the interim financial information have read or have access to the audited financial statements for the preceding fiscal year. Accordingly, these financial statements should be read in conjunction with the audited consolidated financial

statements and the related notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002. Results for the interim periods are not necessarily indicative of results for the full years.

The Company has experienced significant quarterly fluctuations in operating results and it expects that these fluctuations will continue.

Revenue Recognition

In April 2002, the Company entered into a development and commercialization agreement (the "Collaborative Agreement") with Aventis Pharmaceuticals Inc. ("Aventis"). Under the terms of the Collaborative Agreement, the Company and Aventis will jointly develop and commercialize Genasense(TM) in the U.S. ("the Alliance"), and Aventis will have exclusive development and marketing rights to Genasense(TM) in all countries outside of the U.S. Under the Collaborative Agreement, Aventis will pay 75% of U.S. New Drug Application ("NDA")-directed development costs incurred by either Genta or Aventis, subsequent to the execution of the Collaborative Agreement, and 100% of all other development, marketing, and sales costs incurred within the U.S. and elsewhere. Reimbursements are to be made pursuant to a single net payment from one party to the other. Such payments are due and payable 60 days following the end of the quarter in which such expenses are incurred.

Initial and future funding of ongoing development received from Aventis after the achievement of certain research and development milestones (Notes 4 and 5) are being recognized over the estimated useful life of the first-to-expire related patent of 115 months.

Research and Development

Research and development costs are expensed as incurred, including raw material costs required to manufacture products for clinical trials. Reimbursements for applicable Genasense(TM)-related costs, under the Collaborative Agreement (Note 4), have been recorded as a reduction to expenses in the condensed consolidated statements of operations.

Intangible Assets

Intangible assets, consisting primarily of licensed technology and capitalized patent costs, are amortized using the straight-line method over their estimated useful lives of five years. The Company's policy is to evaluate the appropriateness of the carrying values of the unamortized balances of intangible assets on the basis of estimated future cash flows (undiscounted) and other factors. If such evaluation were to indicate an impairment of these assets, such impairment would be recognized by a write-down of the applicable assets. The Company evaluates the continuing value of patents and patent applications in each financial reporting period. Through this evaluation, the Company may elect to continue to maintain these patents, seek to out-license them, or abandon them.

Future amortization expense related to intangibles at June 30, 2003 follows ($ thousands):

	Amortization Expense
2003.....	$ 288
2004.....	577

2005	286
2006	--
2007	--
Thereafter	--
Total	$ 1,151

Stock Options

The Company accounts for stock-based compensation arrangements in accordance with provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and complies with the disclosure provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation." Under APB Opinion No. 25, compensation expense is based on the difference, if any, on the date of grant, between the fair value of the Company's stock and the exercise price. The Company accounts for stock options issued to non-employees in accordance with the provisions of SFAS No. 123, and Emerging Issues Task Force Consensus on Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." The Company is amortizing deferred stock compensation using the graded vesting method, in accordance with Financial Accounting Standards Board Interpretation No. 28, over the vesting period of each respective option, which is generally four years.

In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - Amendment of FASB Statement No. 123," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

The following table illustrates the effect on net loss and loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation:

($ thousands, except per share data)	Three Months Ended June 30,		Six Months Ended J	
	2003	2002	2003	2
Net loss applicable to common shares, as reported	$ (3,418)	$(17,069)	$(13,021)	$(2
Equity related employee compensation expense included in reported net income, net of related tax effects	144	238	288	
Total stock-based employee compensation expense determined under fair values based method for all awards, net of related tax effects	(1,907)	(1,909)	(3,455)	(
Pro forma net loss applicable to common shares	$ (5,181)	$(18,740)	$(16,188)	$(3

Net loss per common share:

As reported: Basic and diluted	$ (0.05)	$ (0.25)	$ (0.18)	$
Pro forma: Basic and diluted	$ (0.07)	$ (0.27)	$ (0.22)	$

Pro Forma Disclosure

The fair value of options for the three months ended June 30, 2003 and 2002, has been estimated at the date of grant using the minimum value option pricing model with the following assumptions:

	Three Months Ended June 30,	
	2003	2002
Risk-free interest rate	2.5%	2.8%
Dividend yield	--	--
Expected life (years)	4.0	5.0
Volatility	65.0%	65.0%

All of the options issued during the three-month periods ended June 30, 2003 and 2002, were issued with an exercise price equal to market value on the date of grant. The weighted-average estimated fair value of stock options granted was $9.86 per share and $10.32 per share for the three-month periods ended June 30, 2003 and 2002, respectively.

Net Loss Per Common Share

Basic and diluted loss per common share are identical for the three months ended June 30, 2003 and 2002 as potentially dilutive securities, including options, warrants and convertible preferred stock have been excluded in the calculation of the net loss per common share due to their anti-dilutive effect.

Recent Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Liabilities, Equity, or Both. This limited scope statement prescribes changes to the classification of preferred securities of subsidiary trusts and the accounting for forward purchase contracts issued by a company in its own stock. SFAS No. 150 does not apply to features that are embedded in a financial instrument that is not a derivative in its entirety and requires all preferred securities of subsidiary trusts to be classified as debt on the consolidated balance sheet and the related dividends as interest expense. As the Company did not have any financial instruments within the scope of SFAS No. 150, its adoption did not have any impact on the Company's results of operations, financial position or cash flows.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. In particular, SFAS No. 149 (1) clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative discussed in paragraph 6(b) of SFAS No. 133, (2) clarifies when a derivative contains a financing component, (3) amends the definition of an underlying to conform it to language used in FIN 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, and (4) amends certain other

existing pronouncements. SFAS No. 149 is to be applied prospectively to contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships designated after June 30, 2003. Management believes that adopting this statement will not have a material impact on the Company's results of operations, financial position or cash flows.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The Company adopted SFAS No. 143 effective January 1, 2003. The adoption did not have any material impact on the Company's results of operations, financial position or cash flows.

(2) Short-Term Investments

The carrying amounts of short-term investments approximate fair value due to the short-term nature of these instruments. The fair value of available-for-sale marketable securities at June 30, 2003 is as follows ($ thousands):

Amortized costs	$ 58,293
Gross unrealized gains	32
Gross unrealized losses	(51)
Estimated fair value	$ 58,274

The estimated fair value of each marketable security has been compared to its cost, and therefore, an unrealized loss of approximately $0.019 million has been recognized in accumulated other comprehensive (loss) income at June 30, 2003.

(3) Accounts Receivable

Included in accounts receivable and netted against operating expenses in the condensed consolidated statement of operations for the three months ended June 30, 2003, is $19.433 million in net expense reimbursements due from Aventis for various third-party costs, internal costs of scientific and technical personnel ("Full-time Equivalents" or "FTE's") and Genasense(TM) drug supply costs. Information with respect to the cost reimbursement for the three months ended June 30, 2003 is presented below ($ thousands):

Reimbursement to Genta:	
Third-party costs	$ 8,822
Drug supply costs	9,192
FTE's	1,793
Amount due to Genta	19,807
Reimbursement to Aventis:	
FTE's	(374)
Net amount due to Genta	$ 19,433

(4) Collaborative Agreement

In April 2002, the Company entered into a Collaborative Agreement with Aventis. Under the terms of the Collaborative Agreement, the Alliance will jointly develop and commercialize Genasense(TM) in the U.S., and Aventis will have exclusive development and marketing rights to Genasense(TM) in all countries outside of the U.S. Under the Collaborative Agreement, Aventis will pay 75% of U.S. NDA-directed development costs incurred by either Genta or Aventis, subsequent to the execution of the Collaborative Agreement, and 100% of all other development, marketing, and sales costs incurred within the U.S. and elsewhere. An analysis of expenses reimbursable under the Collaborative Agreement (Note 1) follows:

($ thousands)	Three Months Ended June 30,		Six Months Ended June	
	2003	2002	2003	2002
Research and development expenses, gross	$ 18,111	$ 16,442	$ 33,568	$ 26,2
Less net expense reimbursement	(19,433)	(6,749)	(28,590)	(6,7
Research and development expenses, net .	$ (1,322)	$ 9,693	$ 4,978	$ 19,5
General and administrative, gross	$ 6,131	$ 8,670	$ 10,911	$ 11,4
Less expense reimbursement	--	(423)	--	(4
General and administrative, net	$ 6,131	$ 8,247	$ 10,911	$ 11,0

As of June 30, 2003, the Company has received a total of $194.4 million in initial and near-term funding, which included a $10.0 million licensing fee and $40.0 million in development funding (Note 5), $10.0 million in convertible debt proceeds (Note 6), $71.9 million pursuant to an at-market equity investment in the Company's common stock, $37.5 million in paid expense reimbursements and $25.0 million in line of credit proceeds (Note 7). A further $19.6 million in accrued expense reimbursement is due for payment during the third quarter of 2003 (Note 3), which includes $0.1 million due from December 31, 2002. The remaining amounts that could be received under the Collaborative Agreement, $280.0 million in cash and $65.0 million in convertible note proceeds, are contingent upon the achievement of certain research and development milestones.

(5) Deferred Revenues

As of June 30, 2003, the Company had recorded $44.0 million in deferred revenues relating to the initial $10.0 million licensing fee and $40.0 million development funding received under the Collaborative Agreement (Note 4), of which $5.2 million is included in current liabilities and $38.8 million is classified as long-term deferred revenues, which are being recognized over the estimated useful life of the first-to-expire related patent of 115 months. Any subsequent milestone payments that may be received from Aventis will also be recognized over the then, remaining estimated useful life of the first-to-expire related patent. Separately, as of June 30, 2003, the Company had recorded $0.01

million in royalties.

(6) Convertible Debt

At June 30, 2003, the Company had $10.0 million in convertible debt that was issued in connection with the Collaborative Agreement (Note 4). The Company received $10.0 million in debt proceeds from Aventis, and issued a $10.0 million convertible promissory note to Aventis ("Aventis Note"). Interest accrues at the rate of 5.63% per annum until April 26, 2009 (the "Maturity Date") and compounds annually on each anniversary date of the Aventis Note through the Maturity Date. The Company may redeem the Aventis Note for cash in whole or in part (together with any accrued and unpaid interest with respect to such principal amount) in amounts of not less than $0.5 million (and in $0.1 million increments thereafter). In addition, the Company may convert the Aventis Note on or prior to the Maturity Date in whole or in part (together with any accrued and unpaid interest with respect to such principal amount) in amounts of not less than $5.0 million (and in $1.0 million increments thereafter), into fully paid and non-assessable shares of common stock (calculated as to the nearest 1/1000 of a share). As of any date, the number of shares of common stock into which the Aventis Note may be converted shall be determined by a formula based on the then market value of the common stock (the "Conversion Price"), subject to a minimum Conversion Price of $8.00 per share.

(7) Aventis Line of Credit

At June 30, 2003, the Company had $25.0 million outstanding on a line of credit that was issued in connection with an amendment, dated March 14, 2003, to the Collaborative Agreement (Note 4) that established a $40.0 million line of credit related to the development, manufacturing and commercialization of Genasense(TM) ("Aventis Credit Line"). The amendment provides Genta the immediate availability of up to $40.0 million in cash. This revolving debt will be considered an advance against both past and future costs and will be secured by reimbursable development expenses from Aventis, as well as drug inventory. At the time of Genasense(TM) NDA approval in the U.S., any outstanding balance will be offset against the first milestone payment that is due to Genta from Aventis. The terms of the Aventis Credit Line provide for a favorable interest rate, which is set two days prior to the first day of each calendar quarter. The Aventis Credit Line terminates upon the earlier of (1) the receipt of Genasense(TM) NDA approval in the U.S., (2) notice given by either Genta or Aventis of the termination of the Collaborative Agreement, (3) notice given by Genta of the termination of the Aventis Credit Line, (4) various default provisions or (5) December 31, 2004. Depending upon the circumstances, repayment is due immediately or up to six months after the termination of the Aventis Credit Line.

(8) Treasury Stock

In June 2002 the Company commenced a stock repurchase program, whereby up to 5.0 million shares of its common stock may be repurchased by the Company at prices deemed desirable by the Company. As of June 30, 2003, the Company had repurchased 444,200 shares of common stock in open-market transactions as follows:

	Shares Repurchased	Average price per share
At December 31, 2002	392,700	$6.3807
Six Months Ended June 30, 2003	51,500	5.8927

444,200	$6.3242

(9) Comprehensive Loss

An analysis of comprehensive loss is presented below:

($ thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net loss	$ (3,418)	$(17,069)	$(13,021)	$(29,696)
Change in market value on available-for-sale short-term investments	(28)	116	(44)	60
Total comprehensive loss	$ (3,446)	$(16,953)	$(13,065)	$(29,636)

(10) Supplemental Disclosure of Cash Flows Information and Non-cash Investing and Financing Activities

No interest was paid for the six months ended June 30, 2003 and 2002.

(11) Commitments and Contingencies

Litigation and Potential Claims

JBL

The sale of JBL Scientific, Inc. ("JBL"), the Company's manufacturing subsidiary, was completed on May 10, 1999. JBL was notified on October 1998 from Region IX of the Environmental Protection Agency ("EPA") that it had been identified as a potentially responsible party ("PRP") at the Casmalia Disposal Site, which is located in Santa Barbara, California. JBL has been designated as a de minimis PRP by the EPA. In December 2001, Genta received a revised settlement proposal from the EPA in the amount of $0.033 million, the terms of the settlement with the EPA containing standard contribution protection and release language. In January 2002, the Company accepted the proposal and paid the $0.033 million as an offer to settle this matter. There can be no assurance, however, that the EPA will not reject our settlement offer if there is not a sufficient number of PRPs settling with the EPA.

Genta Europe

During 1995, Genta Pharmaceuticals Europe S.A. ("Genta Europe"), a wholly-owned subsidiary of Genta, received funding in the form of a loan from ANVAR, a French government agency, of which the proceeds were intended to fund research and development activities. In October 1996, in connection with a restructuring of Genta's operations, Genta terminated all scientific personnel of Genta Europe. In 1998, ANVAR asserted that Genta Europe was not in compliance with the ANVAR Agreement, notified Genta Europe of its demand for accelerated

repayment of the loan and notified Genta that it was liable as a guarantor on the note. Based on the advice of French counsel, Genta does not believe that ANVAR is entitled to payment under the terms of the ANVAR Agreement and also believes it to be unlikely that Genta will incur any liability in this matter, although there can be no assurance thereof. At June 30, 2003, the Company has accrued a net liability of $0.212 million related to this matter, which management believes is adequate to provide for this contingency.

University of Pennsylvania

In October 2002, a licensing officer from the University of Pennsylvania ("UPenn") asserted a claim to a portion of the initial $40.0 million development funding (Note 5) the Company received from Aventis pursuant to the Collaborative Agreement. The Company has disputed this claim and has filed a petition for binding arbitration for this matter, as provided in the original licensing agreement between the Company and UPenn. The Company and UPenn are currently discussing the possibility of entering into a settlement with respect to this matter. Under the terms of the proposed settlement, in exchange for an agreement by UPenn to forego any and all claims in the future to any portion of any milestone and other payments (other than royalty payments) made to Genta pursuant to the Collaborative Agreement, Genta would make the following payments to UPenn: (i) $750,000 on October 1, 2003, (ii) $250,000 on February 2, 2004, (iii) $1.5 million upon the first NDA or foreign equivalent approval of Genasense(TM) (the "first Genasense(TM) approval"), and (iv) provided that the first Genasense(TM) approval has been received by Genta, $750,000 on the earlier of (a) the second NDA or foreign equivalent approval of Genasense(TM) or (b) December 30, 2004. The proposed settlement, including the aforementioned monetary terms, is still subject to the parties reaching agreement on certain other matters, and no assurance can be given that the parties will reach any such agreement and that the proposed settlement will be entered into on these monetary terms, if at all.

At the current time the Company cannot reasonably estimate the outcome of this claim; however, the Company does not believe that this claim will have a material adverse impact on the Company's financial results and liquidity. As of June 30, 2003, the Company has not reserved any amount for royalty payments that could be due to UPenn as a result of binding arbitration.

Purchase Commitments

Per an agreement entered into with Avecia Biotechnology, Inc. ("Avecia") in December 2002 (the "Supply Agreement") the Company is obligated for up to $27.5 million in drug substance purchases during 2003. Pursuant to the Collaborative Agreement with Aventis (Note 4), the Company anticipates that it will be reimbursed for at least 75% of these purchase commitments after the drug is shipped to the clinical sites. No drug substance purchases were made in the first half of 2003, primarily due to the significant amount of drug substance purchased in the fourth quarter of 2002. In addition, the Company has committed up to $5.0 million of advance financing to Avecia for facility expansion, which would be recovered with interest through future payments determined as a function of drug substance purchases to be made by the Company in the future. As of July 15, 2003, the Company had paid $1.448 million in advance financing.

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

Certain Factors Affecting Forward-Looking Statements - Safe Harbor Statement

The statements contained in this Quarterly Report on Form 10-Q that are not historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the expectations, beliefs, intentions or strategies regarding the future. The Company intends that all forward-looking statements be subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect the Company's views as of the date they are made with respect to future events and financial performance, but are subject to many risks and uncertainties which could cause actual results to differ materially from any future results expressed or implied by such forward-looking statements. Forward-looking statements include, without limitation, statements about:

- the Company's ability to develop, manufacture and sell its products;
- the potential efficacy of the Company's products;
- the commencement and completion of pre-clinical and clinical trials;
- the Company's ability to obtain necessary regulatory approvals;
- the Company's contractual collaborative arrangements;
- the adequacy of the Company's capital resources;
- the ability to obtain sufficient financing to maintain the Company's planned operations;
- the possibility and effect of patent infringement claims;
- the impact of competitive products and market conditions; and
- other risks described under Certain Risks and Uncertainties Related to the Company's Business in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

The Company does not undertake to update any forward-looking statements. Although the Company believes that the forward-looking statements contained herein are reasonable, it can give no assurances that the Company's expectations are correct.

Overview

Since its inception in February 1988, the Company has devoted its principal efforts toward drug discovery and research and development. The Company has been unprofitable to date and expects to incur substantial operating losses for the next several years due to continued requirements for ongoing research and development activities, preclinical and clinical testing activities, regulatory activities, possible establishment of manufacturing activities and a sales and marketing organization. The Company has experienced significant quarterly fluctuations in operating results and it expects that these fluctuations in revenues, expenses and losses will continue.

A full description of the Company's business, R&D programs and products is set forth in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

Results of Operations for the Three Months Ended June 30, 2003 and 2002

($ thousands)

Summary Operating Results
For the Three Months Ended June 30,

	2003	Increase (Decrease) $	Increase (Decrease) %	2002
Revenues:				
Licensing fees and royalties	$ 276	$ 62	29%	$ 214
Development funding	1,044	348	50%	696
	1,320	410	45%	910
Costs and expenses:				
Research and development	18,111	1,669	10%	16,442
General and administrative	6,131	(2,539)	(29)%	8,670
Compensation expense related to stock options	144	(94)	(39)%	238
Less: Expense reimbursement	19,433	12,261	171%	7,172
	4,953	(13,225)	(73)%	18,178
Loss from operations	(3,633)	(13,635)	(79)%	(17,268)
Other income, principally net interest income	435	136	45%	299
Less: Interest expense	220	120	120%	100
Net loss applicable to common shares .	$ (3,418)	$(13,651)	(80)%	$(17,069)

Revenues. Licensing fees, development funding and royalties for the three months ended June 30, 2003 increased $0.410 million over the comparable period in 2002. This increase reflects the amortization, for three months in 2003 compared to two months in 2002, of the up-front licensing fee and development funding received from Aventis (Note 5), which are being recognized over the estimated useful life of the first-to-expire related patent of 115 months. Royalties were $0.010 million and $0.036 million for the three months ended June 30, 2003 and 2002, respectively.

Research and development expenses. Research and development expenses before reimbursement for the three months ended June 30, 2003 increased $1.669 million or 10% over the comparable period in 2002. The increase in research and development expenses is primarily attributable to the costs of the Genasense(TM) Phase 3 clinical trials and NDA preparation activities, offset by no drug substance purchases in the quarter. Of the $18.111 million in research and development expenses for the three months ended June 30, 2003, $14.523 million and $0.774 million were reimbursable at 75% and 100%, respectively, pursuant to the Collaborative Agreement (Note 4), of which a net amount of $11.666 million is expected to be reimbursed in the third quarter. An additional $8.141 million is expected to be reimbursed in the third quarter for drug substance and drug product shipped to Aventis in the second quarter in connection with drug substance purchases the Company expensed in 2002.

General and administrative expenses. General and administrative expenses for the three months ended June 30, 2003 decreased $2.539 million or 29% over the comparable period in 2002. In 2002, higher expenses were a result of

financial advisory services, royalty payments and legal fees relating to the Collaborative Agreement (Note 4). This was partially offset in 2003 by increased costs associated with Ganite(TM) pre-launch activities and general corporate expenses driven by business growth. There were no sales and marketing related expenses reimbursable at 100% pursuant to the Collaborative Agreement for the three months ended June 30, 2003, as sales and marketing related expenses related to Genasense(TM) are mainly being billed to and paid for directly by Aventis.

Expense reimbursement. Expense reimbursement for the three months ended June 30, 2003 relate to various third-party, FTE and drug supply costs that Aventis is required to reimburse under the Collaborative Agreement (Note 4), as follows ($ thousands):

Reimbursement to Genta:	
Third-party costs	$ 8,822
Drug supply costs	9,192
FTE's	1,793
Amount due to Genta	19,807
Reimbursement to Aventis:	
FTE's	(374)
Net amount due to Genta	$ 19,433

Other income less interest expense. Net other income for the three months ended June 30, 2003 increased $0.016 million or 8% over the comparable period in 2002, principally as a result of higher investment balances on investments, offset by interest expense on the $10.0 million Aventis Note (Note 6) and the $25.0 million Aventis Credit Line (Note 7).

Net Loss. Genta incurred a net loss of $3.418 million, or $0.05 per share, for the three months ended June 30, 2003, compared with a net loss of $17.069 million, or $0.25 per share, for the three months ended June 30, 2002. The decrease in net loss, and per share net loss to common shareholders, was primarily due to the expense reimbursement pursuant to the Collaborative Agreement (Note 4) of $19.433 million or $0.26 per share, offset by increased expenses primarily related to third-party costs for current Genasense(TM) on-going clinical studies, expenses attributable to the NDA preparation, general corporate legal fees, personnel costs and Ganite(TM) marketing-related spending.

Results of Operations for the Six Months Ended June 30, 2003 and 2002

($ thousands) Summary Operating Results For the Six Months Ended June 30,

		Increase (Decrease)		
	2003	$	%	2002
Revenues:				
Licensing fees and royalties	$ 542	$ 323	147%	$ 219
Development funding	2,087	1,391	200%	696

	2,629	1,714	187%	915
Costs and expenses:				
Research and development	33,568	7,289	28%	26,279
General and administrative	10,911	(561)	(5)%	11,472
Compensation expense related to stock options	288	(189)	(40)%	477
Less: Aventis reimbursement	28,590	21,418	299%	7,172
	16,177	(14,879)	(48)%	31,056
Loss from operations	(13,548)	(16,593)	(55)%	(30,141)
Other income, principally net interest income	887	342	63%	545
Less: Interest expense	360	260	260%	100
Net loss applicable to common shares .	$(13,021)	$(16,675)	(56)%	$(29,696)

Revenues. Licensing fees, development funding and royalties for the six months ended June 30, 2003 increased $1.714 million over the comparable period in 2002. This increase reflects the amortization, for six months in 2003 compared to two months in 2002, of the up-front licensing fee and development funding received from Aventis (Note 5), which are being recognized over the estimated useful life of the first-to-expire related patent of 115 months. Royalties were $0.010 million and $0.036 million for the six months ended June 30, 2003 and 2002, respectively.

Research and development expenses. Research and development expenses before reimbursement for the six months ended June 30, 2003 increased $7.289 million or 28% over the comparable period in 2002. The increase in research and development expenses is primarily attributable to the costs of the Genasense(TM) Phase 3 clinical trials and NDA preparation activities, offset by no drug substance purchases in the six months. Of the $33.568 million in research and development expenses for the six months ended June 30, 2003, $25.584 million and $2.114 million were reimbursable at 75% and 100%, respectively, pursuant to the Collaborative Agreement (Note 4), of which the net amount of $21.302 million is expected to be reimbursed. An additional $8.141 million is expected to be reimbursed for drug substance and product shipped to Aventis in the second quarter in connection with drug substance purchases expensed in 2002.

General and administrative expenses. General and administrative expenses for the six months ended June 30, 2003 decreased $0.561 million or 5% over the comparable period in 2002. The decrease is primarily related to financial advisory services, royalty payments and legal fees relating to the Collaborative Agreement (Note 4) incurred in 2002 offset by increased costs associated with Ganite(TM) pre-launch activities and general corporate expenses driven by business growth. There were no sales and marketing related expenses reimbursable at 100% pursuant to the Collaborative Agreement for the six months ended June 30, 2003, as sales and marketing related expenses related to Genasense(TM) are mainly being billed to and paid for directly by Aventis.

Expense reimbursement. Expense reimbursement for the six months ended June 30, 2003 relate to various third-party, FTE and drug supply costs that Aventis is required to reimburse under the Collaborative Agreement (Note 4), as follows

($ thousands):

Reimbursement to Genta:	
Third-party costs	$ 14,870
Drug supply costs	11,240
FTE's	3,333
Reimbursement to Genta	29,443
Reimbursement to Aventis:	
FTE's	(853)
Net reimbursement to Genta	$ 28,590

Other income less interest expense. Net other income for the six months ended June 30, 2003 increased $0.082 million or 18% over the comparable period in 2002, principally as a result of higher investment balances on investments, offset by interest expense on the $10.0 million Aventis Note (Note 6) and the $25.0 million Aventis Credit Line (Note 7).

Net Loss. Genta incurred a net loss of $13.021 million, or $0.18 per share, for the six months ended June 30, 2003, compared with a net loss of $29.696 million, or $0.44 per share, for the six months ended June 30, 2002. The decrease in net loss, and per share net loss to common shareholders, was primarily due to the expense reimbursement pursuant to the Collaborative Agreement (Note 4) of $28.590 million or $0.38 per share, offset by increased expenses primarily related to third-party costs for current Genasense(TM) on-going clinical studies, expenses attributable to the NDA preparation, general corporate legal fees, personnel costs and Ganite(TM) marketing-related spending.

Liquidity and Capital Resources

At June 30, 2003, the Company had cash, cash equivalents and short-term investments totaling $97.2 million compared to $113.7 million at December 31, 2002.

As reflected in Note 4 to the condensed consolidated financial statements, in April 2002, Genta entered into a Collaborative Agreement with Aventis. Under the terms of the Collaborative Agreement, the Alliance will jointly develop and commercialize Genasense(TM) in the U.S., and Aventis will have exclusive development and marketing rights to Genasense(TM) in all countries outside of the U.S. The Company will retain responsibility for global manufacturing and for regulatory filings within the U.S., while Aventis will assume all regulatory responsibilities outside the U.S. Joint management teams, including representatives from both Genta and Aventis, will oversee the Alliance. Collectively, this Collaborative Agreement could provide up to $476.9 million in cash, equity and convertible debt proceeds to the Company. In addition, under the Collaborative Agreement, the Company is entitled to royalties on worldwide sales of Genasense(TM) from which the Company is required to pay third-party pass-through royalties to UPenn and The National Institutes of Health ("NIH") based on net worldwide sales of Genasense(TM). Furthermore, under the

Collaborative Agreement, Aventis will pay 75% of U.S. NDA-directed development costs incurred by either Genta or Aventis subsequent to the execution of the Collaborative Agreement, and 100% of all other development, marketing, and sales costs incurred within the U.S. and elsewhere. Genta has received a total of $194.4 million in initial and near-term funding, which included a $10.0 million

licensing fee and $40.0 million in development funding (Note 5), $10.0 million in convertible debt proceeds (Note 6), $71.9 million pursuant to an at-market equity investment in the Company's common stock, $37.5 million in paid expense reimbursements and $25.0 million in line of credit proceeds (Note 7). A further $19.6 million in accrued expense reimbursement is due for payment during the third quarter of 2003 (Note 3), which includes $0.1 million due from December 31, 2002.

Contingent upon the achievement of certain research and development milestones, and included in the Collaborative Agreement's collective amount of $476.9 million, the Company could still receive up to an additional $280.0 million in cash and up to $65.0 million in convertible note proceeds. As of July 2003, up to $15.0 million is available under the Aventis Credit Line (Note 7).

The Company's principal expenditures relate to its research and development activities, which include the Company's on-going and future clinical trials. The Company expects these expenditures to continue. The Company expects increased total expenditures, prior to expense reimbursement, for clinical trials and drug supply related to Genasense(TM) as a result of the Collaboration Agreement with Aventis. In addition, expenditures associated with other products under development by the Company may increase as research and development activities become more focused and as other clinical trials are initiated.

The Company anticipates seeking additional product development opportunities from external sources. Any such acquisitions may consume cash reserves or require additional cash or equity. The Company's working capital and additional funding requirements will depend upon numerous factors, including: (i) the progress of the Company's research and development programs; (ii) the timing and results of pre-clinical testing and clinical trials; (iii) the level of resources that the Company devotes to sales and marketing capabilities; (iv) technological advances; (v) the activities of competitors; and (vi) the ability of the Company to establish and maintain collaborative arrangements with others to fund certain research and development efforts, to conduct clinical trials, to obtain regulatory approvals and, if such approvals are obtained, to manufacture and market products.

If the Company successfully secures sufficient levels of collaborative revenues and other sources of financing, it expects to use such revenues and the proceeds of any such financings to continue and expand its ongoing research and development activities, preclinical and clinical testing activities, manufacturing and/or market introduction of potential products and expansion of its administrative activities.

Recent Accounting Pronouncements

See Note 1 to the condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company does not utilize financial instruments for trading purposes and holds no derivative financial instruments, which could expose the Company to significant market risk. The Company's primary market risk exposure with regard to financial instruments is to changes in interest rates, which would impact interest income earned on such instruments.

Item 4. Controls and Procedures

As required by Rules 13a-15(b) or 15d-15(b), Genta's Chief Executive

Officer and Chief Financial Officer conducted an evaluation as of the end of the period covered by this report of the effectiveness of the Company's "disclosure controls and procedures" (as defined in Exchange Act Rule 13a-15(e) or 15d-15(e)). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

As required by Rules 13a-15(d) or 15d-15(d), Genta's Chief Executive Officer and Chief Financial Officer also conducted an evaluation of the Company's internal control over financial reporting to determine whether any changes occurred during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Based on that evaluation, there has been no such change during the quarter covered by this report.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

JBL

The sale of JBL, the Company's manufacturing subsidiary, was completed on May 10, 1999. JBL was notified on October 1998 from Region IX of the EPA that it had been identified as a PRP at the Casmalia Disposal Site, which is located in Santa Barbara, California. JBL has been designated as a de minimis PRP by the EPA. In December 2001, Genta received a revised settlement proposal from the EPA in the amount of $0.033 million, the terms of the settlement with the EPA containing standard contribution protection and release language. In January 2002, the Company accepted the proposal and paid the $0.033 million as an offer to settle this matter. There can be no assurance, however, that the EPA will not reject our settlement offer if there is not a sufficient number of PRPs settling with the EPA.

Genta Europe

During 1995, Genta Europe, a wholly-owned subsidiary of Genta, received funding in the form of a loan from ANVAR, a French government agency, of which the proceeds were intended to fund research and development activities. In October 1996, in connection with a restructuring of Genta's operations, Genta terminated all scientific personnel of Genta Europe. In 1998, ANVAR asserted that Genta Europe was not in compliance with the ANVAR Agreement, notified Genta Europe of its demand for accelerated repayment of the loan and notified Genta that it was liable as a guarantor on the note. Based on the advice of French counsel, Genta does not believe that ANVAR is entitled to payment under the terms of the ANVAR Agreement and also believes it to be unlikely that Genta will incur any liability in this matter, although there can be no assurance thereof. At June 30, 2003, the Company has accrued a net liability of $0.212 million related to this matter, which management believes is adequate to provide for this contingency.

University of Pennsylvania

In October 2002, a licensing officer from UPenn asserted a claim to a portion of the initial $40.0 million development funding (Note 5) the Company received from Aventis pursuant to the Collaborative Agreement. The Company has disputed this claim and has filed a petition for binding arbitration for this matter, as provided in the original licensing agreement between the Company and UPenn. The Company and UPenn are currently discussing the possibility of

entering into a settlement with respect to this matter. Under the terms of the proposed settlement, in exchange for an agreement by UPenn to forego any and all claims in the future to any portion of any milestone and other payments (other than royalty payments) made to Genta pursuant to the Collaborative Agreement, Genta would make the following payments to UPenn: (i) $750,000 on October 1, 2003, (ii) $250,000 on February 2, 2004, (iii) $1.5 million upon the first NDA or foreign equivalent approval of Genasense(TM) (the "first Genasense(TM) approval"), and (iv) provided that the first Genasense(TM) approval has been received by Genta, $750,000 on the earlier of (a) the second NDA or foreign equivalent approval of Genasense(TM) or (b) December 30, 2004. The proposed settlement, including the aforementioned monetary terms, is still subject to the parties reaching agreement on certain other matters, and no assurance can be given that the parties will reach any such agreement and that the proposed settlement will be entered into on these monetary terms, if at all.

At the current time the Company cannot reasonably estimate the outcome of this claim; however, the Company does not believe that this claim will have a material adverse impact on the Company's financial results and liquidity. As of June 30, 2003, the Company has not reserved any amount for royalty payments that could be due to UPenn as a result of binding arbitration.

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

(a) The Company held its Annual Meeting of Stockholders (the "Annual Meeting") on June 25, 2003.

(b) Proxies for the meeting were solicited pursuant to Regulation 14A of the Exchange Act. There was no solicitation in opposition to the Board of Directors' nominees for directors listed in the definitive proxy statement of the Company dated as of May 27, 2003. All of the Board of Directors' nominees were elected.

(c) Briefly described below is each matter voted upon at the Annual Meeting.

(i) Election of eight directors. Total combined voting power of the shares of Common Stock voted and withheld for the election of each director was as follows:

Directors	Votes For	Withheld
Raymond P. Warrell, Jr., M.D.	66,314,039	267,578
Jerome E. Groopman, M.D.	66,349,289	232,328
Betsy McCaughey, Ph.D.	66,331,816	249,801
Daniel D. Von Hoff, M.D.	66,319,543	262,074
Harlan J. Wakoff	66,342,270	239,347
Douglas G. Watson	66,298,881	282,736
Michael S. Weiss	66,293,627	287,990
Patrick J. Zenner	66,317,411	264,206

(ii) Approval of an amendment to the Company's 1998 Stock Incentive Plan to increase the number of shares authorized for issuance thereunder, the result of the voting was as follows:

For:	62,509,222 votes
Against:	3,939,906 votes
Abstain:	132,489 votes
Broker non-vote:	0 votes

(iii) Ratification of the selection of Deloitte & Touche LLP as the Company's independent auditors, the result of voting was as follows:

For:	66,429,769 votes
Against:	96,784 votes
Abstain:	55,064 votes
Broker non-vote:	0 votes

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

10.1 Employment Agreement, dated as of August 5, 2003, between the Company and Loretta M. Itri, M.D.

31.1 Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K.

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GENTA INCORPORATED
(Registrant)

By: /s/ RAYMOND P. WARRELL, JR., M.D.

Name: Raymond P. Warrell, Jr., M.D.
Title: Chairman, President, Chief Executive Officer and Principal Executive Officer

By: /s/ WILLIAM P. KEANE

Name: William P. Keane
Title: Vice President, Chief Financial Officer and Principal Accounting Officer

Date: August 14, 2003