GENTA INC DE/
Form 10-Q
August 07, 2008

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**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended June 30, 2008**

**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<br>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 þ 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 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 o Accelerated filer o Non-accelerated filer þ Smaller reporting company o
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes o No þ

As of August 5, 2008, the registrant had 36,760,558 shares of common stock outstanding.

**Genta Incorporated**
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**GENTA INCORPORATED**
**CONSOLIDATED BALANCE SHEETS**

(In thousands, except par value data)

| | June 30, 2008 (unaudited) | December 31, 2007 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 16,278 | $ 5,814 |
| Marketable securities | | 1,999 |
| Accounts receivable net of allowances of $39 at June 30, 2008 and $38 at December 31, 2007 | 55 | 31 |
| Inventory (Note 4) | 171 | 225 |
| Prepaid expenses and other current assets (Note 6) | 18,726 | 19,170 |
| Total current assets | 35,230 | 27,239 |
| Property and equipment, net | 251 | 323 |
| Deferred financing costs on convertible note financing (Note 7) | 1,170 | |
| Deferred financing costs warrant (Note 7) | 7,378 | |
| Other assets | | 1,731 |
| Total assets | $ 44,029 | $ 29,293 |
| LIABILITIES AND STOCKHOLDERS (DEFICIT)/EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses (Note 6) | $ 30,603 | $ 25,850 |
| Notes payable | | 512 |
| Conversion feature liability (Note 7) | 740,000 | |
| Warrant liability (Note 7) | 14,800 | |
| Total current liabilities | 785,403 | 26,362 |
| Long-term liabilities: | | |
| Convertible notes due June 9, 2010, issued for $20,000, net of beneficial conversion feature of ($19,417) (Note 7) | 583 | |
| Total long-term liabilities | 583 | |

| | | |
|---|---|---|
| Commitments and contingencies (Note 12) | | |
| Stockholders (deficit)/equity (Note 8): | | |
| Preferred stock, 5,000 shares authorized: | | |
| Series A convertible preferred stock, $.001 par value; 8 shares issued and outstanding, liquidation value of $385 at June 30, 2008 and December 31, 2007, respectively | | |
| Series G participating cumulative preferred stock, $.001 par value; 0 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively | | |
| Common stock, $.001 par value; 250,000 shares authorized, 36,741 and 30,621 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively | 37 | 31 |
| Additional paid-in capital | 444,315 | 441,159 |
| Accumulated deficit | (1,186,309) | (438,288) |
| Accumulated other comprehensive income | | 29 |
| Total stockholders (deficit)/equity | (741,957) | 2,931 |
| Total liabilities and stockholders (deficit)/equity | $ 44,029 | $ 29,293 |

See accompanying notes to consolidated financial statements.

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**GENTA INCORPORATED**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**(Unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (In thousands, except per share data) | **2008** | **2007** | **2008** | **2007** |
| Product sales net | $ 131 | $ 105 | $ 248 | $ 199 |
| Cost of goods sold | 29 | 26 | 54 | 48 |
| Gross margin | 102 | 79 | 194 | 151 |
| Operating expenses: | | | | |
| Research and development | 4,454 | 4,099 | 10,891 | 7,481 |
| Selling, general and administrative | 2,587 | 4,735 | 6,225 | 8,787 |
| Settlement of office lease obligation (Note 5) | 3,307 | | 3,307 | |
| Reduction in liability for settlement of litigation, net (Note 6) | (80) | (240) | (340) | (1,800) |
| Total operating expenses | 10,268 | 8,594 | 20,083 | 14,468 |
| Other income/(expense): | | | | |
| Gain on maturity of marketable securities | | 36 | 31 | 44 |
| Interest income and other income, net | 40 | 269 | 100 | 543 |
| Interest expense | (198) | (25) | (223) | (109) |
| Amortization of deferred financing costs (Note 7) | (840) | | (840) | |
| Fair value conversion feature liability (Note 7) | (720,000) | | (720,000) | |
| Fair value warrant liability (Note 7) | (7,200) | | (7,200) | |
| Total other income/(expense) | (728,198) | 280 | (728,132) | 478 |
| Net loss | $ (738,364) | $ (8,235) | $ (748,021) | $ (13,839) |
| Net loss per basic and diluted share | $ (20.10) | $ (0.27) | $ (21.21) | $ (0.48) |
| Shares used in computing net loss per basic and diluted share | 36,741 | 30,621 | 35,261 | 28,604 |

See accompanying notes to consolidated financial statements.

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**GENTA INCORPORATED**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Unaudited)**

| (In thousands) | Six Months Ended June 30, 2008 | 2007 |
|---|---|---|
| **Operating activities:** | | |
| Net loss | $ (748,021) | $ (13,839) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 83 | 93 |
| Amortization of deferred financing costs | 840 | |
| Share-based compensation (Note 9) | 305 | 928 |
| Gain on maturity of marketable securities | (31) | (44) |
| Reduction in liability for settlement of litigation, net (Note 6) | (340) | (1,800) |
| Change in fair value conversion feature liability (Note 7) | 720,000 | |
| Change in fair value warrant liability (Note 7) | 7,200 | |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (24) | 12 |
| Inventory | 54 | 49 |
| Prepaid expenses and other current assets | 444 | 558 |
| Accounts payable and accrued expenses | 5,094 | (2,740) |
| Other assets | | (21) |
| Net cash used in operating activities | (14,396) | (16,804) |
| **Investing activities:** | | |
| Purchase of marketable securities | | (13,900) |
| Maturities of marketable securities | 2,000 | 16,000 |
| Elimination of restricted cash deposits (Note 5) | 1,731 | |
| Purchase of property and equipment | (11) | (10) |
| Net cash provided by investing activities | 3,720 | 2,090 |
| **Financing activities:** | | |
| Repayments of note payable | (512) | (642) |
| Issuance of note payable | | 236 |
| Issuance of convertible notes net of financing cost of $1,205 (Note 7) | 18,795 | |
| Issuance of common stock, net (Note 8) | 2,857 | 10,090 |
| Net cash provided by financing activities | 21,140 | 9,684 |
| Increase/(decrease) in cash and cash equivalents | 10,464 | (5,030) |
| Cash and cash equivalents at beginning of period | 5,814 | 9,554 |
| Cash and cash equivalents at end of period | $ 16,278 | $ 4,524 |

See accompanying notes to consolidated financial statements.

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**GENTA INCORPORATED**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**June 30, 2008**
**(Unaudited)**

**1. Reverse Stock Split**

At the Annual Meeting of Genta Incorporated ( Genta or the Company ) on July 11, 2007, the Company s stockholders authorized its Board of Directors to effect a reverse stock split of all outstanding shares of common stock, and the Board of Directors subsequently approved the implementation of a reverse stock split at a ratio of one for six shares, which became effective on July 13, 2007. All share and per 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 the three and six month periods ended June 30, 2007, respectively.

**2. Organization and Business**

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 since its inception. Management expects that such losses will continue at least until its lead product, Genasense® (oblimersen sodium) Injection, receives approval for commercial sale in one or more indications. Achievement of profitability for the Company is currently dependent on the timing of Genasense® regulatory approval. Any adverse events with respect to approvals by the U.S. Food and Drug Administration ("FDA ) and/or European Medicines Agency ("EMEA ) could negatively impact the Company s ability to obtain additional funding or identify potential partners.

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 operation 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.

Net cash used in operating activities during the six months ended June 30, 2008 was $14.4 million.

On June 5, 2008, the Company entered into a securities purchase agreement with certain institutional and accredited investors to place up to $40 million of senior secured convertible notes with such investors. On June 9, 2008, the Company placed $20 million of such notes in the initial closing.

The notes bear interest at an annual rate of 15% payable at quarterly intervals in stock or cash at the Company s option, and are convertible into shares of Genta common stock at a conversion rate of 100,000 shares of common stock for every $1,000.00 of principal. Holders of the notes have the right, but not the obligation, for the following 12 months following the initial closing date to purchase in whole or in part up to an additional $20 million of the notes. The Company shall have the right to force conversion of the notes in whole or in part if the closing bid price of the Company s common stock exceeds $0.50 for a period of 20 consecutive trading days. Certain members of senior management of Genta participated in this offering. The notes are secured by a first lien on all assets of Genta. The notes include certain events of default, including a requirement that the Company obtain stockholder approval within a specified period of time to amend its certificate of incorporation to authorize additional shares of common stock.

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The Company will require additional cash in order to maximize its commercial opportunities and continue its clinical development opportunities. The Company has had discussions with other companies regarding partnerships for the further development and global commercialization of Genasense®. Additional alternatives available to the Company to subsequently sustain its operations include financing arrangements with potential corporate partners, debt financing, asset-based loans, royalty-based financings, equity financing and other sources. However, there can be no assurance that any such collaborative agreements or other sources of funding will be available on favorable terms, if at all.

The Company will continue to maintain an appropriate level of spending over the upcoming fiscal year, given the uncertainties inherent in its business and its current liquidity position. Presently, with no further financing, management projects that the Company will run out of funds in the first quarter of 2009. The Company currently does not have any additional financing in place. There can be no assurance that the Company can obtain financing, if at all, on terms acceptable to it.

If the Company is unable to raise additional funds, it will need to do one or more of the following:

- delay, scale back or eliminate some or all of the Company s research and product development programs and sales and marketing activity;
- license third parties to develop and commercialize products or technologies that the Company would otherwise seek to develop and commercialize themselves;
- attempt to sell the Company;
- cease operations; or
- declare bankruptcy.

**3. Summary of Significant Accounting Policies**

***Basis of Presentation***

The consolidated financial statements are presented on the basis of accounting principles generally accepted in the United States of America. All professional accounting standards that are effective as of June 30, 2008 have been considered in preparing the consolidated financial statements. The accompanying consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted from this report, as is permitted by such rules and regulations; however, the Company believes that the disclosures are adequate to make the information presented not misleading. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect reported earnings, financial position and various disclosures. Actual results could differ from those estimates. The unaudited 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, 2007. Results for interim periods are not necessarily indicative of results for the full year. The Company has experienced significant quarterly fluctuations in operating results and it expects those fluctuations will continue.

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***Revenue Recognition***

Genta recognizes revenue from product sales when title to product and associated risk of loss has passed to the customer and the Company is reasonably assured of collecting payment for the sale. All revenue from product sales are recorded net of applicable allowances for returns, rebates and other applicable discounts and allowances. The Company allows return of its product for up to twelve months after product expiration.

***Research and Development***

Research and development costs are expensed as incurred, including raw material costs required to manufacture products for clinical trials.

***Cash, Cash Equivalents and Marketable Securities***

The carrying amounts of cash, cash equivalents and marketable securities approximate fair value due to the short-term nature of these instruments. Marketable securities primarily consist of government securities, all of which are classified as available-for-sale. Management determines the appropriate classification of securities at the time of purchase and reassesses the classification at each reporting date.

***Income Taxes***

The Company uses the liability method of accounting for income taxes. Deferred income taxes are determined based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities given the provisions of the enacted tax laws. Management records valuation allowances against net deferred tax assets, if based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The Company generated additional net operating losses during the three and six months ended June 30, 2008 and continues to maintain a full valuation allowance against its net deferred tax assets.

The Company s Federal tax returns have never been audited. In January 2006, the State of New Jersey concluded its fieldwork with respect to a tax audit for the years 2000 through 2004. The State of New Jersey took the position that amounts reimbursed to Genta by Aventis Pharmaceutical Inc. for co-development expenditures during the audit period were subject to Alternative Minimum Assessment (AMA), resulting in a liability at that time of approximately $533 thousand. Although the Company and its outside tax advisors believe the State s position on the AMA liability is unjustified, there is little case law on the matter and it is probable that the Company will be required to ultimately pay the liability. In March 2007, the Company received a formal assessment from the State of New Jersey for $712 thousand. As of June 30, 2008, the Company had accrued a tax liability of $533 thousand, penalties of $27 thousand and interest of $250 thousand related to this assessment. The Company appealed this decision to the State and on February 13, 2008, the State notified the Company that its appeal had not been granted. On April 25, 2008, the Company filed a complaint with the Tax Court of the State of New Jersey to appeal the assessment. A preliminary pretrial conference has been scheduled with an assigned judge for October 30, 2008. If the matter is not settled beforehand, it is anticipated that the trial will commence in the first half of 2009.

The Company recorded $34 thousand and $98 thousand in interest expense related to the State of New Jersey assessment during the six months ended June 30, 2008 and 2007, respectively.

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***Stock Options***

Effective January 1, 2006, Genta adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, ("SFAS 123R ), using the modified prospective transition method. Under the standard, all share-based payments, including grants of employee stock options, are recognized in the Consolidated Statement of Operations based on their fair values. The amount of compensation cost is measured based on the grant-date fair value of the equity instrument issued. The Company utilizes a Black-Scholes option-pricing model to measure the fair value of stock options granted to employees. See Note 7 and Note 8 to the Consolidated Financial Statements for a further discussion on share-based compensation.

***Deferred Financing Costs***

Deferred financing costs recorded in connection with the issuance of convertible notes, including for a financing fee and for the issuance of a warrant to the Company s private placement agent will be amortized over the two-year term of the convertible notes.

***Net Loss Per Common Share***

Net loss per common share for the three and six months ended June 30, 2008 and 2007, respectively, are based on the weighted average number of shares of common stock outstanding during the periods. Basic and diluted loss per share are identical for all periods presented as potentially dilutive securities have been excluded from the calculation of the diluted net loss per common share because the inclusion of such securities would be antidilutive. The potentially dilutive securities include 42.3 million and 2.1 million shares on June 30, 2008 and 2007, respectively, reserved for the conversion of convertible preferred stock and the exercise of outstanding options and warrants. In addition, the Convertible Notes are convertible into 2.0 billion shares of common stock, subject to stockholders approval of an increase in the number of the Company s authorized shares.

**Recent Accounting Pronouncements**

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS 141(R), "*Business Combinations* ( SFAS 141(R) ), which replaces SFAS 141. SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is to be applied prospectively to business combinations for which the acquisition date is on or after an entity s fiscal year that begins after December 15, 2008. The Company will assess the impact of SFAS 141(R) if and when a future acquisition occurs.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* ( SFAS 160 ). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent s equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not expect that adoption of this standard will have a material impact on its financial statements.

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In December 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin 110 ( SAB 110 ), which permits entities, under certain circumstances, to continue to use the simplified method of estimating the expected term of plain options as discussed in SAB No. 107 and in accordance with SFAS 123R. The guidance in this release is effective January 1, 2008. The impact of this standard on the consolidated financial statements did not have a material effect.

In December 2007, the FASB issued EITF Issue No. 07-1, *Accounting for Collaborative Arrangements*, which is effective for calendar year companies on January 1, 2009. The Task Force clarified the manner in which costs, revenues and sharing payments made to, or received by, a partner in a collaborative arrangement should be presented in the income statement and set forth certain disclosures that should be required in the partners financial statements. The Company is currently assessing the potential impacts of implementing this standard.

In June 2007, the FASB issued EITF Issue No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities*, which is effective for calendar year companies on January 1, 2008. The Task Force concluded that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities should be deferred and capitalized. Such amounts should be recognized as an expense as the related goods are delivered or the services are performed, or when the goods or services are no longer expected to be provided. The impact of this standard on the consolidated financial statements did not have a material effect.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( SFAS 159 ). SFAS 159 permits all entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date and recognize upfront costs and fees related to those items in earnings as incurred and not deferred. SFAS 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for an entity that has also elected to apply the provisions of SFAS 157, *Fair Value Measurements* . The impact of this standard on the consolidated financial statements did not have a material effect.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements* . SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, this pronouncement does not require any new fair value measurements. The Company was required to adopt SFAS 157 beginning January 1, 2008. The impact of this standard on the consolidated financial statements did not have a material effect.

**4. Inventory**

Inventories are stated at the lower of cost or market with cost being determined using the first-in, first-out (FIFO) method. Inventories consisted of the following ($ thousands):

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| Raw materials | $ 24 | $ 24 |
| Finished goods | 147 | 201 |
| | $ 171 | $ 225 |

The Company has substantial quantities of Genasense® drug supply which are recorded at zero cost. Such inventory would be available for the commercial launch of this product, should Genasense® be approved.

**5. Settlement of Office Lease Obligation**

In May 2008, the Company entered into an amendment of its Lease Agreement with The Connell Company, (Connell), whereby the lease for one floor of office space in Berkeley Heights, New Jersey was terminated. Connell received a termination payment of $1.3 million, comprised of the Company s security deposits and will receive a future payment from the Company of $2.0 million upon the earlier of July 1, 2009 or the receipt of at least $5.0 million in upfront cash from a business development deal.

**6. Reduction in Liability for Legal Settlement**

The Company reached an agreement to settle a class action litigation in consideration for issuance of 2.0 million shares of common stock of the Company (adjusted for any subsequent event that results in a change in the number of shares outstanding as of January 31, 2007) and $18.0 million in cash for the benefit of plaintiffs and the stockholder class, (see Note 10 to the Consolidated Financial Statements). The cash portion of the proposed settlement will be covered by the Company s insurance carriers. Effective June 25, 2007, the Company and plaintiffs executed a written Stipulation and Agreement of Settlement, which was filed with the Court on August 13, 2007, seeking preliminary approval. The unopposed Motion for Preliminary Approval of Settlement was granted on October 30, 2007, and the Court held a hearing on plaintiffs unopposed motion for final approval of the settlement on March 3, 2008. An order approving the settlement was issued on May 27, 2008 and the settlement became final on June 27, 2008. The Company has also entered into release and settlement agreements with its insurance carriers, pursuant to which insurance will cover the settlement fee and various costs incurred in connection with the action. Under FASB Statement No. 5, *Accounting for Contingencies* and FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss, an interpretation of FASB Statement No. 5,* the Company recorded an expense of $5.3 million, comprised of 2.0 million shares of the Company s common stock valued at a market price of $2.64 on December 31, 2006. At December 31, 2007, the revised estimated value of the common shares portion of the litigation settlement was $1.0 million, based on a closing price of Genta s common stock of $0.52 per share. At June 27, 2008, the date that the settlement became final, the revised value of the common stock portion of the litigation settlement was $0.7 million, based on a closing price of Genta s common stock of $0.35 per share, resulting in a reduction in the provision of $0.3 million for the six months ended June 30, 2008. The liability for the settlement of litigation, originally recorded at $23.2 million at December 31, 2006, is measured at $18.7 million at June 30, 2008 and is included in accounts payable and accrued expenses in the Company s Consolidated Balance Sheets. An insurance receivable of $18.0 million is included in prepaid expenses and other current assets in the Company s Consolidated Balance Sheets.

**7. Convertible Notes and Warrant**

On June 5, 2008, the Company entered into a securities purchase agreement with certain institutional and accredited investors to place up to $40.0 million of senior secured convertible notes with such investors. On June 9, 2008, the Company placed $20.0 million of such notes in the initial closing. The notes bear interest at an annual rate of 15% payable at quarterly intervals in stock or cash at the Company s option, and are convertible into shares of Genta common stock at a conversion rate of 100,000 shares of common stock for every $1,000.00 of principal. The notes include certain events of default, including a requirement that the Company obtain stockholder approval within a specified period of time to amend its certificate of incorporation to authorize additional shares of common stock. In addition, the notes prohibit any additional financing without the approval of holders of more than two-thirds of the principal amount of the notes.

Upon the occurrence of an event of default, holders of the notes have the right to require the Company to prepay all or a portion of their notes as calculated as the greater of (a) 150% of the aggregate principal amount of the note plus accrued interest or (b) the aggregate principal amount of the note plus accrued interest divided by the conversion price; multiplied by a weighted average price of the Company s common stock. Pursuant to a general security agreement, entered into concurrent with the notes, (the Security Agreement ), the notes are secured by a first lien on all assets of the Company, subject to certain exceptions set forth in the Security Agreement.

In addition, in connection with the placement of the senior secured convertible notes, the Company issued a warrant to its private placement agent to purchase 40,000,000 shares of common stock at an exercise price of $0.02 per share and incurred a financing fee of $1.2 million. The deferred financing costs including for a financing fee and for the issuance of the warrant will be amortized over the two-year term of the convertible notes.

The Company concluded that it should initially account for conversion options embedded in convertible notes in accordance with SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities ( SFAS 133 ) and EITF 00-19 Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock ( EITF 00-19 ). SFAS 133 generally requires companies to bifurcate conversion options embedded in convertible notes from their host instruments and to account for them as free standing derivative financial instruments in accordance with EITF 00-19. EITF 00-19 states that if the conversion option requires net cash settlement in the event of circumstances that are not solely within the Company s control, that the notes should be classified as a liability measured at fair value on the balance sheet. In this case, if the Company is not successful in obtaining approval of its stockholders to increase the number of authorized shares to accommodate the potential number of shares that the notes convert into, the Company will be required to cash settle the conversion option.

Upon the issuance date, there were an insufficient number of authorized shares of common stock in order to permit exercise of all of the issued convertible notes. In accordance with EITF 00-19, when there are insufficient authorized shares, the conversion obligation for the notes should be classified as a liability measured at fair value on the balance sheet. Accordingly, at June 9, 2008, in connection with the $20.0 million initial closing, the convertible features of the notes were recorded as derivative liabilities of $380.0 million.

At the recording of the initial closing, the fair value of the conversion feature, $380.0 million, exceeded the proceeds of $20.0 million. The difference of $360.0 million was charged to expense as the change in the fair market value of conversion liability. Accordingly, the Company recorded an initial discount of $20.0 million equal to the face value of the notes, which will be amortized over the two-year term, using the effective-interest method.

At June 30, 2008, the Company accounted for the conversion options using the fair value method, with the resultant loss recognition recorded against earnings. At June 30, 2008, the fair value of the conversion feature liability was $740.0 million, comprised of the $380.0 million recorded at the initial closing and $360.0 million recorded to mark the liability to market at June 30. The conversion option was valued at June 9, 2008 and June 30, 2008 using the Black-Scholes valuation model using the following assumptions:

| | June 30, 2008 | June 9, 2008 |
|---|---|---|
| Volatility | 127.7% | 125.6% |
| Risk-free interest rate | 2.63% | 2.73% |
| Remaining contractual lives | 1.94 | 2.00 |

The conversion feature liability will be accounted for using mark-to-market accounting at each reporting date until all the criteria for permanent equity have been met.

As there were an insufficient number of authorized shares of common stock in order to fulfill all existing obligations, as required by EITF 00-19, the Company classified the warrant obligation as a liability to be measured at fair value on the balance sheet. Accordingly, at June 9, 2008, the Company recorded the warrant liabilities at a fair value of $7.6 million based upon the Black-Scholes valuation model. The warrant liabilities will be accounted for using mark-to-market accounting and charged to expense in a manner similar to the conversion feature at each reporting date until all the criteria for permanent equity have been met.

At June 30, 2008 the Company accounted for the warrant liabilities using the fair value method, with the resultant loss recognition recorded against earnings. At June 30, 2008, the fair value of the warrant liability was $14.8 million, comprised of the $7.6 million recorded at the initial closing and $7.2 million recorded to mark the liability to market at June 30, 2008. The warrant liability was valued at June 9, 2008 and June 30, 2008 using the Black-Scholes valuation model using the following assumptions:

| | June 30, 2008 | June 9, 2008 |
|---|---|---|
| Volatility | 115.5% | 115.0% |
| Risk-free interest rate | 3.34% | 3.41% |
| Remaining contractual lives | 4.94 | 5.00 |

The Company is planning to have an Annual Meeting of Stockholders later this year and its Board of Directors has recommended that stockholders approve a charter amendment to increase the amount of the Company s authorized shares. Once stockholders approve an increase in the amount of authorized shares, the marked-to-market liabilities for the conversion feature and the warrant will be transferred to Stockholders Equity.

**8. Stockholders Equity**

***Common Stock***

On February 13, 2008, the Company sold 6.1 million shares of the Company s common stock at a price of $0.50 per share, raising approximately $3.1 million, before estimated fees and expenses of approximately $203 thousand.

***Series A Preferred Stock***

Each share of Series A Preferred Stock is immediately convertible into shares of the Company s common stock, at a rate determined by dividing the aggregate liquidation preference of the Series A Preferred Stock by the conversion price. The conversion price is subject to adjustment for antidilution. As of June 30, 2008 and December 31, 2007, each share of Series A Preferred Stock was convertible into 153.4393 and 2.3469 shares of common stock, respectively. At June 30, 2008 and December 31, 2007, the Company had 7,700 shares of Series A Convertible Preferred Stock issued and outstanding.

***Warrant***

In connection with the June 2008 convertible note financing, the Company issued a common stock purchase warrant to its private placement agent. The warrant is exercisable into 40,000,000 shares of common stock at an exercise price of $0.02 per share.

**9. Share-Based Compensation**

The Company estimates the fair value of each option award on the date of the grant using the Black-Scholes option valuation model. Expected volatilities are based on the historical volatility of the Company s common stock over a period commensurate with the options expected term. The expected term represents the period of time that options granted are expected to be outstanding and is calculated in accordance with the Securities and Exchange Commission ( SEC ) guidance provided in the SEC s Staff Accounting Bulletin 107, ( SAB 107 ) and Staff Accounting Bulletin 110 ( SAB 110 ), using a simplified method. The Company will continue to use the simplified method as it does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate an expected term. The risk-free interest rate assumption is based upon observed interest rates appropriate for the expected term of the Company s stock options. There were no grants of stock options during the six months ended June 30, 2008. The following table summarizes the weighted-average assumptions used in the Black-Scholes model for options granted during the six months ended June 30, 2007:

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| | Six Months Ended June 30, 2007 |
|---|---|
| Expected volatility | 102% |
| Expected dividends | |
| Expected term (in years) | 6.25 |
| Risk-free rate | 4.6% |

Share-based compensation expense recognized for the three and six months ended June 30, 2008 and 2007, respectively, was comprised as follows:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| **($ thousands, except per share data)** | **2008** | **2007** | **2008** | **2007** |
| Research and development expenses | $ 52 | $ 144 | $ 96 | $ 351 |
| Selling, general and administrative | 108 | 214 | 209 | 577 |
| Total share-based compensation expense | $ 160 | $ 358 | $ 305 | $ 928 |
| Share-based compensation expense, per basic and diluted common share | $ 0.00 | $ 0.01 | $ 0.01 | $ 0.03 |

**10. Stock Option Plans**

As of June 30, 2008, the Company has three share-based compensation plans, which are described below:

*2007 Stock Incentive Plan*

On September 17, 2007, the Company s Board of Directors approved the Company s 2007 Stock Incentive Plan (the 2007 Plan ), pursuant to which 8.5 million shares of the Company s common stock will be authorized for issuance, subject to approval of the Company s stockholders. Awards may be made under the plan to officers, employees, directors and consultants in the form of incentive stock options, non-qualified stock options, stock appreciation rights, dividend equivalent rights, restricted stock, restricted stock units and other stock-based awards. Awards granted under the plan prior to stockholder approval of the plan are subject to and conditioned upon receipt of such approval on or before September 17, 2008. Should such stockholder approval not be obtained on or before such date, the plan will terminate and any awards granted pursuant to the plan will terminate and cease to be outstanding.

On September 17, 2007 and September 20, 2007, the Board of Directors approved the issuance of a combined total of 5.4 million options under the 2007 Plan. As of June 30, 2008, there are 4.2 million options outstanding under the 2007 Plan. Most of these awards vest over a three-year period in increments of 50%, 25% and 25%, beginning on the first anniversary of the date of the grant. The Company has not recognized compensation expense for these grants, because a grant date as defined in SFAS 123R has not occurred. This is because the grant of these options is contingent upon stockholder approval, which cannot be assured.

*Acquisition Bonus Program*

On September 17, 2007, the Board of Directors approved an Acquisition Bonus Program. Under the program, participants are eligible to share in a portion of the proceeds realized from a change in control of the Company that occurs prior to the earlier of (i) December 31, 2008 or (ii) the approval by the Company s stockholders of the 2007 Stock Incentive Plan.

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Pursuant to the program, participants selected by the Board of Directors will be awarded a number of units with a designated base value. The amount of a participant s bonus award will be determined by multiplying (i) the difference between the unit value and the base value by (ii) the number of units awarded to such participant. The unit value for each unit will be determined by dividing the change in control proceeds (as defined in the award agreement) by the total number of shares of the Company s common stock outstanding at the time of the change in control. The units will be subject to a vesting schedule, if any, determined by the Board of Directors at the time the unit award is made. Bonus awards will generally be paid in cash within 30 days after the later of (i) the effective date of the change in control or (ii) the date the change in control proceeds are paid to the Company s stockholders. The maximum number of units that may be awarded under the Acquisition Bonus Program is 8.5 million units, which equals the number of shares of the Company s common stock that are authorized for issuance under the 2007 Plan. On September 27, 2007, 5.4 million acquisition bonus units were granted under the Acquisition Bonus Program, and as of June 30, 2008, 4.2 million acquisition bonus units are outstanding.

Any stock options granted to a participant under the 2007 Plan will terminate and cease to be outstanding in the event the participant becomes entitled to receive a payment under the Acquisition Bonus Program.

*1998 Stock Incentive Plan*

Pursuant to the Company s 1998 Stock Incentive Plan, as amended, (the 1998 Plan ), 3.4 million shares have been provided for the grant of stock options to employees, directors, consultants and advisors of the Company. Option awards must be granted with an exercise price at not less than the fair market price of the Company s common stock on the date of the grant; those option awards generally vest over a four-year period in equal increments of 25%, beginning on the first anniversary of the date of the grant. All options granted have contractual terms of ten years from the date of the grant. As of May 27, 2008, the authorization to provide grants under the 1998 Plan expired.

The following table summarizes the option activity under the 1998 Plan as of June 30, 2008 and changes during the six months then ended:

| | Number of Shares (in thousands) | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|
| **Stock Options** | | | | |
| Outstanding at January 1, 2008 | 2,155 | $23.05 | | |
| Granted | | | | |
| Exercised | | | | |
| Forfeited or expired | (137) | 6.02 | | |
| Outstanding at June 30, 2008 | 2,018 | $24.21 | 4.4 | $ |
| Vested and exercisable at June 30, 2008 | 1,371 | $23.79 | 2.1 | $ |

There is no intrinsic value to outstanding stock options as the exercise prices of all outstanding options are above the market price of the Company s stock at June 30, 2008. The amount of aggregate intrinsic value will change based on the market value of the Company s stock.

As of June 30, 2008, there was approximately $0.5 million of total unrecognized compensation cost related to non-vested share-based compensation granted resulting from stock options granted under the 1998 Plan, which is expected to be recognized over a weighted-average period of 1.1 years.

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The following table summarizes the restricted stock unit (RSU) activity under the 1998 Plan as of June 30, 2008 and changes during the six months then ended:

| | Number of Shares (in thousands) | Weighted Average Grant Date Fair Value per Share |
|---|---|---|
| **Restricted Stock Units** | | |
| Outstanding nonvested RSUs at January 1, 2008 | 20 | $ 1.42 |
| Granted | 488 | $ 0.41 |
| Forfeited or expired | (195) | $ 0.41 |
| Outstanding nonvested RSUs at June 30, 2008 | 313 | $ 0.47 |

As of June 30, 2008, there was approximately $56 thousand of total unrecognized compensation cost related to non-vested share-based compensation resulting from RSUs granted under the 1998 Plan, which is expected to be recognized over the next twelve months.

*1998 Non-Employee Directors   Plan*

Pursuant to the Company   s 1998 Non-Employee Directors   Plan as amended (the   Directors   Plan   ), 0.6 million shares have been provided for the grant of non-qualified stock options to the Company   s non-employee members of the Board of Directors. Option awards must be granted with an exercise price at not less than the fair market price of the Company   s common stock on the date of the grant. Initial option grants vest over a three-year period in equal increments, beginning on the first anniversary of the date of the grant. Subsequent grants, generally vest on the date of the grant. All options granted have contractual terms of ten years from the date of the grant.

The fair value of each option award is estimated on the date using the same valuation model used for options granted under the 1998 Plan.

The following table summarizes the option activity under the Directors   Plan as of June 30, 2008 and changes during the six months then ended:

| | Number of Shares (in thousands) | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|
| **Stock Options** | | | | |
| Outstanding at January 1, 2008 | 113 | $30.61 | | |
| Granted | | | | |
| Exercised | | | | |
| Forfeited or expired | (1) | 39.00 | | |
| Outstanding at June, 2008 | 112 | $30.49 | 5.9 | $ |
| Vested and exercisable at June 30, 2008 | 111 | $31.06 | 5.9 | $ |

There is no intrinsic value to outstanding stock options as the exercise prices of all outstanding options are above the market price of the Company s stock at June 30, 2008. The amount of aggregate intrinsic value will change based on the market value of the Company s stock.

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**11. Comprehensive Loss**

An analysis of comprehensive loss is presented below:

| ($ in thousands) | Three months ended June 30, 2008 | Three months ended June 30, 2007 | Six months ended June 30, 2008 | Six months ended June 30, 2007 |
|---|---|---|---|---|
| Net loss | $ (738,364) | $ (8,235) | $ (748,021) | $ (13,839) |
| Change in market value of available-for-sale marketable securities | | (10) | | (36) |
| Total comprehensive loss | $ (738,364) | $ (8,225) | $ (748,021) | $ (13,803) |

**12. Commitments and Contingencies**

**Litigation and Potential Claims**

In 2004, numerous complaints were filed in the United States District Court for the District of New Jersey, or the Court, against Genta and certain of its principal officers on behalf of purported classes of the Company s stockholders who purchased its securities during several class periods. The complaints were consolidated into a single action and alleged that the Company and certain of its principal officers violated the federal securities laws by issuing materially false and misleading statements regarding Genasense® for the treatment of malignant melanoma that had the effect of artificially inflating the market price of the Company s securities. The stockholder class action complaint sought monetary damages in an unspecified amount and recovery of plaintiffs costs and attorneys fees. The Company reached an agreement with plaintiffs to settle the class action litigation in consideration for the issuance of 2.0 million shares of common stock of the Company (adjusted for any subsequent event that results in a change in the number of shares outstanding as of January 31, 2007) and $18.0 million in cash for the benefit of plaintiffs and the stockholder class. The cash portion of the proposed settlement will be covered by the Company s insurance carriers. Effective June 25, 2007, the Company and plaintiffs executed a written Stipulation and Agreement of Settlement which was filed with the Court on August 13, 2007, seeking preliminary approval. The unopposed Motion for Preliminary Approval of Settlement was granted on October 30, 2007, and the Court held a hearing on plaintiffs unopposed motion for final approval of the settlement on March 3, 2008. An order approving the settlement was issued on May 27, 2008 and the settlement became final on June 27, 2008. See Note 6 to the Consolidated Financial Statements for a discussion on the accounting for the liability for the legal settlement.

The settlement did not constitute an admission of guilt or liability.

In February 2007, a complaint against the Company was filed in the Superior Court of New Jersey by Howard H. Fingert, M.D., a former employee of the Company. The complaint alleges, among other things, breach of contract as to the Company s stock option plan and as to a consulting agreement allegedly entered into by the Company and Dr. Fingert subsequent to termination of Dr. Fingert s employment with the Company, breach of implied covenant of good faith and fair dealing with respect to the Company s stock option plan and the alleged consulting agreement, promissory estoppel with respect to the exercise of stock options and provision of consulting services after termination of employment, and fraud and negligent misrepresentation with respect to the exercise of stock options and provision of consulting services after termination of employment. The complaint seeks monetary damages, including punitive and consequential damages. The Company filed an answer to the complaint on May 29, 2007, and on August 8, 2007, filed a request for production of documents. On January 4, 2008, the Court dismissed the complaint without prejudice due to Dr. Fingert s failure to produce the requested discovery. Dr. Fingert filed a motion dated March 24, 2008 to reinstate the complaint, which was granted by the Court on April 11, 2008 at which time the Court adopted a discovery schedule that concludes in December 2008. The Company denies the allegations in the complaint and intends to vigorously defend this lawsuit.

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In November 2007, a complaint against the Company was filed in the United States District Court for the District of New Jersey by Ridge Clearing & Outsourcing Solutions, Inc. The complaint alleges, among other things, that the Company caused or contributed to losses suffered by a Company stockholder, which have been incurred by Ridge. The Company filed its Answer and Affirmative Defenses on February 27, 2008 to respond to the complaint. The Company denies the allegations in the complaint and intends to vigorously defend this lawsuit.

**13. Supplemental Disclosure of Cash Flows Information and Non-cash Investing and Financing Activities**

No interest or income taxes were paid for the six months ended June 30, 2008, and 2007, respectively.

**14. Listing of Common Stock of Genta Incorporated**

Effective May 7, 2008, the trading of common stock of Genta Incorporated was moved from The NASDAQ Capital Markets to the Over-the-Counter Bulletin Board (OTCBB) maintained by FINRA (formerly, the NASD). This action was taken pursuant to receipt of notification from the NASDAQ Listing Qualifications Panel that the Company had failed to demonstrate its ability to sustain compliance with the $2.5 million minimum stockholders equity requirement for continued listing on The NASDAQ Capital Markets. On July 10, 2008, the Company received notification from The NASDAQ Capital Market that The NASDAQ Capital Market had determined to remove the Company s common stock from listing on such exchange. The delisting was effective at the opening of the trading session on July 21, 2008.

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**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. We intend 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 our 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 financial projections;

the Company s projected cash flow requirements and estimated timing of sufficient cash flow;

the Company s current and future license agreements, collaboration agreements, and other strategic alliances;

the Company s ability to obtain necessary regulatory approval for Genasense® (oblimersen sodium) Injection from the U.S. Food and Drug Administration (FDA) or European Medicines Agency (EMEA);

the safety and efficacy of the Company s products;

the commencement and completion of clinical trials;

the Company s ability to develop, manufacture, license and sell its products or product candidates;

the Company s ability to enter into and successfully execute license and collaborative agreements, if any;

the adequacy of the Company s capital resources and cash flow projections, and the Company s ability to obtain sufficient financing to maintain the Company s planned operations; or the Company s risk of bankruptcy if it is unsuccessful in obtaining such financing or in securing stockholder approval to increase the number of shares authorized for issuance under the Company s certificate of incorporation, as required by the transactional documents in our recent financing;

the adequacy of the Company s patents and proprietary rights;

the impact of litigation that has been brought against the Company and its officers and directors and any proposed settlement of such litigation; and

the other risks described under Risk Factors in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and in this Form 10-Q.

We do not undertake to update any forward-looking statements.

We make available free of charge on our Internet website (http://www.genta.com) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. The content on the Company s website is available for informational purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference into this Form 10-Q.

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## Overview

Genta Incorporated is a biopharmaceutical company engaged in pharmaceutical research and development. We are dedicated to the identification, development and commercialization of novel drugs for the treatment of cancer and related diseases. Our drug portfolio consists of products derived in two Programs: DNA/RNA Medicines (which includes our lead oncology drug, Genasense®); and Small Molecules (which includes our marketed product, Ganite®, and the investigational compounds tesetaxel and G4544). We have had recurring annual operating losses since inception and we expect to incur substantial operating losses due to continued requirements for ongoing and planned research and development activities, pre-clinical and clinical testing, manufacturing activities, regulatory activities and the eventual establishment of a sales and marketing organization. From our inception to June 30, 2008, we have incurred a cumulative net deficit of $1,186.3 million. Our recurring losses from operations and our negative cash flow from operations raise substantial doubt about our ability to continue as a going concern. Our consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. We expect that such losses will continue at least until our lead product, Genasense®, is approved by one or more regulatory authorities for commercial sale in one or more indications. Achievement of profitability is currently dependent on the timing of Genasense® regulatory approvals. We have experienced significant quarterly fluctuations in operating results and we expect that these fluctuations in revenues, expenses and losses will continue.

We had $16.3 million of cash, cash equivalents and marketable securities on hand at June 30, 2008. Cash used in operating activities during the first six months of 2008 was $14.4 million.

Irrespective of whether regulatory applications, such as a New Drug Application (NDA) or Marketing Authorization Application (MAA), for Genasense® are approved, we anticipate that we will require additional cash in order to maximize the commercial opportunity and continue its clinical development opportunities. Alternatives available to us to sustain our operations include collaborative agreements, equity financing, debt and other financing arrangements with potential corporate partners and other sources. However, there can be no assurance that any such collaborative agreements or other sources of funds will be available on favorable terms, if at all. We will need substantial additional funds before we can expect to realize significant product revenue.

We will continue to maintain an appropriate level of spending over the upcoming fiscal year, given the uncertainties inherent in our business and our current liquidity position. On June 5, 2008, we entered into a securities purchase agreement with certain institutional and accredited investors to place up to $40 million of our senior secured convertible notes with such investors. On June 9, 2008, we placed $20 million of such notes in the initial closing. Presently, with no further financing, we project that we will run out of funds in the first quarter of 2009. We currently do not have any additional financing in place. If we are unable to raise additional funds, we could be required to reduce our spending plans, reduce our workforce, license to others products or technologies we would otherwise seek to commercialize ourselves, or sell certain assets. There can be no assurance that we can obtain financing, if at all, on terms acceptable to us.

Our financial results have been and will continue to be significantly affected by regulatory actions related to Genasense®.

Genasense® has been studied in combination with a wide variety of anticancer drugs in a number of different cancer indications. We have reported results from randomized Phase 3 trials of Genasense® in seven different diseases: melanoma; chronic lymphocytic leukemia (CLL); multiple myeloma; acute myeloid leukemia (AML); non small cell lung cancer; small cell lung cancer; and prostate cancer. Under our own sponsorship or in collaboration with the U.S. National Cancer Institute (NCI), we are currently conducting additional clinical trials. We are especially interested in the development, regulatory approval, and commercialization of Genasense® in at least three diseases: melanoma; chronic lymphocytic leukemia (CLL); and non-Hodgkin s lymphoma (NHL).

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Genasense® has been submitted for regulatory approval in the U.S. on two occasions and to the European Union (EU) once. These applications proposed the use of Genasense® plus chemotherapy for patients with advanced melanoma (U.S. and EU) and relapsed or refractory chronic lymphocytic leukemia (U.S.-only). None of these applications were successful. Nonetheless, the Company believes that Genasense® can ultimately be approved and commercialized for both of these indications, as well as for other diseases, and we have undertaken a number of initiatives in this regard that are described below.

The New Drug Application for Genasense® in melanoma was withdrawn in 2004 after an advisory committee to the Food and Drug Administration (FDA) failed to recommend approval. A negative decision was also received for a similar application in melanoma from the European Medicines Agency (EMEA) in 2007. Data from the pivotal Phase 3 trial that comprised the primary basis for these applications were published in a peer-reviewed journal in 2006. These results showed that treatment with Genasense® plus dacarbazine compared with dacarbazine alone in patients with advanced melanoma was associated with a statistically significant increase in overall response, complete response, durable response, and progression-free survival (PFS). However, the primary endpoint of overall survival approached but did not quite reach statistical significance (P=0.077). Subsequently, our analysis of this trial showed that there was a significant treatment interaction effect related to levels of a blood enzyme known as LDH. When this effect was analyzed by treatment arm, survival was shown to be significantly superior for patients with a non-elevated LDH who received Genasense® (P=0.018; n=508). Moreover, this benefit was particularly noteworthy for patients whose baseline LDH did not exceed 80% of the upper limit of normal for this lab value.

Based on these data, in August 2007 we initiated a new Phase 3 trial of Genasense® plus chemotherapy in advanced melanoma. The trial, known as AGENDA, is a randomized, double-blind, placebo-controlled study in which patients are randomly assigned to receive Genasense® plus dacarbazine or dacarbazine alone. The study uses LDH as a biomarker to identify patients who are most likely to respond to Genasense®, based on data obtained from our preceding trial in melanoma. The co-primary endpoints of AGENDA are progression-free survival and overall survival.

AGENDA is designed to expand evidence for the safety and efficacy of Genasense® combined with dacarbazine chemotherapy for patients who have not previously been treated with chemotherapy. The study prospectively targets patients who have low-normal levels of LDH. We expect to enroll approximately 300 subjects at approximately 90 sites worldwide in this trial. Genasense® in melanoma has been designated an Orphan Drug in Australia and the United States, and the drug has Fast Track designation in the United States. Target accrual of 300 patients is currently projected to complete in the fourth quarter of 2008. Initial data on the interim assessment of progression-free survival is expected in the first half of 2009. If the initial assessment of progression-free survival is positive, the Company expects to discuss these results with the FDA and EMEA and to secure agreement from these agencies that Genta may commence submission of new regulatory applications for the approval of Genasense® plus chemotherapy in patients with advanced melanoma. Approval by FDA and EMEA will allow Genasense® to be commercialized by us in the U.S. and in the European Union.

Given our belief in the activity of Genasense® in melanoma, we have initiated and expect to initiate additional clinical studies in this disease. One such study is the Phase 2 trial of Genasense® plus a chemotherapy regimen consisting of Abraxane® (paclitaxel albumen) plus temozolomide (Temodar®). We also expect to examine different dosing regimens that will improve the dosing convenience and commercial acceptance of Genasense®, including its administration by brief (1-2 hour) IV infusions.

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Our initial NDA for the use of Genasense® plus chemotherapy in patients with relapsed or refractory CLL was also unsuccessful. We conducted a randomized Phase 3 trial in 241 patients with relapsed or refractory CLL who were treated with fludarabine and cyclophosphamide (Flu/Cy) with or without Genasense®. The trial achieved its primary endpoint: a statistically significant increase (17% vs. 7%; P=0.025) in the proportion of patients who achieved a complete response (CR), defined as a complete or nodular partial response. Patients who achieved this level of response also experienced disappearance of predefined disease symptoms. A key secondary endpoint, duration of CR, was also significantly longer for patients treated with Genasense® (median not reached but exceeding 36+ months in the Genasense® group, versus 22 months in the chemotherapy-only group).

Several secondary endpoints were not improved by the addition of Genasense®. The percentage of patients who experienced serious adverse events was increased in the Genasense® arm; however, the percentages of patients who discontinued treatment due to adverse events were equal in the treatment arms. The incidence of certain serious adverse reactions, including but not limited to nausea, fever and catheter-related complications, was increased in patients treated with Genasense®.

In December 2005, we submitted a NDA to the FDA that sought accelerated approval for the use of Genasense® in combination with Flu/Cy for the treatment of patients with relapsed or refractory CLL who had previously received fludarabine. In December 2006 we received a non-approvable notice for that application from FDA. However, since we believed that our application had met the regulatory requirements for approval, in April 2007 we filed an appeal of the non-approvable notice using FDA s Formal Dispute Resolution process. In March, 2008, we received a formal notice from FDA that indicated additional confirmatory evidence would be required to support approval of Genasense® in CLL. In that communication, FDA recommended two alternatives for exploring that confirmatory evidence. One option was to conduct an additional clinical trial. The other option was to collect additional information regarding the clinical course and progression of disease in patients from the completed trial. We have elected to pursue both of these options.

For the first option, we submitted a new protocol in the second quarter of 2008 that sought Special Protocol Assessment (SPA) from the FDA and Scientific Advice from the EMEA. This protocol is similar in design to the completed trial and uses the same chemotherapy and randomization scheme. The major difference is that the trial focuses on the patient population who derived maximal benefit in the completed trial. This group is characterized by patients who had received less extensive chemotherapy prior to entering the trial and who were defined as being non-refractory to fludarabine. We have deferred initiation of this trial until we receive a response to the second option, described below.

For the second option, we sought information regarding long-term survival on patients who had been accrued to our already completed Phase 3 trial. At a scientific meeting in June 2008, we announced the results of long-term follow-up from the completed Phase 3 trial that comprised the original NDA. With 5 years of follow-up, we showed that patients treated with Genasense® plus chemotherapy who achieved either a complete response (CR) or a partial response (PR) had also achieved a statistically significant increase in survival.

Previous analyses had shown a significant survival benefit accrued to patients in the Genasense® group who attained CR. Extended follow-up showed that all major responses (CR+PR) achieved with Genasense® were associated with significantly increased survival compared with all major responses achieved with chemotherapy alone (median = 56 months vs. 38 months, respectively). After 5 years of follow-up, 22 of 49 (45%) responders in the Genasense® group were alive compared with 13 of 54 (24%) responders in the chemotherapy-only group (hazard ratio = 0.6; P = 0.038). Moreover, with 5 years of follow-up, 12 of 20 patients (60%) in the Genasense® group who achieved CR were alive, 5 of these patients remained in continuous CR without relapse, and 2 additional patients had relapsed but had not required additional therapy. By contrast, only 3 of 8 CR patients in the chemotherapy-only group were alive, all 3 had relapsed, and all 3 had required additional anti-leukemic treatment.

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The Company believes that the significant survival benefit associated with major responses to Genasense® may provide the confirmatory evidence of clinical benefit that was requested by FDA. The Company submitted these new data to FDA in the second quarter of 2008, and the submission was accepted as a complete response to the non-approvable decision letter on July 11, 2008. In that notice of acceptance, FDA assigned a user fee goal date of December 3, 2008, meaning that FDA will respond to the new submission regarding approvability of the CLL NDA on or before that date. We have elected not to initiate the aforementioned confirmatory trial until FDA has rendered its decision on the pending NDA.

As with melanoma, Genta believes the clinical activity in CLL should be explored with additional clinical research. The Company plans to explore combinations of Genasense with other drugs that are used for the treatment of CLL, and to examine more convenient dosing regimens.

Lastly, several trials have shown definite evidence of clinical activity for Genasense® in patients with non-Hodgkin s lymphoma (NHL). We would like to conduct additional clinical studies in patients with NHL to test whether Genasense® can be approved in this indication. Previously, we reported that randomized trials of Genasense® in patients with myeloma, acute myeloid leukemia, (AML), hormone-refractory prostate cancer (HRPC), small cell lung cancer and non small cell lung cancer were not sufficiently positive to warrant further investigation on the dose-schedules that were examined or with the chemotherapy that was employed in these trials. Data from these trials have been presented at various scientific meetings. However, we believe that alternate dosing schedules, in particular the use of brief high-dose infusions, offer the opportunity to re-examine the drug s activity in some of these indications, in particular multiple myeloma.

On March 7, 2008, we obtained an exclusive worldwide license for tesetaxel, a novel taxane compound that is taken by mouth. Tesetaxel has completed Phase 2 trials in a number of cancer types, and the drug has shown definite evidence of antitumor activity in gastric cancer and breast cancer. Tesetaxel also appears to be associated with a lower incidence of peripheral nerve damage, a common side effect of taxanes that limits the maximum amount of these drugs that can be given to patients. At the time we obtained the license, tesetaxel was on clinical hold by FDA due to the occurrence of several fatalities in the setting of severe neutropenia. In the second quarter of 2008, we filed a response to the FDA requesting a lift of the clinical hold, which was granted on June 23, 2008. Before clinical testing can resume, we plan to submit to FDA an amendment to the existing Drug Master File for a change in the manufacturing process. We are currently determining the sites that will participate in the initial clinical trial that has been allowed by FDA.

The tesetaxel program seeks to secure a first-to-market advantage for tesetaxel relative to other oral taxanes. We believe success in this competitive endeavor will maximize return to stockholders. Accordingly, we have identified three oncology indications in which we believe tesetaxel may have sufficient efficacy and safety to warrant regulatory approval. We believe it may be possible to secure regulatory approval in these indications on the basis of endpoints that can be achieved in clinical trials that may be relatively limited in scope.

In addition to these three smaller indications, the Company is interested in examining the activity of tesetaxel in patients with hormone-refractory prostate cancer (HRPC). Docetaxel (Taxotere®) is the only taxane approved for first-line use in patients with HRPC. Although docetaxel has been shown to extend survival in men with HRPC, its use is associated with a high incidence of moderate-to severe toxicity. If tesetaxel is shown to be active in HRPC, we believe its safety profile may be substantially superior to docetaxel and may supplant that drug for first-line use in this indication. However, the development of drugs in this indication is very costly. Additional funding will be required to support the extended clinical testing that will be required to secure regulatory approval in HRPC.

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Our third pipeline product is G4544, which is a novel oral formulation of a gallium-containing compound that we developed in collaboration with Emisphere Technologies, Inc. We completed a single-dose Phase 1 study of an initial formulation of this new drug known as G4544(a) and the results were presented at a scientific meeting in the second quarter of 2008. We are planning another study using a modified formulation, known as G4544(b) . The FDA has indicated that a limited, animal toxicology study in a single species will be required prior to initiation of multi-dose studies of G4544(b). Progress in the clinical development of G4544 program was delayed in 2008 due to financial constraints, but we currently expect to continue our program as planned.

We currently intend to pursue a 505(b)(2) strategy to establish bioequivalence to our marketed product, Ganite®, for the initial regulatory approval of G4544. However, we believe this drug may also be useful for treatment of other diseases associated with accelerated bone loss, such as bone metastases, Paget s disease and osteoporosis. In addition, new uses of gallium-containing compounds have been identified for treatment of certain infectious diseases, particularly severe infections involving the bacteria *Pseudomonas aeruginosa*, which are frequently lethal in patients with cancer and cystic fibrosis. While we have no current plans to begin clinical development in the area of infectious disease, we intend to support research conducted by certain academic institutions by providing clinical supplies of our gallium-containing drugs.

Lastly, we have announced our intention to seek a buyer for Ganite®, our sole marketed product. Our financial constraints have prevented us from investing in adequate commercial support for Ganite®, and the intellectual property that provided us with an exclusive position in the United States has now expired.

**Results of Operations for the Three Months Ended June 30, 2008 and June 30, 2007**

| ($ thousands) | **2008** | **2007** |
|---|---|---|
| Product sales net | $ 131 | $ 105 |
| Cost of goods sold | 29 | 26 |
| Gross margin | 102 | 79 |
| Operating expenses: | | |
| Research and development | 4,454 | 4,099 |
| Selling, general and administrative | 2,587 | 4,735 |
| Settlement of office lease obligation | 3,307 | |
| Reduction in liability for settlement of litigation, net | (80) | (240) |
| Total operating expenses | 10,268 | 8,594 |
| Other (expense)/income: | | |
| Amortization of deferred financing costs | (840) | 0 |
| Fair market value conversion feature liability | (720,000) | 0 |
| Fair market value warrant liability | (7,200) | 0 |
| All other (expense)/ income, net | (158) | 280 |
| Total other (expense)/income, net | (728,198) | 280 |
| Net loss | $ (738,364) | $ (8,235) |

Product sales-net

Product sales-net of Ganite® were $131 thousand for the three months ended June 30, 2008, compared with $105 thousand for the three months ended June 30, 2007. Product sales-net in 2008 include $5 thousand through the named-patient program managed for us by IDIS Limited (a privately owned company based in the United Kingdom), whereby IDIS distributes Ganite® and Genasense® on a "named patient basis. "Named patient distribution refers to the distribution or sale of a product to a specific healthcare professional for the treatment of an individual patient.

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Cost of goods sold

There was a higher cost of goods sold in the three months ended June 30, 2008 than in the three months ended June 30, 2007 as a result of a larger number of units sold.

Research and development expenses

Research and development expenses were $4.5 million for the three months ended June 30, 2008, compared with $4.1 million for the three months ended June 30, 2007. This increase was primarily due to higher expenses from the AGENDA clinical trial, partially offset by lower payroll costs, resulting from lower headcount. In April 2008 and in May 2008, we reduced our workforce to conserve cash.

Research and development expenses incurred on the Genasense® project during the three months ended June 30, 2008 were approximately $4.3 million, representing 96% of research and development expenses.

Due to the significant risks and uncertainties inherent in the clinical development and regulatory approval processes, the nature, timing and costs of the efforts necessary to complete projects in development are subject to wide variability. Results from clinical trials may not be favorable. Data from clinical trials are subject to varying interpretation and may be deemed insufficient by the regulatory bodies that review applications for marketing approvals. As such, clinical development and regulatory programs are subject to risks and changes that may significantly impact cost projections and timelines.

Selling, general and administrative expenses

Selling, general and administrative expenses were $2.6 million for the three months ended June 30, 2008, compared with $4.7 million for the three months ended June 30, 2007. This decrease was primarily due to lower payroll costs, resulting from the two reductions in workforce, as well as lower administrative expenses.

Settlement of office lease obligation

In May 2008, we entered into an amendment of our Lease Agreement with The Connell Company, (Connell) whereby the lease for one floor of our office space in Berkeley Heights, New Jersey was terminated. Connell received a termination payment of $1.3 million, comprised of our security deposits and will receive a future payment from us of $2.0 million upon the earlier of July 1, 2009 or our receipt of at least $5.0 million in upfront cash from a business development deal. We accrued for the $2.0 million and it is included in accounts payable and accrued expenses on our Consolidated Balance Sheets. This transaction resulted in an incremental $3.3 million in expenses for the three months ended June 30, 2008.

Provision for settlement of litigation, net

In the fourth quarter of 2006, we recorded an expense of $5.3 million that provides for the issuance of 2.0 million shares of Genta common stock, for a settlement in principle of class action litigation. The expense is net of insurance recovery of $18.0 million. At June 30, 2007, the revised estimated value of the common shares portion of the litigation settlement was $3.5 million, resulting in a reduction in the provision of $0.2 million for the second quarter of 2007. At June 27, 2008, the date that the settlement became final, the revised value of the common stock portion of the litigation settlement was $0.7 million, based on a closing price of Genta s common stock of $0.35 per share, resulting in a reduction in the provision of $0.1 million for the second quarter of 2008.

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Amortization of deferred financing costs

On June 9, 2008, we issued $20 million of our senior secured convertible notes, issued our private placement agent a warrant to purchase 40,000,000 shares of our common stock at an exercise price of $0.02 per share and incurred a financing fee of $1.2 million. The deferred financing costs including the financing fee and the issuance of the warrant are being amortized over the two-year term of the convertible notes, resulting in amortization of $0.8 million in the month of June 2008.

Fair value conversion feature liability

On the issuance date there was an insufficient number of authorized shares of common stock in order to permit exercise of all of the notes. In accordance with EITF 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock (EITF 00-19),when there are insufficient authorized shares, the conversion obligation for the notes should be classified as a liability measured at fair value on the balance sheet.

On June 9, 2008, based upon a Black-Scholes valuation model that included a closing price of our common stock of $0.20 per share, we calculated a fair value of the conversion feature of $380.0 million and expensed $360.0 million, the amount that exceeded the proceeds of the $20.0 million from the initial closing. On June 30, 2008, based upon a Black-Scholes valuation model that included a closing price of our common stock of $0.38 per share, we expensed an additional $380.0 million to mark the conversion feature liability to market, resulting in a total expense in June of $720.0 million.

Fair value warrant liability

The warrant was also treated as a liability and was recorded at a fair value of $7.6 million based upon a Black-Scholes valuation model that included a closing price of our common stock of $0.20 per share. On June 30, 2008, based on a Black-Scholes valuation model that included a closing price of our common stock of $0.38 per share, we expensed $7.2 million to mark the warrant liability to market.

We will continue to mark the convertible note and the warrant to market until the date that stockholders approve an increase in the number of authorized shares. We are planning to have an Annual Meeting of Stockholders later this year and our Board of Directors has recommended that stockholders approve a charter amendment to increase the amount of our authorized shares. Once stockholders approve an increase in the amount of authorized shares, the marked-to-market liabilities for the conversion feature and the warrant will be transferred to Stockholders Equity.

All other (expense)/ income, net

Net other expense of $0.2 million for the three months ended June 30, 2008 unfavorably compared to net other income of $0.3 million for the three months ended June 30, 2007 due to lower investment income, resulting from lower investment balances and accrued interest on the recently issued convertible notes.

Net loss

Genta incurred a net loss of $738.4 million, or ($20.10) per share, for the three months ended June 30, 2008 and $8.2 million, or ($0.27) per share, for the three months ended June 30, 2007.

The larger net loss in 2008 is primarily due to the mark-to-market charge on the conversion feature liability of $720.0 million, the mark-to-market charge on the warrant liability of $7.2 million, the expenses resulting from the reduction in our office space of $3.3 million, higher expenses resulting from the AGENDA clinical trial and the amortization of deferred financing costs of $0.8 million, slightly offset by lower payroll costs, resulting from the two reductions in workforce, as well as lower administrative expenses.

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**Results of Operations for the Six Months Ended June 30, 2008 and June 30, 2007**

| ($ thousands) | 2008 | 2007 |
|---|---|---|
| Product sales net | $ 248 | $ 199 |
| Cost of goods sold | 54 | 48 |
| Gross margin | 194 | 151 |
| Operating expenses: | | |
| Research and development | 10,891 | 7,481 |
| Selling, general and administrative | 6,225 | 8,787 |
| Settlement of office lease obligation | 3,307 | |
| Reduction in liability for settlement of litigation, net | (340) | (1,800) |
| Total operating expenses | 20,083 | 14,468 |
| Other (expense)/income: | | |
| Amortization of deferred financing costs | (840) | 0 |
| Fair market value conversion feature liability | (720,000) | 0 |
| Fair market value warrant liability | (7,200) | 0 |
| All other (expense)/ income, net | (92) | 478 |
| Total other (expense)/income, net | (728,132) | 478 |
| Net loss | $ (748,021) | $ (13,839) |

Product sales-net

Product sales-net of Ganite® were $248 thousand for the six months ended June 30, 2008, compared with $199 thousand for the six months ended June 30, 2007. Product sales-net in 2008 includes $15 thousand through the named-patient program managed for us by IDIS.

Cost of goods sold

There was a higher cost of goods sold in the six months ended June 30, 2008 than in the six months ended June 30, 2007 as a result of a larger number of units sold.

Research and development expenses

Research and development expenses were $10.9 million for the six months ended June 30, 2008, compared with $7.5 million for the six months ended June 30, 2007. This increase was primarily due to the recognition in March 2008 of $2.5 million for license payments on tesetaxel and higher expenses from the AGENDA clinical trial, partially offset by lower payroll costs, resulting from lower headcount.

Research and development expenses incurred on the Genasense® project during the six months ended June 30, 2008 were approximately $7.7 million, representing 70% of research and development expenses, (including the $2.5 million for license payments of tesetaxel). Excluding the expense of $2.5 million that was recorded for license payments of tesetaxel, research and development expenses incurred on the Genasense® represented 92% of research and development expenses.

Selling, general and administrative expenses

Selling, general and administrative expenses were $6.2 million for the six months ended June 30, 2008, compared with $8.8 million for the six months ended June 30, 2007. The decrease is primarily due to our efforts at lowering administrative expenses and lower payroll costs, resulting from the two reductions in workforce.

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Provision for settlement of litigation, net

From January 1, 2008 through June 27, 2008, the date that the settlement of class action litigation became final, the reduction in the price of Genta s common stock resulted in a reduction in the provision of $0.3 million. During the six months ended June 30, 2007, the provision for settlement of litigation declined $1.8 million due to the reduction in the price of our common stock.

All other (expense)/ income, net

Net other expense of $0.1 million for the six months ended June 30, 2008 unfavorably compared to net other income of $0.5 million for the six months ended June 30, 2007 due to lower investment income, resulting from lower investment balances and accrued interest on the recently issued convertible notes.

Net loss

Genta incurred a net loss of $748.0 million, or $21.21 per share, for the six months ended June 30, 2008 and $13.8 million, or $0.48 per share, for the six months ended June 30, 2007.

The larger net loss in 2008 is primarily due to the mark-to-market charge on the conversion feature liability of $720.0 million, the mark-to-market charge on the warrant liability of $7.2 million, the expenses resulting from the reduction in our office space of $3.3 million, the recognition in March 2008 for our license payments on tesetaxel of $2.5 million, higher expenses resulting from the AGENDA clinical trial and the amortization of deferred financing costs of $0.8 million, slightly offset by lower payroll costs, resulting from the two reductions in workforce, as well as lower administrative expenses.

**Liquidity and Capital Resources**

At June 30, 2008, we had cash, cash equivalents and marketable securities totaling $16.3 million compared with $7.8 million at December 31, 2007 reflecting in part, the net proceeds from the placement of $20 million of notes on June 9, 2008.

The notes bear interest at an annual rate of 15% payable at quarterly intervals in stock or cash at our option, and the notes are convertible into shares of Genta common stock at a conversion rate of 100,000 shares of common stock for every $1,000.00 of principal. Holders of the notes have the right, but not the obligation, for the following 12 months following the initial closing date to purchase in whole or in part up to an additional $20 million of the notes. We have the right to force conversion of the notes in whole or in part if the closing bid price of our common stock exceeds $0.50 for a period of 20 consecutive trading days. Certain members of our senior management participated in this offering. The notes are secured by a first lien on all of our assets. The notes include certain events of default, including a requirement that we obtain stockholder approval within a specified period of time to amend our certificate of incorporation to authorize additional shares of common stock. In addition, the notes prohibit any additional financing without the approval of holders of more than two-thirds of the principal amount of the notes.

Upon the occurrence of an event of default, holders of the notes have the right to require us to prepay all or a portion of their notes as calculated as the greater of (a) 150% of the aggregate principal amount of the note plus accrued interest or (b) the aggregate principal amount of the note plus accrued interest divided by the conversion price; multiplied by a weighted average price of our common stock. Pursuant to a general security agreement, entered into concurrent with the notes, the notes are secured by a first lien on all of our assets.

During the first six months of 2008, cash used in operating activities was $14.4 million compared with $16.8 million for the same period in 2007. Lower cash used in operating activities was primarily due to the timing of payments in the two respective periods.

In February 2008, we sold 6.1 million shares of our common stock at a price of $0.50 per share, raising approximately $3.1 million, before estimated fees and expenses of approximately $203 thousand.

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Effective May 7, 2008, we moved the trading of our common stock from The NASDAQ Capital Markets to the Over-the-Counter Bulletin Board (OTCBB) maintained by FINRA (formerly, the NASD). This action was taken pursuant to receipt of notification from the NASDAQ Listing Qualifications Panel that we had failed to demonstrate our ability to sustain compliance with the $2.5 million minimum stockholders equity requirement for continued listing on The NASDAQ Capital Markets. On July 10, 2008, we received notification from The NASDAQ Capital Market that The NASDAQ Capital Market had determined to remove our common stock from listing on such exchange. The delisting was effective at the opening of the trading session on July 21, 2008.

Irrespective of whether an NDA or MAA for Genasense® are approved, we will require additional cash in order to maximize this commercial opportunity and to continue its clinical development opportunities. We have had discussions with other companies regarding partnerships for the further development and global commercialization of Genasense®. Additional alternatives available to us to sustain our operations include financing arrangements with potential corporate partners, debt financing, asset-based loans, royalty-based financing, equity financing, profits from named-patient sales, and other potential sources of financing. However, there can be no assurance that any such collaborative agreements or other sources of funding will be available to us on favorable terms, if at all.

We will continue to maintain an appropriate level of spending over the upcoming fiscal year, given the uncertainties inherent in our business and our current liquidity position. Presently, with no further financing, we project that we will run out of funds in the first quarter of 2009. We currently do not have any additional financing in place. If we are unable to raise additional financing, we could be required to reduce our spending plans, reduce our workforce, license to others products or technologies we would otherwise seek to commercialize ourselves and sell certain assets. There can be no assurance that we can obtain financing, if at all, on terms acceptable to us.

We anticipate seeking additional product development opportunities through potential acquisitions or investments. Such acquisitions or investments may consume cash reserves or require additional cash or equity. Our working capital and additional funding requirements will depend upon numerous factors, including: (i) the progress of our research and development programs; (ii) the timing and results of pre-clinical testing and clinical trials; (iii) the level of resources that we devote to sales and marketing capabilities; (iv) technological advances; (v) the activities of competitors; (vi) our ability 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 and (vii) legal costs and the outcome of outstanding legal proceedings.

**Recent Accounting Pronouncements**

In December 2007, the FASB issued SFAS 141(R), *Business Combinations* ( SFAS 141(R) ), which replaces SFAS 141. SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is to be applied prospectively to business combinations for which the acquisition date is on or after an entity s fiscal year that begins after December 15, 2008. The Company will assess the impact of SFAS 141(R) if and when a future acquisition occurs.

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In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* ( SFAS 160 ). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent s equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not expect that adoption of this standard will have a material impact on its financial statements.

In December 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin 110 ( SAB 110 ), which permits entities, under certain circumstances, to continue to use the simplified method of estimating the expected term of plain options as discussed in SAB No. 107 and in accordance with SFAS 123R. The guidance in this release is effective January 1, 2008. The impact of this standard on the consolidated financial statements did not have a material effect.

In December 2007, the FASB issued EITF Issue No. 07-1, *Accounting for Collaborative Arrangements*, which is effective for calendar year companies on January 1, 2009. The Task Force clarified the manner in which costs, revenues and sharing payments made to, or received by, a partner in a collaborative arrangement should be presented in the income statement and set forth certain disclosures that should be required in the partners financial statements. The Company is currently assessing the potential impacts of implementing this standard.

In June 2007, the FASB issued EITF Issue No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities*, which is effective for calendar year companies on January 1, 2008. The Task Force concluded that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities should be deferred and capitalized. Such amounts should be recognized as an expense as the related goods are delivered or the services are performed, or when the goods or services are no longer expected to be provided. The impact of this standard on the consolidated financial statements did not have a material effect.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( SFAS 159 ). SFAS 159 permits all entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date and recognize upfront costs and fees related to those items in earnings as incurred and not deferred. SFAS 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for an entity that has also elected to apply the provisions of SFAS 157, *Fair Value Measurements* . The impact of this standard on the consolidated financial statements did not have a material effect.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements* . SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, this pronouncement does not require any new fair value measurements. The Company was required to adopt SFAS 157 beginning January 1, 2008. The impact of this standard on the consolidated financial statements did not have a material effect.

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**Critical Accounting Policies and Estimates**

Our significant accounting policies are more fully described in Note 3 to our consolidated financial statements. In preparing our financial statements in accordance with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that, among other things, affect the reported amounts of assets and liabilities and reported amounts of revenues and expenses. These estimates are most significant in connection with our critical accounting policies, namely those of our accounting policies that are most important to the portrayal of our financial condition and results and require management s most difficult, subjective or complex judgments. These judgments often result from the need to make estimates about the effects of matters that are inherently uncertain. Actual results may differ from those estimates under different assumptions or conditions. We believe that the following represents our critical accounting policies:

*Going concern.* Our recurring losses from operations and negative cash flows from operations raise substantial doubt about our ability to continue as a going concern and as a result, our independent registered public accounting firm included an explanatory paragraph in its report on our consolidated financial statement for the year ended December 31, 2007 with respect to this uncertainty. We have prepared our financial statements on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts of liabilities that might be necessary should we be unable to continue in existence.

*Revenue recognition*. We recognize revenue from product sales when title to product and associated risk of loss has passed to the customer and we are reasonably assured of collecting payment for the sale. All revenue from product sales are recorded net of applicable allowances for returns, rebates and other applicable discounts and allowances. We allow return of our product for up to twelve months after product expiration.

*Research and development costs*. All such costs are expensed as incurred, including raw material costs required to manufacture drugs for clinical trials.

*Estimate of fair value of convertible notes and warrant.* We use a Black-Scholes model to estimate the fair value of our convertible notes and warrant.

**Item 3. *Quantitative and Qualitative Disclosures about Market Risk***

Our carrying values of cash, marketable securities, accounts payable, accrued expenses and debt are a reasonable approximation of their fair value. The estimated fair values of financial instruments have been determined by us using available market information and appropriate valuation methodologies. We have not entered into and do not expect to enter into, financial instruments for trading or hedging purposes. We do not currently anticipate entering into interest rate swaps and/or similar instruments.

Our primary market risk exposure with regard to financial instruments is to changes in interest rates, which would impact interest income earned on such instruments. We have no material currency exchange or interest rate risk exposure as of June 30, 2008. Therefore, there will be no ongoing exposure to a potential material adverse effect on our business, financial condition or results of operation for sensitivity to changes in interest rates or to changes in currency exchange rates.

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**Item 4T.** ***Controls and Procedures***

***Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures***

As required by Rule 13a-15(b), Genta s Chief Executive Officer and Principal Accounting and 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)). Based on that evaluation, the Chief Executive Officer and Principal Accounting and Financial Officer concluded that the Company s disclosure controls and procedures were effective as of the end of the period covered by this report.

***Changes in Internal Control Over Financial Reporting***

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rule 13a-15 that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## PART II

### Item 1. *Legal Proceedings*

In 2004, numerous complaints were filed in the United States District Court for the District of New Jersey, or the Court, against Genta and certain of its principal officers on behalf of purported classes of the Company s stockholders who purchased its securities during several class periods. The complaints were consolidated into a single action and alleged that the Company and certain of its principal officers violated the federal securities laws by issuing materially false and misleading statements regarding Genasense® for the treatment of malignant melanoma that had the effect of artificially inflating the market price of the Company s securities. The stockholder class action complaint sought monetary damages in an unspecified amount and recovery of plaintiffs costs and attorneys fees. The Company reached an agreement with plaintiffs to settle the class action litigation in consideration for the issuance of 2.0 million shares of common stock of the Company (adjusted for any subsequent event that results in a change in the number of shares outstanding as of January 31, 2007) and $18.0 million in cash for the benefit of plaintiffs and the stockholder class. The cash portion of the proposed settlement will be covered by the Company s insurance carriers. Effective June 25, 2007, the Company and plaintiffs executed a written Stipulation and Agreement of Settlement which was filed with the Court on August 13, 2007, seeking preliminary approval. The unopposed Motion for Preliminary Approval of Settlement was granted on October 30, 2007, and the Court held a hearing on plaintiffs unopposed motion for final approval of the settlement on March 3, 2008. An order approving the settlement was issued on May 27, 2008 and the settlement became final on June 27, 2008.

The settlement did not constitute an admission of guilt or liability.

In February 2007, a complaint against the Company was filed in the Superior Court of New Jersey by Howard H. Fingert, M.D., a former employee of the Company. The complaint alleges, among other things, breach of contract as to the Company s stock option plan and as to a consulting agreement allegedly entered into by the Company and Dr. Fingert subsequent to termination of Dr. Fingert s employment with the Company, breach of implied covenant of good faith and fair dealing with respect to the Company s stock option plan and the alleged consulting agreement, promissory estoppel with respect to the exercise of stock options and provision of consulting services after termination of employment, and fraud and negligent misrepresentation with respect to the exercise of stock options and provision of consulting services after termination of employment. The complaint seeks monetary damages, including punitive and consequential damages. The Company filed an answer to the complaint on May 29, 2007, and on August 8, 2007, filed a request for production of documents. On January 4, 2008, the Court dismissed the complaint without prejudice due to Dr. Fingert s failure to produce the requested discovery. Dr. Fingert filed a motion dated March 24, 2008 to reinstate the complaint, which was granted by the Court on April 11, 2008 at which time the Court adopted a discovery schedule that concludes in December 2008. The Company denies the allegations in the complaint and intends to vigorously defend this lawsuit.

In November 2007, a complaint against the Company was filed in the United States District Court for the District of New Jersey by Ridge Clearing & Outsourcing Solutions, Inc. The complaint alleges, among other things, that the Company caused or contributed to losses suffered by a Company stockholder, which have been incurred by Ridge. The Company filed its Answer and Affirmative Defenses on February 27, 2008 to respond to the complaint. The Company denies the allegations in the complaint and intends to vigorously defend this lawsuit.

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**Item 1A.** ***Risk Factors***

*You should carefully consider the following risks and all of the other information set forth in this Form 10-Q and the Form 10-K for the year ended December 31, 2007 before deciding to invest in shares of our common stock. The risks described below are not the only ones facing our Company. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations.*

*If any of the following risks actually occurs, our business, financial condition or results of operations would likely suffer. In such case, the market price of our common stock would likely decline due to the occurrence of any of these risks, and you may lose all or part of your investment.*

***Risks Related to Our Business***

***If our stockholders do not approve our amended certificate of incorporation, we will be in a default under the terms of the June 2008 convertible note financing.***

At our annual meeting of stockholders to be held later in 2008, we have requested that our stockholders approve an amendment to our restated certificate of incorporation, as amended, to increase the total number of authorized shares of capital stock available for issuance from 255,000,000, consisting of 250,000,000 shares of common stock and 5,000,000 shares of preferred stock, to 6,005,000,000, consisting of 6,000,000,000 shares of common stock and 5,000,000 shares of preferred stock. The amendment would satisfy the conditions contained in the terms of the convertible note financing. We have recommended that the stockholders vote in favor of such proposal.

We cannot guarantee that such amendment will be approved by our stockholders and will not result in a breach under the terms of the June 2008 convertible note financing. If such amendment is not approved by our stockholders, we will be in default under the terms of the June 2008 convertible note financing. Upon an event of default, the holders may require prepayment of principal, plus accrued interest under the notes, plus a premium as set forth in the notes. This event would likely have a harmful effect on the company, including the possibility of bankruptcy.

***We may be unsuccessful in our efforts to obtain approval from the FDA or EMEA and commercialize Genasense® or our other pharmaceutical products.***

The commercialization of our pharmaceutical products involves a number of significant challenges. In particular, our ability to commercialize products, such as Ganite® and Genasense®, depends, in large part, on the success of our clinical development programs, our efforts to obtain regulatory approvals and our sales and marketing efforts directed at physicians, patients and third-party payors. A number of factors could affect these efforts, including:

- our ability to demonstrate clinically that our products are useful and safe in particular indications;
- delays or refusals by regulatory authorities in granting marketing approvals;
- our limited financial resources and sales and marketing experience relative to our competitors;
- actual and perceived differences between our products and those of our competitors;
- the availability and level of reimbursement for our products by third-party payors;
- incidents of adverse reactions to our products;
- side effects or misuse of our products and the unfavorable publicity that could result; and
- the occurrence of manufacturing, supply or distribution disruptions.

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We cannot assure you that Genasense® will receive FDA or EMEA approval. Our financial condition and results of operations have been and will continue to be significantly affected by FDA and EMEA action with respect to Genasense®. Any adverse events with respect to FDA and/or EMEA approvals could negatively impact our ability to obtain additional funding or identify potential partners.

For example, in December 2005, we completed submission of an NDA to the FDA that sought accelerated approval for the use of Genasense® in combination with fludarabine plus cyclophosphamide for the treatment of patients with relapsed or refractory CLL who had previously received fludarabine. In September 2006, an ODAC meeting voted not to recommend approval of Genasense® in CLL, and in December 2006, we received a non-approvable notice from the FDA. We believe that our application met the regulatory requirements for approval, and in April 2007, we filed an appeal of this non-approvable notice pursuant to the FDA s Formal Dispute Resolution process that exists within the FDA s Center for Drug Evaluation and Research (CDER). In June 2007, we announced that the initial appeal was denied and that we would further appeal the decision to the next level within CDER. On October 25, 2007, we announced that we had completed the filing of our next-level formal appeal to CDER.

On March 17, 2008, we announced that CDER had decided that additional confirmatory evidence would be required to support approval of Genasense® for treatment of patients with CLL. CDER acknowledged that complete response, which was the primary endpoint in the pivotal trial, was an appropriate endpoint for assessing efficacy. FDA also agreed that this endpoint was achieved, and that those results supported the efficacy of the drug. CDER recommended two alternatives for exploring the efficacy of Genasense® that could provide such confirmatory evidence. One option was to conduct an additional clinical trial. The other option was to collect additional information regarding the clinical course and progression of disease in patients from the completed trial. We currently plan to pursue both of these options. Information from the completed trial should be available by the third quarter of 2008. In the second quarter of 2008, we submitted a new protocol seeking Special Protocol Assessment (SPA) from the FDA and Scientific Advice from the EMEA. This protocol is similar in design to the completed trial and uses the same chemotherapy and randomization scheme. The major difference is that the trial focuses on the patient population who derived maximal benefit in the completed trial. This group is characterized by patients who had received less extensive chemotherapy prior to entering the trial and who were defined as being non-refractory to fludarabine. The earliest date this new trial could begin patient accrual would be the fourth quarter of 2008. However, we do not currently have sufficient resources to finance this trial, and at present we do not expect to begin this trial absent funding from a partnership or other sources.

In January 2006, we completed a MAA to the EMEA, which sought approval for use of Genasense® plus dacarbazine for the treatment of patients with advanced melanoma who had not previously received chemotherapy. In April 2007, we were informed that the Committee for Medicinal Products for Human Use (CHMP) of the EMEA had issued a negative opinion on the MAA and we indicated that we would seek re-examination of the MAA by a Scientific Advisory Group. In July 2007, we received notice from the EMEA that the requested re-examination by a Scientific Advisory Group had reaffirmed the negative opinion. We contemplate no further action on the MAA.

Ultimately, our efforts may not prove to be as effective as those of our competitors. In the United States and elsewhere, our products will face significant competition. The principal conditions on which our product development efforts are focused and some of the other disorders for which we are conducting additional studies, are currently treated with several drugs, many of which have been available for a number of years or are available in inexpensive generic forms. Thus, even if we obtain regulatory approvals, we will need to demonstrate to physicians, patients and third-party payors that the cost of our products is reasonable and appropriate in light of their safety and efficacy, the price of competing products and the relative health care benefits to the patient. If we are unable to demonstrate that the costs of our products are reasonable and appropriate in light of these factors, we will likely be unsuccessful in commercializing our products.

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***Recurring losses and negative cash flows from operations raise substantial doubt about our ability to continue as a going concern and we may not be able to continue as a going concern.***

Our recurring losses from operations and negative cash flows from operations raise substantial doubt about our ability to continue as a going concern and as a result, our independent registered public accounting firm included an explanatory paragraph in its report on our consolidated financial statement for the year ended December 31, 2007 with respect to this uncertainty. Substantial doubt about our ability to continue as a going concern may create negative reactions to the price of the common shares of our stock and we may have a more difficult time obtaining financing.

We have prepared our financial statements on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts of liabilities that might be necessary should we be unable to continue in existence.

***Our business will suffer if we fail to obtain additional funding.***

Our operations to date have required significant cash expenditures. Our future capital requirements will depend on the results of our research and development activities, preclinical studies and clinical trials, competitive and technological advances, and regulatory activities of the FDA and other regulatory authorities. In order to commercialize our products, seek new product candidates and continue our research and development programs, we will need to raise additional funds.

On June 5, 2008, the Company entered into definitive agreements with institutional and accredited investors to place senior secured convertible notes due 2010 totaling in aggregate up to $40 million in gross proceeds before fees and expenses. The closing of the first $20 million of notes took place on June 9, 2008.

The notes bear interest at an annual rate of 15% payable at quarterly intervals in stock or cash at the Company s option, and are convertible into shares of Genta common stock at a conversion rate of 100,000 shares of common stock for every $1,000.00 of principal. Holders of the notes have the right, but not the obligation, for the following 12 months following the initial closing date to purchase in whole or in part up to an additional $20 million of the notes. The Company shall have the right to force conversion of the notes in whole or in part if the closing bid price of the Company s common stock exceeds $0.50 for a period of 20 consecutive trading days. Certain members of our senior management participated in this offering. The notes are secured by a first lien on all assets of Genta. The notes include certain events of default, including a requirement that the Company obtain stockholder approval within a specified period of time to amend its certificate of incorporation to authorize additional shares of common stock.

If we are unable to raise additional funds, we will need to do one or more of the following:

- delay, scale back or eliminate some or all of our research and product development programs;
- license third parties to develop and commercialize products or technologies that we would otherwise seek to develop and commercialize ourselves;
- attempt to sell our company;
- cease operations; or
- declare bankruptcy.

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We will maintain an appropriate level of spending over the upcoming fiscal year, given the uncertainties inherent in our business and our current liquidity position. Presently, with no further financing, we will run out of funds in the first quarter of 2009. We currently do not have any additional financing in place. If we are unable to raise additional financing, we could be required to reduce our spending plans, reduce our workforce, license to others products or technologies we would otherwise seek to commercialize ourselves and sell certain assets. There can be no assurance that we can obtain financing, if at all, on terms acceptable to us.

***We have relied on and continue to rely on our contractual collaborative arrangements with research institutions and corporate partners for development and commercialization of our products. Our business could suffer if we are not able to enter into suitable arrangements, maintain existing relationships, or if our collaborative arrangements are not successful in developing and commercializing products.***

We have entered into collaborative relationships relating to the conduct of clinical research and other research activities in order to augment our internal research capabilities and to obtain access to specialized knowledge and expertise. Our business strategy depends in part on our continued ability to develop and maintain relationships with leading academic and research institutions and with independent researchers. The competition for these relationships is intense, and we can give no assurances that we will be able to develop and maintain these relationships on acceptable terms.

We also seek strategic alliances with corporate partners, primarily pharmaceutical and biotechnology companies, to help us develop and commercialize drugs. Various problems can arise in strategic alliances. A partner responsible for conducting clinical trials and obtaining regulatory approval may fail to develop a marketable drug. A partner may decide to pursue an alternative strategy or focus its efforts on alliances or other arrangements with third parties. A partner that has been granted marketing rights for a certain drug within a geographic area may fail to market the drug successfully. Consequently, strategic alliances that we may enter into may not be scientifically or commercially successful.

We cannot control the resources that any collaborator may devote to our products. Any of our present or future collaborators may not perform their obligations as expected. These collaborators may breach or terminate their agreements with us, for instance upon changes in control or management of the collaborator, or they may otherwise fail to conduct their collaborative activities successfully and in a timely manner.

In addition, our collaborators may elect not to develop products arising out of our collaborative arrangements or to devote sufficient resources to the development, regulatory approval, manufacture, marketing or sale of these products. If any of these events occur, we may not be able to develop our products or commercialize our products.

An important part of our strategy involves conducting multiple product development programs. We may pursue opportunities in fields that conflict with those of our collaborators. In addition, disagreements with our collaborators could develop over rights to our intellectual property. The resolution of such conflicts and disagreements may require us to relinquish rights to our intellectual property that we believe we are entitled to. In addition, any disagreement or conflict with our collaborators could reduce our ability to obtain future collaboration agreements and negatively impact our relationship with existing collaborators. Such a conflict or disagreement could also lead to delays in collaborative research, development, regulatory approval or commercialization of various products or could require or result in litigation or arbitration, which would be time consuming and expensive, divert the attention of our management and could have a significant negative impact on our business, financial condition and results of operations.

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***We anticipate that we will incur additional losses and we may never be profitable.***

We have never been profitable. We have incurred substantial annual operating losses associated with ongoing research and development activities, preclinical testing, clinical trials, regulatory submissions and manufacturing activities. From the period since our inception to June 30, 2008, we have incurred a cumulative net deficit of $1,186.3 million. We may never achieve revenue sufficient for us to attain profitability. Achieving profitability is unlikely unless Genasense® receives approval from the FDA or EMEA for commercial sale in one or more indications.

***Our business depends heavily on a small number of products.***

We currently market and sell one product, Ganite® and the principal patent covering its use for the approved indication expired in April 2005. If Genasense® is not approved, if approval is significantly delayed, or if in the event of approval the product is commercially unsuccessful, we do not expect significant sales of other products to offset this loss of potential revenue.

To diversify our product line in the long term, it will be important for us to identify suitable technologies and products for acquisition or licensing and development. If we are unable to identify suitable technologies and products, or if we are unable to acquire or license products we identify, we may be unable to diversify our product line and to generate long-term growth.

***We may be unable to obtain or enforce patents, other proprietary rights and licenses to protect our business; we could become involved in litigation relating to our patents or licenses that could cause us to incur additional costs and delay or prevent our introduction of new drugs to market.***

Our success will depend to a large extent on our ability to:

- obtain U.S. and foreign patent or other proprietary protection for our technologies, products and processes;
- preserve trade secrets; and
- operate without infringing the patent and other proprietary rights of third parties.

Legal standards relating to the validity of patents covering pharmaceutical and biotechnological inventions and the scope of claims made under these types of patents are still developing, and they involve complex legal and factual questions. As a result, our ability to obtain and enforce patents that protect our drugs is highly uncertain. If we are unable to obtain and enforce patents and licenses to protect our drugs, our business, results of operations and financial condition could be adversely affected.

We hold numerous U.S., foreign and international patents covering various aspects of our technology, which include novel compositions of matter, methods of large-scale synthesis and methods of controlling gene expression and methods of treating disease. In the future, however, we may not be successful in obtaining additional patents despite pending or future applications. Moreover, our current and future patents may not be sufficient to protect us against competitors who use similar technology. Additionally, our patents, the patents of our business partners and the patents for which we have obtained licensing rights may be challenged, narrowed, invalidated or circumvented. Furthermore, rights granted under our patents may not be broad enough to cover commercially valuable drugs or processes, and therefore, may not provide us with sufficient competitive advantage with respect thereto.

The pharmaceutical and biotechnology industries have been greatly affected by time-consuming and expensive litigation regarding patents and other intellectual property rights. We may be required to commence, or may be made a party to, litigation relating to the scope and validity of our intellectual property rights or the intellectual property rights of others. Such litigation could result in adverse decisions regarding the patentability of our inventions and products, the enforceability, validity or scope of protection offered by our patents or our infringement of patents held by others. Such decisions could make us liable for substantial money damages, or could bar us from the manufacture, sale or use of certain products. Moreover, an adverse decision may also compel us to seek a license from a third party. The costs of any license may be prohibitive and we may not be able to enter into any required licensing arrangement on terms acceptable to us.

The cost to us of any litigation or proceeding relating to patent or license rights, even if resolved in our favor, could be substantial. Some of our competitors may be able to sustain the costs of complex patent or licensing litigation more effectively than we can because of their substantially greater resources. Uncertainties resulting from the initiation and continuation of any patent or related litigation could have a material adverse effect on our ability to compete in the marketplace.

We also may be required to participate in interference proceedings declared by the U.S. Patent and Trademark Office in opposition or similar proceedings before foreign patent offices and in International Trade Commission proceedings aimed at preventing the importation of drugs that would compete unfairly with our drugs. These types of proceedings could cause us to incur considerable costs.

The principal patent covering the use of Ganite® for its approved indication, including Hatch-Waxman extensions, expired in April 2005.

Genta s patent portfolio includes approximately 65 granted patents and 66 pending applications in the U.S. and foreign countries. We endeavor to seek appropriate U.S. and foreign patent protection on our oligonucleotide technology.

We have licensed ten U.S. patents relating to Genasense® and its backbone chemistry that expire between 2008 and 2015. Corresponding patent applications have been filed in three foreign countries. We also own five U.S. patent applications relating to methods of using Genasense® expected to expire in 2020 and 2026, with approximately 50 corresponding foreign patent applications and granted patents.

***Most of our products are in an early stage of development, and we may never receive regulatory approval for these products.***

Most of our resources have been dedicated to the research and development of potential antisense pharmaceutical products such as Genasense®, based upon oligonucleotide technology. While we have demonstrated the activity of antisense oligonucleotide technology in model systems in vitro and in animals, Genasense® is our only antisense product to have been tested in humans. Several of our other technologies that serve as a possible basis for pharmaceutical products are only in preclinical testing. Results obtained in preclinical studies or early clinical investigations are not necessarily indicative of results that will be obtained in extended human clinical trials. Our products may prove to have undesirable and unintended side effects or other characteristics that may prevent our obtaining FDA or foreign regulatory approval for any indication. In addition, it is possible that research and discoveries by others will render our oligonucleotide technology obsolete or noncompetitive.

***We will not be able to commercialize our product candidates if our preclinical studies do not produce successful results or if our clinical trials do not demonstrate safety and efficacy in humans.***

Our success will depend on the success of our currently ongoing clinical trials and subsequent clinical trials that have not yet begun. It may take several years to complete the clinical trials of a product, and a failure of one or more of our clinical trials can occur at any stage of testing. We believe that the development of each of our product candidates involves significant risks at each stage of testing. If clinical trial difficulties and failures arise, our product candidates may never be approved for sale or become commercially viable. We do not believe that any of our product candidates have alternative uses if our current development activities are unsuccessful.

There are a number of difficulties and risks associated with clinical trials. These difficulties and risks may result in the failure to receive regulatory approval to sell our product candidates or the inability to commercialize any of our product candidates. The possibility exists that:

- we may discover that a product candidate does not exhibit the expected therapeutic results in humans, may cause harmful side effects or have other unexpected characteristics that may delay or preclude regulatory approval or limit commercial use if approved;
- the results from early clinical trials may not be statistically significant or predictive of results that will be obtained from expanded, advanced clinical trials;
- institutional review boards or regulators, including the FDA, may hold, suspend or terminate our clinical research or the clinical trials of our product candidates for various reasons, including noncompliance with regulatory requirements or if, in their opinion, the participating subjects are being exposed to unacceptable health risks;
- subjects may drop out of our clinical trials;
- our preclinical studies or clinical trials may produce negative, inconsistent or inconclusive results, and we may decide, or regulators may require us, to conduct additional preclinical studies or clinical trials; and
- the cost of our clinical trials may be greater than we currently anticipate.

Between 2004 and 2007, we reported that randomized trials of Genasense® in patients with myeloma, acute myeloid leukemia, (AML), hormone-refractory prostate cancer, small cell lung cancer and non small cell lung cancer were not sufficiently positive to warrant further investigation on the dose-schedules that were examined or with the chemotherapy that was employed in these trials. Data from these trials have been presented at various scientific meetings.

We cannot assure you that our ongoing preclinical studies and clinical trials will produce successful results in order to support regulatory approval of Genasense® in any territory or for any indication. Failure to obtain approval, or a substantial delay in approval of Genasense® for these or any other indications would have a material adverse effect on our results of operations and financial condition.

***Clinical trials are costly and time consuming and are subject to delays; our business would suffer if the development process relating to our products were subject to meaningful delays.***

Clinical trials are very costly and time-consuming. The length of time required to complete a clinical study depends upon many factors, including but not limited to the size of the patient population, the ability of patients to get to the site of the clinical study, the criteria for determining which patients are eligible to join the study and other issues. Delays in patient enrollment and other unforeseen developments could delay completion of a clinical study and increase its costs, which could also delay any eventual commercial sale of the drug that is the subject of the clinical trial.

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Our commencement and rate of completion of clinical trials also may be delayed by many other factors, including the following:

- inability to obtain sufficient quantities of materials for use in clinical trials;
- inability to adequately monitor patient progress after treatment;
- unforeseen safety issues;
- the failure of the products to perform well during clinical trials; and
- government or regulatory delays.

***If we fail to obtain the necessary regulatory approvals, we cannot market and sell our products in the United States.***

The FDA imposes substantial pre-market approval requirements on the introduction of pharmaceutical products. These requirements involve lengthy and detailed preclinical and clinical testing and other costly and time-consuming procedures. Satisfaction of these requirements typically takes several years or more depending upon the type, complexity and novelty of the product. We cannot apply for FDA approval to market any of our products under development until preclinical and clinical trials on the product are successfully completed. Several factors could prevent successful completion or cause significant delays of these trials, including an inability to enroll the required number of patients or failure to demonstrate adequately that the product is safe and effective for use in humans. If safety concerns develop, the FDA could stop our trials before completion. We may not market or sell any product for which we have not obtained regulatory approval.

We cannot assure you that the FDA will ever approve the use of our products that are under development. If the patient populations for which our products are approved are not sufficiently broad, or if approval is accompanied by unanticipated labeling restrictions, the commercial success of our products could be limited and our business, results of operations and financial condition could consequently be materially adversely affected.

***If the third party manufacturers upon which we rely fail to produce our products in the volumes that we require on a timely basis, or to comply with stringent regulations applicable to pharmaceutical drug manufacturers, we may face delays in the commercialization of, or be unable to meet demand for, our products and may lose potential revenues.***

We do not manufacture any of our products or product candidates and we do not plan to develop any capacity to do so. We have contracted with third-party manufacturers to manufacture Ganite® and Genasense®. The manufacture of pharmaceutical products requires significant expertise and capital investment, including the development of advanced manufacturing techniques and process controls. Manufacturers of pharmaceutical products often encounter difficulties in production, especially in scaling up initial production. These problems include difficulties with production costs and yields, quality control and assurance and shortages of qualified personnel, as well as compliance with strictly enforced federal, state and foreign regulations. Our third-party manufacturers may not perform as agreed or may terminate their agreements with us.

In addition to product approval, any facility in which Genasense® is manufactured or tested for its ability to meet required specifications must be approved by the FDA and/or the EMEA before it can manufacture Genasense®. Failure of the facility to be approved could delay the approval of Genasense®.

We do not currently have alternate manufacturing plans in place. The number of third-party manufacturers with the expertise, required regulatory approvals and facilities to manufacture bulk drug substance on a commercial scale is limited, and it would take a significant amount of time to arrange for alternative manufacturers. If we need to change to other commercial manufacturers, the FDA and comparable foreign regulators must approve these manufacturers facilities and processes prior to our use, which would require new testing and compliance inspections, and the new manufacturers would have to be educated in or independently develop the processes necessary for the production of our products.

Any of these factors could cause us to delay or suspend clinical trials, regulatory submissions, required approvals or commercialization of our products or product candidates, entail higher costs and result in our being unable to effectively commercialize our products. Furthermore, if our third-party manufacturers fail to deliver the required commercial quantities of bulk drug substance or finished product on a timely basis and at commercially reasonable prices, and we were unable to promptly find one or more replacement manufacturers capable of production at a substantially equivalent cost, in substantially equivalent volume and on a timely basis, we would likely be unable to meet demand for our products and we would lose potential revenues.

***Even if we obtain regulatory approval, we will be subject to ongoing regulation, and any failure by us or our manufacturers to comply with such regulation could suspend or eliminate our ability to sell our products.***

Ganite®, Genasense® (if it obtains regulatory approval), and any other product we may develop will be subject to ongoing regulatory oversight, primarily by the FDA. Failure to comply with post-marketing requirements, such as maintenance by us or by the manufacturers of our products of current Good Manufacturing Practices as required by the FDA, or safety surveillance of such products or lack of compliance with other regulations could result in suspension or limitation of approvals or other enforcement actions. Current Good Manufacturing Practices are FDA regulations that define the minimum standards that must be met by companies that manufacture pharmaceuticals and apply to all drugs for human use, including those to be used in clinical trials, as well as those produced for general sale after approval of an application by the FDA. These regulations define requirements for personnel, buildings and facilities, equipment, control of raw materials and packaging components, production and process controls, packaging and label controls, handling and distribution, laboratory controls and recordkeeping. Furthermore, the terms of any product candidate approval, including the labeling content and advertising restrictions, may be so restrictive that they could adversely affect the marketability of our product candidates. Any such failure to comply or the application of such restrictions could limit our ability to market our product candidates and may have a material adverse effect on our business, results of operations and financial condition. Such failures or restrictions may also prompt regulatory recalls of one or more of our products, which could have material and adverse effects on our business.

***The raw materials for our products are produced by a limited number of suppliers, and our business could suffer if we cannot obtain needed quantities at acceptable prices and qualities.***

The raw materials that we require to manufacture our drugs, particularly oligonucleotides, are available from only a few suppliers. If these suppliers cease to provide us with the necessary raw materials or fail to provide us with an adequate supply of materials at an acceptable price and quality, we could be materially adversely affected.

***If third-party payors do not provide coverage and reimbursement for use of our products, we may not be able to successfully commercialize our products.***

Our ability to commercialize drugs successfully will depend in part on the extent to which various third-party payors are willing to reimburse patients for the costs of our drugs and related treatments. These third-party payors include government authorities, private health insurers and other organizations, such as health maintenance organizations. Third-party payors often challenge the prices charged for medical products and services. Accordingly, if less costly drugs are available, third-party payors may not authorize or may limit reimbursement for our drugs, even if they are safer or more effective than the alternatives. In addition, the federal government and private insurers have changed and continue to consider ways to change the manner in which health care products and services are provided and paid for in the United States. In particular, these third-party payors are increasingly attempting to contain health care costs by limiting both coverage and the level of reimbursement for new therapeutic products. In the future, it is possible that the government may institute price controls and further limits on Medicare and Medicaid spending. These controls and limits could affect the payments we collect from sales of our products. Internationally, medical reimbursement systems vary significantly, with some countries requiring application for, and approval of, government or third-party reimbursement. In addition, some medical centers in foreign countries have fixed budgets, regardless of levels of patient care. Even if we succeed in bringing therapeutic products to market, uncertainties regarding future health care policy, legislation and regulation, as well as private market practices, could affect our ability to sell our products in quantities, or at prices, that will enable us to achieve profitability.

***Our business exposes us to potential product liability that may have a negative effect on our financial performance and our business generally.***

The administration of drugs to humans, whether in clinical trials or commercially, exposes us to potential product and professional liability risks, which are inherent in the testing, production, marketing and sale of human therapeutic products. Product liability claims can be expensive to defend and may result in large judgments or settlements against us, which could have a negative effect on our financial performance and materially and adversely affect our business. We maintain product liability insurance (subject to various deductibles), but our insurance coverage may not be sufficient to cover claims. Furthermore, we cannot be certain that we will always be able to maintain or increase our insurance coverage at an affordable price. Even if a product liability claim is not successful, the adverse publicity and time and expense of defending such a claim may interfere with or adversely affect our business and financial performance.

***We may incura variety of costs to engage in future acquisitions of companies, products or technologies, and the anticipated benefits of those acquisitions may never be realized.***

As a part of our business strategy, we may make acquisitions of, or significant investments in, complementary companies, products or technologies, although no significant acquisition or investments are currently pending. Any future acquisitions would be accompanied by risks such as:

- difficulties in assimilating the operations and personnel of acquired companies;
- diversion of our management s attention from ongoing business concerns;
- our potential inability to maximize our financial and strategic position through the successful incorporation of acquired technology and rights into our products and services;
- additional expense associated with amortization of acquired assets;
- maintenance of uniform standards, controls, procedures and policies; and
- impairment of existing relationships with employees, suppliers and customers as a result of the integration of new management personnel.

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We cannot guarantee that we will be able to successfully integrate any business, products, technologies or personnel that we might acquire in the future, and our failure to do so could harm our business.

***We face substantial competition from other companies and research institutions that are developing similar products, and we may not be able to compete successfully.***

In many cases, our products under development will be competing with existing therapies for market share. In addition, a number of companies are pursuing the development of antisense technology and controlled-release formulation technology and the development of pharmaceuticals utilizing such technologies. We compete with fully integrated pharmaceutical companies that have more substantial experience, financial and other resources and superior expertise in research and development, manufacturing, testing, obtaining regulatory approvals, marketing and distribution. Smaller companies may also prove to be significant competitors, particularly through their collaborative arrangements with large pharmaceutical companies or academic institutions. Furthermore, academic institutions, governmental agencies and other public and private research organizations have conducted and will continue to conduct research, seek patent protection and establish arrangements for commercializing products. Such products may compete directly with any products that may be offered by us.

Our competition will be determined in part by the potential indications for which our products are developed and ultimately approved by regulatory authorities. For certain of our potential products, an important factor in competition may be the timing of market introduction of our or our competitors products. Accordingly, the relative speed with which we can develop products, complete the clinical trials and approval processes and supply commercial quantities of the products to the market are expected to be important competitive factors. We expect that competition among products approved for sale will be based, among other things, on product efficacy, safety, reliability, availability, price, patent position and sales, marketing and distribution capabilities. The development by others of new treatment methods could render our products under development non-competitive or obsolete.

Our competitive position also depends upon our ability to attract and retain qualified personnel, obtain patent protection or otherwise develop proprietary products or processes and secure sufficient capital resources for the often-substantial period between technological conception and commercial sales. We cannot assure you that we will be successful in this regard.

***We are dependent on our key executives and scientists, and the loss of key personnel or the failure to attract additional qualified personnel could harm our business.***

Our business is highly dependent on our key executives and scientific staff. The loss of key personnel or the failure to recruit necessary additional or replacement personnel will likely impede the achievement of our development objectives. There is intense competition for qualified personnel in the pharmaceutical and biotechnology industries, and there can be no assurances that we will be able to attract and retain the qualified personnel necessary for the development of our business.

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### Risks Related to Outstanding Litigation

***The outcome of and costs relating to the pending stockholder class action and stockholder derivative actions are uncertain.***

In 2004, numerous complaints were filed in the United States District Court for the District of New Jersey, or the Court, against us and certain of our principal officers on behalf of purported classes of the Company s stockholders who purchased its securities during several class periods. The complaints were consolidated into a single action and alleged that the Company and certain of its principal officers violated the federal securities laws by issuing materially false and misleading statements regarding Genasense® for the treatment of malignant melanoma that had the effect of artificially inflating the market price of the Company s securities. The stockholder class action complaint sought monetary damages in an unspecified amount and recovery of plaintiffs costs and attorneys fees. We reached an agreement with plaintiffs to settle the class action litigation in consideration for the issuance of 2.0 million shares of common stock of the Company (adjusted for any subsequent event that results in a change in the number of shares outstanding as of January 31, 2007) and $18.0 million in cash for the benefit of plaintiffs and the stockholder class. The cash portion of the proposed settlement will be covered by our insurance carriers. Effective June 25, 2007, we and the plaintiffs executed a written Stipulation and Agreement of Settlement, which was filed with the Court on August 13, 2007, seeking preliminary approval. The unopposed Motion for Preliminary Approval of Settlement was granted on October 30, 2007, and the Court issued final approval of the Settlement at the Settlement Fairness Hearing on March 3, 2008. An order approving the settlement was issued on May 27, 2008 and the settlement became final on June 27, 2008.

The settlement and potential settlement did not constitute an admission of guilt or liability.

In February 2007, a complaint against us was filed in the Superior Court of New Jersey by Howard H. Fingert, M.D., a former employee of Genta. The complaint alleges, among other things, breach of contract as to our stock option plan and as to a consulting agreement allegedly entered into by us and Dr. Fingert subsequent to termination of Dr. Fingert s employment with us, breach of implied covenant of good faith and fair dealing with respect to our stock option plan and the alleged consulting agreement, promissory estoppel with respect to the exercise of stock options and provision of consulting services after termination of employment, and fraud and negligent misrepresentation with respect to exercise of stock options and provision of consulting services after termination of employment. The complaint seeks monetary damages, including punitive and consequential damages. We filed an answer to the complaint on May 29, 2007, and on August 8, 2007, filed a request for production of documents. On January 4, 2008, the Court dismissed the complaint without prejudice due to Dr. Fingert s failure to produce the requested discovery. Dr. Fingert filed a motion dated March 24, 2008 to reinstate the complaint, which was granted by the Court on April 11, 2008 at which time the Court adopted a discovery schedule that concludes in December 2008. We deny the allegations in the complaint and intend to vigorously defend this lawsuit.

In November 2007, a complaint against us was filed in the United States District Court for the District of New Jersey by Ridge Clearing & Outsourcing Solutions, Inc. The complaint alleges, among other things, that we caused or contributed to losses suffered by one of our stockholders, which have been incurred by Ridge. Our Answer and Affirmative Defenses were filed on February 27, 2008 to respond to the complaint. We deny the allegations in the complaint and intend to vigorously defend this lawsuit.

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### Risks Related to Our Common Stock

***Provisions in our restated certificate of incorporation and bylaws and Delaware law may discourage a takeover and prevent our stockholders from receiving a premium for their shares.***

Provisions in our restated certificate of incorporation and bylaws may discourage third parties from seeking to obtain control of us and, therefore, could prevent our stockholders from receiving a premium for their shares. Our restated certificate of incorporation gives our Board of Directors the power to issue shares of preferred stock without approval of the holders of common stock. Any preferred stock that is issued in the future could have voting rights, including voting rights that could be superior to that of our common stock. The affirmative vote of 66 2/3% of our voting stock is required to approve certain transactions and to take certain stockholder actions, including the amendment of certain provisions of our certificate of incorporation. Our bylaws contain provisions that regulate how stockholders may present proposals or nominate directors for election at annual meetings of stockholders.

In addition, we are subject to Section 203 of the Delaware General Corporation Law, which contains restrictions on stockholder action to acquire control of us.

In September 2005, our Board of Directors approved a Stockholder Rights Plan and declared a dividend of one preferred stock purchase right, which we refer to as a Right, for each share of our common stock held of record as of the close of business on September 27, 2005. In addition, Rights shall be issued in respect of all shares of common stock issued after such date. The Rights contain provisions to protect stockholders in the event of an unsolicited attempt to acquire us, including an accumulation of shares in the open market, a partial or two-tier tender offer that does not treat all stockholders equally and other activities that the Board believes are not in the best interests of stockholders. The Rights may discourage a takeover and prevent our stockholders from receiving a premium for their shares.

***We have not paid, and do not expect to pay in the future, cash dividends on our common stock.***

We have never paid cash dividends on our common stock and do not anticipate paying any such dividends in the foreseeable future. We currently intend to retain our earnings, if any, for the development of our business.

***Our stock price is volatile.***

The market price of our common stock, like that of the common stock of many other biopharmaceutical companies, has been and likely will continue to be highly volatile. Factors that could have a significant impact on the future price of our common stock include but are not limited to:

- the results of preclinical studies and clinical trials by us or our competitors;
- announcements of technological innovations or new therapeutic products by us or our competitors;
- government regulation;
- developments in patent or other proprietary rights by us or our respective competitors, including litigation;
- fluctuations in our operating results; and
- market conditions for biopharmaceutical stocks in general.

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At June 30,2008, we had 36.7 million shares of common stock outstanding, 43.4 million additional shares reserved for the conversion of convertible preferred stock and the exercise of outstanding options and warrants. Future sales of shares of our common stock by existing stockholders, holders of preferred stock who might convert such preferred stock into common stock and option and warrant holders who may exercise their options and warrants to purchase common stock also could adversely affect the market price of our common stock. Moreover, the perception that sales of substantial amounts of our common stock might occur could adversely affect the market price of our common stock.

At our Annual Meeting of Stockholders held on July 11, 2007, our stockholders authorized our Board of Directors to effect a reverse stock split of all outstanding shares of common stock, and the Board of Directors subsequently approved the implementation of a reverse stock split at a ratio of one for six shares. On July 12, 2007, we filed a Certificate of Amendment to our Restated Certificate of Incorporation, as amended, with the Delaware Secretary of State to effect the reverse stock split. As of July 12, 2007, the effective date of the reverse stock split, every six shares of old common stock were converted into one new share of common stock. Upon the open of trading on July 13, 2007, the new shares of common stock began trading on the NASDAQ Global Market on a split-adjusted basis. As a result of the 1-for-6 reverse stock split, shares of our common stock outstanding were reduced from 183.7 million shares on a pre-split basis to 30.6 million shares on a post-split basis, or 83%. The resulting decrease in the number of shares of our common stock outstanding could potentially adversely affect the liquidity of our common stock, especially in the case of larger block trades.

Effective May 7, 2008, we moved the trading of our common stock from The NASDAQ Capital Markets to the OTC Bulletin Board maintained by FINRA (formerly, the NASD). This action was taken pursuant to receipt of notification from the NASDAQ Listing Qualifications Panel that we had failed to demonstrate our ability to sustain compliance with the $2.5 million minimum stockholders equity requirement for continued listing on The NASDAQ Capital Markets. On July 10, 2008, we received notification from The NASDAQ Capital Market that The NASDAQ Capital Market had determined to remove our common stock from listing on such exchange. The delisting was effective at the opening of the trading session on July 21, 2008.

***If our convertible noteholders convert their notes into shares of our common stock, our stockholders may be diluted.***

On June 5, 2008, we entered into a securities purchase agreement with certain institutional and accredited investors, to place up to $40 million of senior secured convertible notes, referred to herein as the notes, with such investors. On June 9, 2008, we placed $20 million of such notes in the initial closing. The notes bear interest at an annual rate of 15% per annum payable at quarterly intervals in stock or cash at the Company s option, and will be convertible into shares of the Company s common stock at a conversion rate of 100,000 shares of common stock for every $1,000 of principal; provided, however, at no time may the holder of a note convert such note if such conversion would cause the holder to beneficially own more than 4.999% of the then outstanding shares of common stock of the Company. Until June 9, 2009, the holders of the notes have the right, but not the obligation, to purchase in whole or in part up to an additional $20 million of notes. We have the right to force conversion of the notes in whole or in part if the closing bid price of our common stock exceeds $0.50 for a period of 20 consecutive trading days. Certain members of our senior management participated in the initial closing. Pursuant to the general security agreement, the notes are secured by a first lien on all of our assets, subject to certain exceptions set forth in such security agreement. The notes include certain events of default, including a requirement that we obtain stockholder approval within a specified period of time to amend our certificate of incorporation to authorize additional shares of common stock.

The conversion of some or all of our notes will dilute the ownership interests of existing stockholders. Any sales in the public market of the common stock issuable upon conversion of the notes could adversely affect prevailing market prices of our common stock. In addition, the existence of the notes may encourage short selling by market participants because the conversion of the notes could depress the price of our common stock.

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If holders of our notes elect to convert their notes and sell material amounts of our common stock in the market, such sales could cause the price of our common stock to decline, and such downward pressure on the price of our common stock may encourage short selling of our common stock by holders of our notes or others. To the extent that holders of our notes elect to convert the notes into shares of our common stock and sell material amounts of those shares in the market, our stock price may decrease as a result of the additional amount of shares available on the market. The subsequent sales of these shares could encourage short sales by holders of notes and others, placing further downward pressure on our stock price.

If there is significant downward pressure on the price of our common stock, it may encourage holders of notes or others to sell shares by means of short sales to the extent permitted under the U.S. securities laws. Short sales involve the sale by a holder of notes, usually with a future delivery date, of common stock the seller does not own. Covered short sales are sales made in an amount not greater than the number of shares subject to the short seller s right to acquire common stock, such as upon conversion of notes. A holder of notes may close out any covered short position by converting its notes or purchasing shares in the open market. In determining the source of shares to close out the covered short position, a holder of notes will likely consider, among other things, the price of common stock available for purchase in the open market as compared to the conversion price of the notes. The existence of a significant number of short sales generally causes the price of common stock to decline, in part because it indicates that a number of market participants are taking a position that will be profitable only if the price of the common stock declines.

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

None.

**Item 3.** ***Defaults Upon Senior Securities***

None.

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

No matters were submitted to a vote of security holders in the quarter ended June 30, 2008.

**Item 5.** ***Other Information***

None.

**Item 6. *Exhibits.***

(a) Exhibits

| Exhibit Number | Description of Document |
|---|---|
| 4.1 | Form of Senior Secured Convertible Promissory Note (Incorporated by reference to Exhibit 4.1 of the Company s Current Report on Form 8-K, as filed with the SEC on June 10, 2008). |
| 4.2 | Common Stock Purchase Warrant, dated June 9, 2008 (filed herewith). |
| 10.1 | Supply Agreement, dated May 1, 2008, between the Company and Avecia Biotechnology (filed herewith).* |
| 10.2 | Amendment to the Lease Agreement, dated May 27, 2008, between the Company and The Connell Company (filed herewith). |
| 10.3 | Securities Purchase Agreement, dated June 5, 2008, by and among the Company and certain accredited investors set forth therein (Incorporated by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K, as filed with the SEC on June 10, 2008). |
| 10.4 | General Security Agreement, dated June 9, 2008, by and among the Company, certain additional grantors as set forth therein and Tang Capital Partners, L.P. as agent (Incorporated by reference to Exhibit 10.2 of the Company s Current Report on Form 8-K, as filed with the SEC on June 10, 2008). |
| 31.1 | Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| 31.2 | Certification by Vice President, Finance pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| 32.1 | Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). |
| 32.2 | Certification by Vice President, Finance pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). |

* Portions of this exhibit have been omitted under a request for confidential treatment and filed separately with the Securities and Exchange Commission.

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**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

Date: August 7, 2008

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

Raymond P. Warrell, Jr., M.D.
Chairman and Chief Executive Officer
(principal executive officer)

Date: August 7, 2008

/s/ GARY SIEGEL

Gary Siegel
Vice President, Finance
(principal financial and accounting officer)

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## Exhibit Index

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