SCIENCE APPLICATIONS INTERNATIONAL CORP
Form 425
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Subject Company: Science Applications International Corporation

Registration No.: 000-12771

**THIRD SUPPLEMENTAL Q&A**

*In this Third Supplemental Q&A, we use the terms SAIC, we, us and our to refer to Science Applications International Corporation or SAIC, In when the distinction between the two companies is not important. When the distinction is important to the discussion, we use the term Old SAIC to refer to Science Applications International Corporation and New SAIC to refer to SAIC, Inc. In addition, we refer to the common stock of Science Applications International Corporation as class A common stock and class B common stock, and to the class A preferred stock of SAIC, Inc. as new class A preferred stock and to the common stock of SAIC, Inc. as new common stock.*

**REVISED Q&A**

The following questions and answers have been revised and supersede the same numbered questions and answers in the Supplemental Q&A filed with the SEC on September 1, 2005 and the Second Supplemental Q&A filed with the SEC on September 23, 2005.

**Q1. What transactions do we intend to complete?**

A. We intend to complete the following transactions:

a merger pursuant to which Old SAIC will become a wholly-owned subsidiary of New SAIC, and each share of outstanding class A common stock will be converted into the right to receive two shares of class A preferred stock of New SAIC and each share of outstanding class B common stock will be converted into the right to receive 40 shares of class A preferred stock of New SAIC

an initial public offering, or IPO, of new common stock of New SAIC through which we will raise cash from outside investors

special dividend which we will pay to our current stockholders

**Q30. What will we do with the proceeds from the IPO?**

A. We plan to use the net proceeds of the IPO for working capital, capital spending and possible investments and acquisitions. However, Old SAIC intends to pay a special dividend to holders of Old SAIC common stock in an amount that will exceed the anticipated net proceeds from the IPO.

**Q32. Why do we plan to pay a special dividend?**

A. Given our current strong cash position, we believe the special dividend is an efficient and fair way to return to our stockholders excess cash that no longer will be needed to repurchase stock in the limited market or to otherwise provide liquidity to our stockholders after the IPO.

**Q33. What is the amount of the special dividend?**

A. The dividend is expected to range from $8 to $10 per share of Old SAIC class A common stock and from $160 to $200 per share of Old SAIC class B common stock.

**Q35. When will the special dividend be paid?**

A. The board of directors of Old SAIC intends to declare a special dividend that will be paid to the holders of Old SAIC common stock as of the record date set by the board of directors. Payment will be conditioned upon completion of the IPO, and it is anticipated that the dividend will be paid within 25 days after the IPO.

**Q36. What are the tax consequences of the special dividend?**

A. The special dividend should constitute a taxable dividend for federal income tax purposes to the extent it is paid from current or accumulated earnings and profits, as determined under federal income principles. Any dividends in excess of earnings and profits may be treated as a nontaxable return of capital or as a gain realized on the sale or disposition of your Old SAIC common stock.

**Q37. What will our dividend policy be after the IPO?**

A. Old SAIC has never declared or paid dividends on its capital stock. Old SAIC intends to pay to holders of Old SAIC common stock a special dividend after the completion of the IPO. New SAIC does not expect to pay any dividends on our capital stock in the foreseeable future and we currently intend to retain any future earnings to finance our operations and growth. Any future determination to pay cash dividends will be at the discretion of our board of directors and will depend on earnings, financial condition, operating results, capital requirements, applicable contractual restrictions and other factors our board of directors deems relevant.

**Q64. Will the special dividend be paid on unvested shares?**

A. Yes. The special dividend will be paid on all shares of Old SAIC common stock, including all shares held in our retirement plans, regardless of whether the shares are vested or unvested. The special dividend will be 100% vested.

**Q76. How will the special dividend affect my outstanding stock options? How will the merger affect my outstanding stock options?**

A. The special dividend will not be paid on options that are not exercised on or before the record date established for the special dividend. Our stock option plans, however, provide that unexercised stock options will be adjusted to preserve their pre-special dividend value. As a result,

If you exercise your options on or before the record date for the special dividend, the shares of class A common stock you acquire will be entitled to receive the special dividend.

If you do not exercise your options until after the record date for the special dividend, the exercise price of your options will be adjusted downward, and

the number of shares exercisable under the option will be adjusted upwards, to assure that the underlying value of your options reflect the special dividend. Your adjusted options will be vested and unvested in the same proportion as the pre-adjusted options.

**Adjustment Formula**

Stock options, from an economic perspective, derive their economic value based upon the current price of the stock, the exercise price of the option, expiration date, the volatility of the underlying stock, interest rates, and other factors. We intend to determine the appropriate adjustment to your options using a formula derived from a widely-accepted financial model.

**Example**

An example of this formula appears below. In this example, the following assumptions are made: (1) the option exercise price is $31.44; (2) the stock price is $41.80; (3) the employee holds options to purchase 100 shares of class A common stock; and (4) the amount of the dividend is $8.00 per share of class A common stock. There are two ways to view the value of these options. Under a widely-recognized financial model, the options in this example have an economic value of $13.22 per share. Another way of looking at your options is that each option is currently $10.36 in-the-money, the value you would receive if you exercise your options today. In either event, the special dividend would reduce that value because the stock price would be expected to decline following the special dividend. Consequently, the company is taking steps designed to assure that option holders maintain the same value both before and after special dividend, by reducing the exercise price and increasing the number of options.

In this example, after the adjustment to reflect the special dividend, the employee will have options to purchase 123.7 shares of class A common stock in Old SAIC, at an exercise price of $25.42 per share, resulting in the same potential value to the employee as before the one-time special dividend payment.

| | | |
|---|---|---|
| Stock Price [1] | | $ 41.80 |
| Special dividend amount paid | | $ 8.00 |
| Stock price post-dividend | | =$ 33.80 |
| Adjustment ratio for dividend = | $41.80 / ($41.80 - $8.00) | =1.237 |

| | Today | | Dividend adjustment | | Post dividend | |
|---|---|---|---|---|---|---|
| **Option impact** | Number of options [2] | 100 | x adjustment | 1.237 | = New number of options | 123.7 |
| | Exercise price [2] | $ 31.44 | ÷ adjustment | 1.237 | = New exercise price | $ 25.42 |
| **Economic value impact** | Economic value [3] per option | $ 13.22 | | | Economic value [3] per option | $ 10.69 |
| | Number of options | 100 | | | Number of options | 123.7 |
| | **Total economic value** | **$ 1,322** | | | **Total economic value** | **$ 1,322** |
| **In-the-money amount impact** | Stock price | $ 41.80 | | | Stock price | $ 33.80 |
| | Exercise price | $ 31.44 | | | Exercise price | $ 25.42 |

| | | | | |
|---|---|---|---|---|
| | In-the-$ amount | $ 10.36 | In-the-$ amount | $ 8.38 |
| | Number of options | 100 | Number of options | 123.7 |
| | **Total in-the-$ Amount** | **$ 1,036** | **Total in-the-$ Amount** | **$ 1,036** |

[1] This example uses the June 10, 2005 stock price for illustrative purposes.

[2] This example uses 100 options and the weighted average exercise price from the 10-Q filed for the quarterly period ended April 30, 2005 for illustrative purposes.

[3] The economic value using Black-Scholes method for option pricing, a widely-accepted method for valuing options, assuming 2 years to expiration and 20% volatility.

Unexercised stock options also will be adjusted to reflect the two-for-one exchange ratio in the merger. An example of this adjustment appears below. In this example, the following assumptions are made: (1) the option exercise price after the adjustment for the special dividend is $25.42 per share as shown in the above example; (2) the employee holds options to purchase 123.7 shares of class A common stock in Old SAIC after the adjustment for the special dividend as shown in the above example; and (3) each share of class A common stock in Old SAIC will be converted into the right to receive two shares of new class A preferred stock of New SAIC in the merger. In this example, after the adjustment to reflect the two-for-one exchange ratio in the merger, the employee will hold options to purchase 247.3 shares of new class A preferred stock at an exercise price of $12.71 per share, resulting in the same potential value to the employee as before the merger.

| | | |
|---|---|---|
| Stock price post dividend | | $ 33.80 |
| Stock price post merger and special dividend | | $ 16.90 |
| Adjustment ratio for merger = | $ 33.80 | |
| | $ 16.90 | =2.0 |

| | Post dividend adjustment | | Merger adjustment | | Post merger and dividend adjustment | |
|---|---|---|---|---|---|---|
| **Option impact** | Number of options | 123.7 | x adjustment | 2.0 | = New number of options | 247.3 |
| | Exercise price | $ 25.42 | ÷ adjustment | 2.0 | = New exercise price | $ 12.71 |
| **Economic value impact** | Economic value per option | $ 10.69 | | | Economic value per option | $ 5.34 |
| | Number of options | 123.7 | | | Number of options | 247.3 |
| | **Total economic value** | **$ 1,322** | | | **Total economic value** | **$ 1,322** |
| **In-the-money amount impact** | Stock price | $ 33.80 | | | Stock price | $ 16.90 |
| | Exercise price | $ 25.42 | | | Exercise price | $ 12.71 |
| | In-the-$ amount | $ 8.38 | | | In-the-$ amount | $ 4.19 |
| | Number of options | 123.7 | | | Number of options | 247.3 |
| | **Total in-the-$ Amount** | **$ 1,036** | | | **Total in-the-$ Amount** | **$ 1,036** |

**Q87. How will the special dividend be treated under the Employee Stock Retirement Plan (ESRP)?**

A. The special dividend will be paid on each share of Old SAIC common stock held in the ESRP and allocated to plan participants on a pro rata basis. The special dividend will be 100% vested. We intend to seek IRS guidance concerning the tax treatment of the special dividend payable to our qualified plans. Until we obtain IRS guidance, the plan trustee will hold the special dividend in the ESRP s Vanguard Prime Money Market Fund.

If we obtain favorable IRS guidance on our proposed tax treatment of the special dividend, we intend to give each participant an election to instruct the plan trustee either to distribute the special dividend proceeds in cash or to invest the proceeds into an exchangeable company stock fund. Assuming we obtain favorable IRS guidance and you request a cash distribution, you will receive it as soon as administratively possible. If, however, you elect to reinvest the special dividend in an exchangeable company stock fund, your pro rata share of the special dividend will be invested in units of an exchangeable company stock fund at the next scheduled stock purchase date.

If we do not obtain favorable IRS guidance on our proposed tax treatment of the special dividend, you will not be offered this election, and your pro rata share of the special dividend will be invested in the Vanguard LifeStrategy Conservative Growth Fund. You may reallocate the dividend into alternative investment options as offered under the ESRP.

**Q94. How will the SAIC 401(k) plan treat the special dividend?**

A. The special dividend will be paid on each share of Old SAIC common stock held in the SAIC 401(k) plan and treated in exactly the same manner as the special dividend payment to the ESRP discussed above. The special dividend will be paid on each share held in the SAIC 401(k) plan s Exchangeable Company Stock Fund and the Non-Exchangeable Company Stock Fund and allocated to plan participants on a pro rata basis. The special dividend will be 100% vested. We intend to seek IRS guidance concerning the tax treatment of the special dividend payable to our qualified plans. Until we obtain IRS guidance, the plan trustee will hold the special dividend in the SAIC 401(k) plan s Vanguard Prime Money Market Fund.

If we receive favorable IRS guidance on our proposed tax treatment of the special dividend, we intend to give each participant in the SAIC 401(k) plan an election to instruct the plan trustee either to distribute the special dividend proceeds in cash or to reinvest the proceeds into the SAIC 401(k) plan s Exchangeable Company Stock Fund. Assuming we obtain favorable IRS guidance and you request a cash distribution, you will receive it as soon as administratively possible. If, however, you elect to reinvest the special dividend in the Exchangeable Company Stock Fund, your pro rata share of the special dividend will be invested in units of the Exchangeable Company Stock Fund at the next scheduled stock purchase date.

If we do not receive favorable IRS guidance on our proposed tax treatment of the special dividend, you will not be offered this election, and your pro rata share of the special dividend will be invested in the Vanguard LifeStrategy Conservative Growth Fund. You may reallocate the special dividend into alternative investment options as permitted under the SAIC 401(k) plan.

**Q99. How will the AMSEC 401(k) plan treat the special dividend?**

A. The special dividend will be paid on each share of Old SAIC common stock held in the AMSEC 401(k) plan and allocated to plan participants on a pro rata basis. The special dividend will be 100% vested. Your special dividend proceeds will be invested in the Vanguard LifeStrategy Conservative Growth Fund. You may reallocate your special dividend proceeds into alternative investment options as permitted under the AMSEC 401(k) plan.

**Q104. How will the special dividend impact the stock deferral plans?**

A. The special dividend will be paid on each share of Old SAIC common stock held in the rabbi trusts established for the Management Stock Compensation Plan (MSCP), the Stock Compensation Plan (SCP) and the Key Executive Stock Deferral Plan (KESDP). The special dividend will be 100% vested. We have not yet determined how the non-qualified stock deferral plans will treat the special dividend, but participants in the plans will receive the benefit of the special dividend, either in cash or in additional units in their accounts.

**Q130. Why can t I elect to receive stock rather than cash as part of the special dividend? Could I receive a stock dividend on a tax-deferred basis?**

A. Allowing stockholders to select the manner in which the special dividend is paid would defeat our capital planning objectives. (Please see **Question 127**.) In addition, in conjunction with our advisors, we determined that if we permitted stockholders to elect to receive the special dividend in either cash or stock, the special dividend would have been taxable to all recipients, regardless of whether they elected to receive cash or shares of stock.

**Q133. When will we receive the IRS guidance referenced in Questions 87 and 94 of the Supplemental Q&A? When will we know whether we can elect to receive cash proceeds from the special dividend paid with respect to Old SAIC common stock held in the ESRP and the SAIC 401(k) plan?**

A. We cannot determine with certainty when we will obtain IRS guidance concerning the tax treatment of the special dividend payable to our ESRP and the SAIC 401(k) plan, but we expect it to be within six to twelve months after the IPO. The timing of the expected IRS guidance depends on the workload of the IRS employees with the expertise relevant to this matter (among other things). Pending IRS review, our qualified retirement plans trustee will hold the proceeds from the special dividend in the Vanguard Prime Money Market Fund, and no participant elections will be solicited until we receive appropriate IRS guidance.

**Q134. How will the special dividend be paid on stock held in rabbi trusts ?**

A. The special dividend will be paid with respect to each share of Old SAIC common stock held in the rabbi trusts established for the Management Stock Compensation Plan (MSCP), the Stock Compensation Plan (SCP) and the Key Executive Stock Deferral Plan (KESDP). We are analyzing structural alternatives that would permit the distribution of the cash proceeds from the special dividend to participants in those plans.

**Q147. How will the special dividend be taxed?**

A. For U.S. stockholders, the special dividend will constitute a taxable dividend for federal income tax purposes to the extent it is paid from our current or accumulated earnings and profits (EAP), as determined under federal income principles. Any dividends in excess of current or accumulated EAP may be treated as a nontaxable return of capital or as a gain realized on the sale or disposition of your new class A preferred stock. We believe SAIC s current or accumulated EAP, as of the effective date of the IPO, will exceed the projected dividend amount, and therefore the entire special dividend will be paid from current or accumulated EAP. We will issue information reports to Old SAIC stockholders and the IRS after the end of the calendar year in which the special dividend is paid, advising as to how much of the special dividend is paid from our current or accumulated EAP and, therefore, constitutes taxable dividend income to you.

**Q148. At what rate will the special dividend be taxed? Are there holding period requirements to receive favorable special dividend tax treatment?**

A. Holders of Old SAIC common stock who are individual U.S. residents and satisfy a holding period requirement with respect to their Old SAIC common stock generally will be subject to federal income taxation at a maximum rate of 15% on the special dividend. To satisfy the holding period requirement, you must hold your Old SAIC common stock for a period of at least 61 days of the 121-day period beginning 60 days before the record date of the special dividend.

**ADDITIONAL Q&A**

The following two questions and answers address some additional commonly asked questions.

**Q.177. Why did the Company file Amendments to the Form S-1 and Form S-4 Registration Statements?**

A. Amendment No. 1 to Registration Statements on Form S-1 and S-4 have been filed with the SEC on October 14th. The company has made changes to the Registration Statements in connection with the customary review by the SEC. The SEC review is continuing as was expected and additional changes are anticipated to be made in response to further SEC review before the SEC review process is completed.

**Q178. In the Amendment to the S-4 filed with the SEC on October 14, 2005, the company says that the special dividend will be declared and paid by Old SAIC on shares of Old SAIC common stock. The S-4 filed with the SEC on September 1, 2005 stated the special**

**dividend would be declared and paid**

**by New SAIC on new class A preferred stock. How will this change impact holders of class A common stock and class B common stock?**

A. This modification will not change the amount of the contemplated dividend or the anticipated timing of the dividend payment. If the anticipated schedule for completion of the reorganization merger and IPO is met, the dividend record date will be set for December 2005 or January 2006 and the dividend will be paid in February 2006. The special dividend continues to be contingent on completion of the reorganization merger and the IPO. Thus, this change will not affect our current stockholders rights to receive the special dividend, nor should it impact the size, timing or conditions upon which the special dividend will be paid.

**Forward-looking Statements**

This communication may contain forward-looking statements that are based on our management s belief and assumptions and on information currently available to our management. Any such forward-looking statements relate to future events or our future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance, achievements or benefits to be materially different from any future results, levels of activity, performance, achievements or benefits expressed or implied by such forward-looking statements. As a result of these risks, uncertainties and other factors, readers are cautioned not to place undue reliance on any forward-looking statements included in this communication. These risks, uncertainties and factors are discussed in the filings of Science Applications International Corporation and SAIC, Inc. with the SEC, which are available without charge at the SEC s internet site at http://www.sec.gov. The forward-looking statements speak only as of the date made. Neither Science Applications International Corporation nor SAIC, Inc. assume any obligation to update any forward-looking statements to reflect events or circumstances arising after the date as of which they are made or to conform such statements to actual results.

**Additional Information and Where to Find It**

More detailed information pertaining to the merger and related proposals of Science Applications International Corporation will be set forth in appropriate filings that have been and will be made with the SEC, including the proxy statement/prospectus contained in the registration statement on Form S-4 filed by SAIC, Inc. concerning the proposed merger and related proposals. **We urge stockholders to read such documents that are or may be filed with the SEC when they are available because they will contain important information about the proposed merger and related proposals.** Stockholders will be able to obtain a free copy of any filings, containing information about Science Applications International Corporation or SAIC, Inc., without charge, at the SEC s internet site at http://www.sec.gov. Copies of any filings by Science Applications International Corporation or SAIC, Inc. can also be obtained, without charge, by directing a request in writing to Science Applications International Corporation, 10260 Campus Point Drive, M/S F-3, San Diego, California 92121, Attention: General Counsel or by email to SECfilings@saic.com.

This communication shall not constitute an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any state or jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state or jurisdiction. No offering of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended.

**Participants in the Solicitation**

Science Applications International Corporation, SAIC, Inc. and their respective directors and executive officers may be deemed, under the SEC s rules, to be participants in the solicitation of proxies from the stockholders of Science Applications International Corporation in connection with

the proposed merger and related proposals. The names of the directors and executive officers of Science Applications International Corporation and SAIC, Inc. and their interests, direct or indirect, by security holdings or otherwise, in the

proposed merger and related proposals are contained in the proxy statement/prospectus contained in a registration statement on Form S-4 filed by SAIC, Inc., which may be obtained without charge at the SEC s internet site at http://www.sec.gov, or by directing a request in writing to Science Applications International Corporation, 10260 Campus Point Drive, M/S F-3, San Diego, California 92121, Attention: General Counsel by email to SECfilings@saic.com.

SIZE="2">61,940 Selling, general and administrative (including non-cash compensation expense related to certain stock options issued in 1999 and 2000 of $11 for the three months ended September 30, 2005 and September 30, 2004, and $34 and $50 for the nine months ended September 30, 2005 and September 30, 2004 respectively) 3,495 4,721 12,116 24,228 Loss on disposition of property and equipment 1 1,254 4 1,254

Total costs and expenses - gross 8,115 26,618 26,160 87,422 Aventis reimbursement -- (20,489) (6,090) (36,453)

Total costs and expenses - net 8,115 6,129 20,070 50,969 Gain on forgiveness of debt -- -- 1,297 -- Other income/(expense) 147 (136) 361 (79)

Net income/(loss) (7,904) (5,580) 8,041 (47,267)

Net income/(loss) per basic and diluted share (Note 9) $ (0.07)$ (0.07)$ 0.08 $ (0.60)

| | | | | |
|---|---|---|---|---|
| Shares used in computing net income/(loss) per basic share | 105,629 | 80,358 | 98,820 | 78,758 |
| Shares used in computing net income/(loss) per diluted share | 105,629 | 80,358 | 99,015 | 78,758 |

See accompanying notes to consolidated financial statements.

**GENTA INCORPORATED**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| (In thousands) | Nine Months Ended September 30, 2005 | 2004 |
|---|---|---|
| | (Unaudited) | |
| **Operating activities:** | | |
| Net income/(loss) | $ 8,041 | $ (47,267) |
| Items reflected in net income/(loss) not requiring cash: | | |
| Depreciation and amortization | 1,723 | 2,323 |
| Loss on disposition of property and equipment | 4 | 1,254 |
| Non-cash reimbursement of research & development expense | (6,090) | (15,541) |
| Provision for excess inventory | (21) | 693 |
| Gain on forgiveness of debt | (1,297) | -- |
| Amortization of deferred revenues | (26,228) | (3,928) |
| Compensation expense related to certain stock options issued in 1999 and 2000 | 34 | 208 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (44) | 10,558 |
| Inventory | 55 | (1,191) |
| Notes receivable | -- | 3,542 |
| Prepaid expenses and other current assets | 1,280 | 1,500 |
| Accounts payable and accrued expenses | (6,538) | 3,463 |
| Other assets | (15) | (22) |
| Net cash used in operating activities | (29,096) | (44,408) |
| **Investing activities:** | | |
| Purchase of marketable securities | (21,839) | (7,281) |
| Maturities and sales of marketable securities | 11,763 | 59,242 |
| Deposit to restricted cash account | -- | (294) |
| Redemption of restricted cash account | -- | 165 |
| Purchase of property and equipment | (56) | (1,767) |
| Proceeds from sale of property and equipment | 34 | 157 |
| Net cash (used in)/provided by investing activities | (10,098) | 50,222 |
| **Financing activities:** | | |
| Issuance of common stock, net | 16,297 | -- |
| Borrowings under note payable | -- | 419 |
| Repayments of note payable | (687) | (888) |
| Deferred financing costs | -- | (48) |
| Issuance of common stock upon exercise of warrants and options | -- | 480 |
| Net cash provided by/(used in) financing activities | 15,610 | (37) |
| (Decrease)/increase in cash and cash equivalents | (23,584) | 5,777 |
| Cash and cash equivalents at beginning of period | 36,489 | 25,153 |
| Cash and cash equivalents at end of period | $ 12,905 | $ 30,930 |

See accompanying notes to consolidated financial statements.

**GENTA INCORPORATED**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**September 30, 2005**
**(Unaudited)**

**1. Organization and Business**

Genta Incorporated ( Genta or the Company ) 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 from the U.S. Food and Drug Administration ( FDA ) for commercial sale in one or more indications. Achievement of profitability for the Company is dependent on the timing of Genasense® regulatory approvals in the U.S. and outside the U.S.

The Company has $28.8 million of cash and cash equivalents and marketable securities on hand at September 30, 2005. On August 11, 2005, the Company sold 19.1 million shares of its common stock at a price of $0.92 per share for gross proceeds of $17.5 million, before fees and expenses. After deducting fees and expenses the Company received net proceeds of $16.3 million. With the completion of this financing, although no assurances can be expressed, management believes that at the current rate of spending, the Company should have sufficient cash funds to maintain its present operations into the middle of 2006.

During the second quarter of 2005, the Company commenced discussions with other companies on a partnership regarding the development and commercialization of Genasense®. Those discussions are ongoing.

Additional alternatives available to the Company to subsequently sustain its operations include other collaborative agreements, equity financing 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 funding will be available on favorable terms, if at all. The Company will need substantial additional funds before it can expect to realize significant product revenue.

Genta has completed and announced the results of Phase 3 trials of Genasense® in combination with chemotherapy in the treatment of malignant melanoma, chronic lymphocytic leukemia ( CLL ) and multiple myeloma. In addition to the three Phase 3 trials, the Company is conducting (under its own sponsorship or in conjunction with various cooperative groups) randomized trials in non-small cell lung cancer ( NSCLC ), small cell lung cancer ( SCLC ), acute myeloid leukemia ( AML ) and hormone refractory prostate cancer ( HRPC ). Genta is also conducting a number of non-randomized clinical trials in patients with various types of cancer, either under its own sponsorship or in collaboration with the National Cancer Institute ( NCI ).

On June 30, 2005, the Company announced that it had initiated submission of a New Drug Application ( NDA ) with the FDA seeking marketing approval of Genasense®. The NDA seeks accelerated approval for the use of Genasense® in combination with fludarabine plus cyclophosphamide for the treatment of patients with CLL who have previously received fludarabine. Genasense® has received Fast Track designation by the FDA in CLL, meaning that the indication represents an unmet medical need. Upon agreement with the FDA, Fast Track designation enables the Company to submit the NDA on a rolling basis as specific sections are completed. Genta has submitted the initial section and the Company anticipates that the NDA will be completed by the end of the fourth quarter of 2005. Genasense® has also received designation as an Orphan Drug in CLL, which provides for a period of marketing exclusivity if the product is approved, certain tax benefits and exemption from certain fees at the time of NDA submission. If accelerated approval is granted, it would require the Company to conduct a confirmatory study and Genta plans to discuss the design of that study with the FDA. Although Fast Track designation, orphan drug designation and accelerated approval provisions are beneficial, there can be no assurance that the NDA will be reviewed faster by the FDA or that the NDA will be approved.

Also on June 30, 2005, the Company announced that it had filed a formal Letter of Intent with the European Medicines Agency ( EMEA ) as the initial step for submission of a Marketing Authorization Application ( MAA ) for Genasense®. In the submission, the Company will seek approval for use of Genasense® plus dacarbazine for the treatment of patients with metastatic melanoma who have not previously received chemotherapy. The letter, which is required under centralized registration procedures when marketing authorization is requested concurrently in all EU member states, initiates a six-month process that concludes with filing the completed application. The Company anticipates that the MAA will be filed by the end of the fourth quarter of 2005. Subsequent to filing the letter of intent, the Company was notified that the EMEA has assigned Spain and France as Rapporteur and Co-Rapporteur, respectively, for review of the melanoma MAA.

Genta markets Ganite® (gallium nitrate injection) for the treatment of cancer-related hypercalcemia. In May 2004, the Company eliminated its sales force and significantly reduced its marketing support for Ganite®.

A significant source of funds during the last several years has been from the Company s collaboration with Aventis, a member of the sanofi-aventis Group ( Aventis ), regarding the development and commercialization of Genasense®. On November 8, 2004, the Company received from Aventis notice of termination of the agreements between Genta and Aventis. Pursuant to those agreements, Aventis continued to support the development of Genasense® for a six-month period. On May 10, 2005, the Company announced that Genta and Aventis had signed an agreement to finalize the termination of their development and commercialization collaboration for Genasense®. The termination agreement provided for no future financial obligations by either party.

**2. 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 have been considered in preparing the consolidated financial statements. Such financial statements include the accounts of the Company and all majority-owned subsidiaries. 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. Certain reclassifications have been made to prior-year amounts to conform to the current-year presentation. 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, 2004. 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.

*Revenue Recognition*

In April 2002, the Company entered into a development and commercialization agreement ( Collaborative Agreement ) with Aventis. On November 8, 2004 Aventis gave notice to Genta that it was terminating its Collaborative Agreement with the Company. Under the terms of the agreement, Aventis continued to fund ongoing development activities for a six-month period. The Company follows the provisions of the Securities and Exchange Commission s Staff Accounting Bulletin ( SAB ) No. 104, Revenue Recognition and Emerging Issues Task Force ( EITF ) No. 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*.

In accordance with EITF No. 00-21 the Company analyzes its multiple element arrangements to determine whether the elements can be separated and accounted for individually as separate units of accounting. The Company recognizes license payments as revenue if the license has stand-alone value and the fair value of the undelivered items can be determined. If the license is considered to have stand-alone value but the fair value on any of the undelivered items cannot be determined, the license payments are recognized as revenue over the period of performance for such undelivered items or services. The Company s estimate of the period of performance involves management judgment. Amounts received for milestones are recognized upon achievement of the milestone, as long as the milestone is deemed to be substantive and the Company has no other performance obligations.

The Company determined that, due to the nature of the ongoing development work related to its Collaborative Agreement with Aventis, the end of the development phase and the fair value of the undelivered elements were not determinable. Accordingly, the Company deferred recognition of the initial licensing fee and up-front development funding received from Aventis and recognized these payments on a straight-line basis over the original estimated useful life of the related first-to-expire patent of 115 months. As a result of the notice of termination of the agreement with Aventis, the Company determined that the remaining deferred revenue should be recognized over the six-month termination notice period from November 2004 to May 2005.

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. In December 2004, a wholesaler contacted the Company to return a significant portion of its inventory of Ganite®. The Company agreed to the return of this product and recorded a provision for sales returns, as well as provided for potential returns from other wholesalers. In January 2005, the wholesaler returned $0.5 million of Ganite®. At September 30, 2005, the Company s remaining provision for sales returns was $0.8 million.

*Research and Development*

Research and development costs are expensed as incurred, including raw material costs required to manufacture products for clinical trials. Reimbursements for applicable Genasense®-related costs, under the Collaborative Agreement, have been recorded as a reduction to expenses in the Consolidated Statements of Operations.

*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 marketable securities. Management determines the appropriate classification of securities at the time of purchase and reassesses the classification at each reporting date.

*Property and Equipment*

Property and equipment is stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets, ranging from three to five years. Leasehold improvements incurred in the renovation of the Company s current offices are being amortized over the remaining life of the leases. The Company s policy is to evaluate the appropriateness of the carrying value of the undepreciated value of long-lived assets. If such evaluation were to indicate an impairment of assets, such impairment would be recognized by a write-down of the applicable assets. Based on the evaluation, no impairment was indicated in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

*Inventories*

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

*Stock Options*

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **($ thousands, except per share data)** | **2005** | **2004** | **2005** | **2004** |
| Net income/(loss) applicable to common shares, as reported | $ (7,904) | $ (5,580) | $ 8,041 | $ (47,267) |
| Add: Equity related employee compensation expense included in reported net income, net of related tax effects | 11 | 65 | 34 | 208 |
| Deduct: Total stock-based employee compensation expense determined under fair- value based method for all awards, net of related tax effects | (1,291) | (2,455) | (4,248) | (7,254) |
| Pro forma net income/(loss) | $ (9,184) | $ (7,970) | $ 3,827 | $ (54,313) |
| Net income/(loss) per share attributable to common shareholders: | | | | |
| As reported: Basic and diluted | $ (0.07) | $ (0.07) | $ 0.08 | $ (0.60) |
| Pro forma: Basic and diluted | $ (0.09) | $ (0.10) | $ 0.04 | $ (0.69) |

The Company estimated the fair value of options at the date of each grant during the three months ended September 30, 2005 and 2004, respectively, using a Black-Scholes option valuation model with the following assumptions:

| | Three Months Ended September 30, | |
|---|---|---|
| | **2005** | **2004** |
| Risk-free interest rate | 4.1% | 3.5% |
| Dividend yield | -- | -- |
| Expected life (years) | 6.2 | 4.0 |
| Expected volatility | 118% | 77% |

In December 2004, the FASB issued SFAS No. 123(R) *Share-Based Payment* that will require compensation costs related to share-based payment transactions to be recognized in the financial statements. With limited exceptions, the amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. In addition, liability awards will be remeasured each reporting period. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. SFAS No. 123(R) replaces SFAS No. 123 and supersedes APB Opinion No. 25. In April 2005, the Securities and Exchange Commission announced the adoption of a rule that defers the required date of SFAS No 123(R). The Company will adopt the provisions of SFAS No. 123(R) in 2006. The Company is evaluating the impact that the adoption of this standard will have on its results of operations, financial position or cash flows.

**3. Marketable Securities**

The carrying amounts of the Company s marketable securities, which are primarily government securities, approximate fair value due to the short-term nature of these instruments. The fair value of available-for-sale marketable securities is as follows ($ thousands):

| | September 30, 2005 | December 31, 2004 |
|---|---|---|
| Cost | $ 15,867 | $ 5,790 |
| Gross unrealized gains | 42 | 10 |
| Gross unrealized losses | -- | (42) |
| Fair value | $ 15,909 | $ 5,758 |

The estimated fair value of each marketable security has been compared with its cost, and therefore, an unrealized gain of approximately $42 thousand and a net unrealized loss of approximately $32 thousand have been recognized in Accumulated other comprehensive income/(loss) at September 30, 2005 and December 31, 2004, respectively.

**4. Inventory**

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

| | September 30, 2005 | December 31, 2004 |
|---|---|---|
| Raw materials | $ 308 | $ 333 |
| Work in process | -- | -- |
| Finished goods | 11 | 21 |
| | $ 319 | $ 354 |

On May 10, 2005, the Company announced that Genta and Aventis had signed an agreement to finalize the termination of their development and commercialization collaboration for Genasense®. The termination agreement provided for no future financial obligations by either party and Aventis returned its current inventory of Genasense® drug supply to Genta. With this returned drug supply, the Company has substantial quantities of Genasense® which are recorded at zero cost. Such inventory would be available for the commercial launch of this product, should Genasense® be approved.

**5. Property and Equipment**

Property and equipment is comprised of the following ($ thousands):

| | Estimated Useful Lives | September 30, 2005 | December 31, 2004 |
|---|---|---|---|
| Computer equipment | 3 | $ 2,871 | $ 2,860 |
| Software | 3 | 3,349 | 3,349 |
| Furniture and fixtures | 5 | 936 | 936 |
| Leasehold improvements | Life of lease | 410 | 443 |
| Equipment | 5 | 182 | 166 |
| | | 7,748 | 7,754 |
| Less accumulated depreciation and amortization | | (6,320) | (4,907) |
| | | $ 1,428 | $ 2,847 |

**6. Short Term Debt**

Revolving debt was issued in connection with an amendment, dated March 14, 2003, to the Aventis Collaboration Agreement that established a line of credit related to the development, manufacturing and commercialization of Genasense® ( Line of Credit ). The Line of Credit was considered an advance against both past and future costs and the borrowing base was adjusted on a monthly basis. With the Aventis notice of termination, Genta could not borrow additional funds and the Line of Credit had to be repaid at the end of the termination period. All payments otherwise due to Genta were applied against the balance on the Line of Credit until the Line of Credit was repaid. On May 10, 2005, the Company announced that Genta and Aventis had finalized a termination agreement, providing for no future financial obligations by either party and the remaining balance on the Line of Credit was forgiven, resulting in a gain on forgiveness of debt of $1.3 million.

**7. Stockholders Equity**

*Common Stock*

In March 2004, the Board of Directors approved an amendment to increase the authorized common stock to 150.0 million shares from 120.0 million shares. In June 2004, shareholders approved this amendment at the Annual Meeting of Stockholders.

In December 2004, the Company issued 15.0 million shares of its common stock through a direct placement with two institutions and received net proceeds of approximately $21.6 million.

In August 2005, the Company issued 19.1 million shares of its common stock and received net proceeds of approximately $16.3 million.

In September 2005, the Board of Directors adopted a Stockholder Rights Plan and declared a dividend of one preferred stock purchase right (a Right ) for each outstanding share of common stock of the Company, payable to holders of record as of the close of business on September 27, 2005. Generally, the rights become exercisable upon the earlier of the close of business on the tenth business day following the first public announcement that any person or group has become a beneficial owner of 15% or more of the Company s Common Stock and the close of business on the tenth business day after the date of the commencement of a tender or exchange offer by any person which would, if consummated, result in such person becoming a beneficial owner of 15% or more of the Company s common stock. Each Right shall be exercisable to purchase, for $25.00, subject to adjustment, one one-hundredth of a newly registered share of Series G Participating Cumulative Preferred Stock, par value $0.001 per share of the Company. The terms and conditions of the Rights are set forth in a Rights Agreement dated

September 20, 2005 between the Company and Mellon Investor Services, LLC, as Rights Agent.

*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 Prefered Stock by the conversion price. The conversion price is subject to adjustment for antidilution. As of September 30, 2005 and December 31, 2004, each share of Series A Preferred Stock was convertible into 9.8067 and 8.4274 shares of common stock, respectively.

At September 30, 2005 and December 31, 2004, the Company had 9,700 shares of Series A Convertible Preferred Stock issued and outstanding.

*Series G Preferred Stock*

The Company has authorized 5.0 million shares of preferred stock of which 2.0 million shares has been designated Series G Participating Cumulative Preferred.

**8. Comprehensive Income/(Loss)**

An analysis of comprehensive income/(loss) is presented below:

| **($ in thousands)** | **Three Months Ended September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Net income/(loss) | $ (7,904) | $ (5,580) | $ 8,041 | $ (47,267) |
| Change in market value on available-for-sale marketable securities | 38 | 15 | 74 | (42) |
| Total comprehensive income/(loss) | $ (7,866) | $ (5,565) | $ 8,115 | $ (47,309) |

**9. Net Income/(Loss) per Share**

The information required to compute basic and diluted net income/(loss) per share is as follows:

| **($ in thousands, except per share amounts)** | **Three Months Ended September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Numerator: | | | | |
| Net income/(loss) | $ (7,904) | $ (5,580) | $ 8,041 | $ (47,267) |
| Denominator: | | | | |
| Weighted average shares outstanding: | | | | |
| Basic | 105,629 | 80,358 | 98,820 | 78,758 |
| Effect of dilutive stock options, warrants and convertible preferred stock | -- | -- | 195 | -- |
| Diluted | 105,629 | 80,358 | 99,015 | 78,758 |

| | | | | |
|---|---|---|---|---|
| Net income/(loss) per share: | | | | |
| Basic | $ (0.07) | $ (0.07) | $ 0.08 | $ (0.60) |
| Diluted | $ (0.07) | $ (0.07) | $ 0.08 | $ (0.60) |

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

As a result of the Aventis notice of termination, all payments otherwise due to Genta were contractually applied against the balance of the Line of Credit until the Line of Credit was repaid. During the nine months ended September 30, 2005, $6.0 million of reimbursement due to Genta was applied to the balance of the Line of Credit. In addition, the Company recorded a gain on the forgiveness of debt of $1.3 million.

No interest or income taxes were paid for the nine months ended September 30, 2005 and 2004, respectively.

**11. 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 against Genta and certain of its principal officers on behalf of purported classes of the Company s shareholders who purchased its securities during several class periods. The complaints have been consolidated into a single action and allege 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 our securities. The shareholder class action complaint in the various actions seeks monetary damages in an unspecified amount and recovery of plaintiffs costs and attorneys fees. On September 30, 2005, the court granted in part and denied in part the Company s motion to dismiss the plaintiffs complaint. The court dismissed plaintiffs claim that the defendants engaged in a scheme or artifice to defraud plaintiffs, but allowed plaintiffs claims to proceed with respect to their allegations that defendants issued false and misleading public statements about Genasense®. On October 17, 2005 defendants filed an answer to the complaint and will soon commence pre-trial discovery.

In addition, two separate shareholder derivative actions have been filed against the directors and certain officers of Genta in New Jersey State and Federal courts. Based on facts substantially similar to those asserted in the shareholder class actions, the derivative plaintiffs claim that defendants have breached their fiduciary duties to the shareholders and other violations of New Jersey law.

The Company believes these litigations are without merit and will continue to vigorously defend against these suits. Management does not believe that this litigation will have a material adverse impact on the Company s financial results or liquidity.

**12. Recent Accounting Pronouncements**

In May 2005, the Financial Accounting Standards Board ( FASB ) issued Statement ( SFAS ) No. 154, *Accounting Changes and Error Corrections*, effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS 154 requires voluntary changes in accounting principle be retrospectively applied to financial statements from previous periods unless such application is impracticable. Under the newly issued standard changes in depreciation, amortization, or depletion for long-lived, non-financial assets should be accounted for as a change in accounting estimate that is effected by a change in accounting principle. The Company believes that the adoption of this standard will not have a material impact on the Company s results of operations, financial position or cash flow.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Non-monetary Assets*, an amendment of APB Opinion No. 29. The adoption of this statement, effective June 2005, did not have any impact on the Company s results of operations, financial position or cash flows.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs*, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. As the Company uses third-party manufacturers and does not manufacture its own products, the adoption of this statement, effective June 2005, did not have a material impact on the Company s results of operations, financial position or cash flows.

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

**Certain Factors Affecting Forward-Looking Statements Safe Harbor Statement**

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

- the Company s ability to obtain necessary regulatory approval for Genasense® 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 and sell its products;
- the adequacy of the Company s capital resources and the Company s ability to obtain sufficient financing to maintain the Company s planned operations;
- 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;
- the other risks described under Certain Risks and Uncertainties Related to the Company s Business in the Company s Annual report on Form 10-K for the fiscal year ended December 31, 2004.

The Company does 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.

**Overview**

Genta Incorporated is a biopharmaceutical company engaged in pharmaceutical research and development. The Company is dedicated to the identification, development and commercialization of novel drugs for the treatment of cancer and related diseases. Genta has had recurring annual operating losses since its inception and expects 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 establishment of a sales and marketing organization. We have experienced significant quarterly fluctuations in operating results and we expect that these fluctuations in revenues, expenses and losses will continue.

During the nine months ended September 30, 2005, Genta reported total revenues of $26.5 million and net income of $8.0 million or $0.08 per share. Net income was driven largely by the accelerated recognition of deferred revenue related to the sanofi-aventis notice of termination of the 2002 collaboration agreements related to Genasense®. On May 10, 2005, the Company announced that Genta and Aventis had signed an agreement to finalize the termination of their development and commercialization collaboration for Genasense®. The termination agreement provided for no future financial obligations by either party. There will be no further revenues recognized associated with this agreement subsequent to May 8, 2005. As of September 30, 2005, the Company had cash, cash equivalents and marketable securities totaling $28.8 million. Management continues to anticipate that total average monthly cash outflow will be in the $3.0 million to $4.0 million range. On August 11, 2005, the Company sold 19.1 million shares of its common stock at a price of $0.92 per share for gross proceeds of $17.5 million, before fees and expenses. After deducting fees and expenses the Company received net proceeds of $16.3 million.

Genta has completed and announced the results of Phase 3 trials of Genasense® in combination with chemotherapy in the treatment of malignant melanoma, chronic lymphocytic leukemia ( CLL ) and multiple myeloma.

In late 2003, we filed a New Drug Application ( NDA ) for Genasense® to be used in combination with dacarbazine for the treatment of patients with advanced malignant melanoma. The FDA Oncology Drugs Advisory Committee voted not to recommend Genasense® for marketing approval. In May 2004, the Company withdrew its NDA from further consideration. At the same time, we initiated a series of steps that were designed to conserve cash in order to focus on Genasense®. The Company has continued long-term follow-up of patients who were enrolled in the malignant melanoma trial. In May 2005, we announced that updated data from extended follow-up for a minimum of 24 months continued to show statistical significance for overall response, complete response and progression free survival. Statistical significance was achieved for durable response, (P=0.02). However, overall survival by intent to treat analysis did not show a statistically significant improvement for patients treated with Genasense®, (P=0.077).

On June 30, 2005, the Company announced that it had filed a formal Letter of Intent with the European Medicines Agency ( EMEA ) as the initial step for submission of a Marketing Authorization Application ( MAA ) for Genasense®. In the submission, we will seek approval for use of Genasense® plus dacarbazine for the treatment of patients with metastatic melanoma who have not previously received chemotherapy. The letter, which is required under centralized registration procedures when marketing authorization is requested concurrently in all member states of the European Union, initiates a six-month process that concludes with filing the completed application. The marketing application for Genasense® is supported by extended follow-up of patients from a Phase 3 trial of dacarbazine with or without Genasense® in previously untreated patients with metastatic melanoma. The study included 771 patients at 139 sites in nine countries. The MAA will include data from 24 months of minimum follow-up on all patients. Subsequent to filing the Letter of Intent, the Company was notified that the EMEA has assigned Spain and France as Rapporteur and Co-Rapporteur, respectively, for review of the melanoma MAA.

In November 2004, the Company reported results from a randomized Phase 3 clinical trial of Genasense® in patients with relapsed or refractory chronic lymphocytic leukemia ( CLL ). Two hundred forty-one patients were randomized to receive standard chemotherapy with fludarabine and cyclophosphamide with or without Genasense®. The primary objective of the study was to evaluate whether the addition of Genasense® would increase the proportion of patients who attained major objective responses (defined as complete remission ( CR ) or a nodular partial remission ( nPR )), as determined by review of clinical data and bone marrow biopsies using experts who were blinded as to treatment assignment. Analysis of study results showed that the addition of Genasense® to chemotherapy was associated with a statistically significant increase in the major objective response rate compared with the rate observed in patients who were treated with chemotherapy alone. No significant difference was observed in overall response rate, time-to-disease progression, or overall survival. 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®. Treatment-emergent adverse events (irrespective of relation to study drugs) during treatment or within thirty days from last dose of treatment that resulted in death occurred in nine patients treated with Genasense® plus chemotherapy compared with five patients treated with chemotherapy alone. 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.

On September 19, 2005, the Company announced the presentation of results from extended follow-up of patients enrolled in the Phase 3 randomized trial of Genasense® plus chemotherapy for patients with relapsed or refractory CLL. In the Phase 3 trial, 241 patients with relapsed or refractory CLL were randomly assigned to receive fludarabine plus cyclophosphamide (Flu/Cy) chemotherapy with or without Genasense®. The trial achieved its primary endpoint, which was a statistically significant increase in the proportion of patients who achieved a complete or nodular partial response (CR/nPR) (17% vs. 7%, respectively; P=0.025). To date, six of the eight patients (75%) who achieved CR/nPR with chemotherapy alone have relapsed compared with five of twenty patients (25%) in the Genasense® treatment group. The median duration of CR/nPR was 22 months in the chemotherapy-alone group; the median has not been reached in the Genasense® group (P=0.03). All CR/nPR responses have been durable (i.e., exceeding six months duration).

On June 30, 2005, the Company announced that it had initiated submission of an NDA with the FDA seeking marketing approval of Genasense®. The NDA seeks accelerated approval for the use of Genasense® in combination with fludarabine plus cyclophosphamide for the treatment of patients with chronic lymphocytic leukemia ( CLL ) who have previously received fludarabine. Genasense® has received Fast Track designation by the FDA in CLL, meaning that the indication represents an unmet medical need. Upon agreement with the FDA, Fast Track designation enables the Company to submit the NDA on a "rolling" basis as specific sections are completed. Genta has submitted the initial section and the Company anticipates that the NDA will be completed by the end of the fourth quarter of 2005. Genasense® has also received designation as an Orphan Drug in CLL, which provides for a period of marketing exclusivity if the product is approved, certain tax benefits and exemption from certain fees at the time of NDA submission. If accelerated approval is granted, it would require us to conduct a confirmatory study and we plan to discuss the design of that study with the FDA. Although Fast Track designation, orphan drug designation and accelerated approval provisions are beneficial, there can be no assurance that the NDA will be reviewed faster by the FDA or that the NDA will be approved. The Company has requested a meeting with the FDA to discuss plans for a confirmatory post-approval study.

In November 2004, Genta reported that the Company's randomized Phase 3 clinical trial of Genasense® in patients with multiple myeloma did not meet its primary endpoint. The trial had been designed to evaluate whether the addition of Genasense® to standard therapy with high-dose dexamethasone could increase the time to development of progressive disease in patients who had previously received extensive therapy. Based on the results of the Phase 3 trial, the Company has no plans to submit regulatory applications in this indication at the current time. The Company has not yet determined what additional clinical trials, if any, may be undertaken in patients with multiple myeloma.

In addition to the three Phase 3 trials, the Company is conducting (under its own sponsorship or in conjunction with various cooperative groups) randomized trials in non-small cell lung cancer ( NSCLC ), small cell lung cancer ( SCLC ), acute myeloid leukemia ( AML ) and hormone refractory prostate cancer ( HRPC ). We are also conducting a number of non-randomized clinical trials in patients with various types of cancer, either under our own sponsorship or in collaboration with the National Cancer Institute ( NCI ).

In April 2002, we entered into a series of agreements with Aventis regarding the development and commercialization of Genasense®. On November 8, 2004, the Company received from Aventis notice of termination of the agreements between Genta and Aventis. On May 10, 2005, the Company announced that Genta and Aventis had signed an agreement to finalize the termination of their development and commercialization collaboration for Genasense®. The termination agreement provided for no future financial obligations by either party and the retirement of the Line of Credit established by Aventis to Genta. Aventis returned its current inventory of Genasense® drug supply to Genta. In addition, Genta assumed responsibility for the randomized clinical trial of Genasense® in combination with docetaxel (Taxotere®; sanofi-aventis) in patients with hormone-refractory prostate cancer, which is currently ongoing in Europe. Among other provisions, the Standstill and Voting Agreement and Registration Rights Agreement that were established pursuant to the Aventis investment in Genta common stock in 2002 were not terminated at that time.

**Results of Operations for the Three Months Ended September 30, 2005 and 2004**

| | **Summary Operating Results For the three months ended September 30,** | | | |
|---|---|---|---|---|
| **($ in thousands)** | | **Increase (Decrease)** | | |
| | **2005** | **$** | **%** | **2004** |
| Revenues: | | | | |
| License fees and royalties | $ - | $ (261) | (100)% | $ 261 |
| Development funding | -- | (1,049) | (100)% | 1,049 |
| Product sales - net | 86 | (1) | (1)% | 87 |
| Total revenues | 86 | (1,311) | (94)% | 1,397 |
| Cost of goods sold | 22 | 3 | 16% | 19 |
| Provision for excess inventory | -- | (693) | (100)% | 693 |
| Total cost of goods sold | 22 | (690) | (97)% | 712 |
| Gross margin | 64 | (621) | (91)% | 685 |
| Costs and expenses: | | | | |
| Research and development (including non-cash compensation expense of $53 for the three months ended September 30, 2004) | 4,619 | (16,024) | (78)% | 20,643 |
| Selling, general and administrative (including non-cash compensation expense of $11 for the three months ended September 30, 2005 and September 30, 2004) | 3,495 | (1,226) | (26)% | 4,721 |
| Loss on disposition of property and equipment | 1 | (1,253) | (100)% | 1,254 |
| Total costs and expenses - gross | 8,115 | (18,503) | (70)% | 26,618 |
| Less: Aventis reimbursement | -- | 20,489 | 100% | (20,489) |

| | | | | |
|---|---|---|---|---|
| Total costs and expenses - net | 8,115 | 1,986 | 32% | 6,129 |
| Other income/(expense) | 147 | 283 | 208% | (136) |
| Net loss | $ (7,904) | $ (2,324) | (42)% | $ (5,580) |

Total Revenues

Total revenues were $0.1 million for the three months ended September 30, 2005 compared with $1.4 million for the three months ended September 30, 2004. License fees and development funding revenues of $1.3 million for the three months ended September 30, 2004 were generated by the recognition of the initial $10.0 million licensing fee and $40.0 million development funding received from Aventis in 2002 under the Collaborative Agreement. On November 8, 2004, Aventis gave six-months notice to Genta that it was terminating its Collaborative Agreement with the Company regarding the development and commercialization of Genasense®. The Company had previously determined that, due to the nature of the ongoing development work related to the Collaborative Agreement, the end of the development phase and the fair-value of the undelivered elements were not determinable. Accordingly, we deferred recognition of the initial licensing fee and up-front development funding received from Aventis and recognized these payments on a straight-line basis over the original estimated useful life of the related first-to-expire patent of 115 months. As a result of the notice of termination of the Collaborative Agreement, we determined that the remaining deferred revenue should be recognized over the termination period. On November 9, 2004, we began to recognize the remaining deferred revenue over the six-month period, ended May 8, 2005.

Product sales-net are generated from sales of Ganite®, the Company s commercial product for the treatment of cancer-related hypercalcemia. Product sales-net for the three months ended September 30, 2005 were virtually unchanged compared with the prior-year period.

Cost of Goods Sold

Cost of goods sold for the prior-year period includes a provision for excess inventory of Ganite® of $0.7 million. Excluding the provision for excess inventory, cost of goods sold for the three months ended September 30, 2005 were virtually unchanged from the prior-year period, consistent with product sales.

Research and Development Expenses

Research and development expenses before reimbursement were $4.6 million for the three months ended September 30, 2005 compared with $20.6 million for the three months ended September 30, 2004. During the three months ended September 30, 2005, approximately $4.3 million or 93% of research and development expenses were incurred on the Genasense® project. In the prior-year period, research and development expenses before reimbursement incurred on the Genasense® project of approximately $20.1 million included $13.3 million related to purchases of Genasense® bulk drug substance.

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 not reasonably estimable. 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 reviewing 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 $3.5 million for the three months ended September 30, 2005 compared with $4.7 million for the three months ended September 30, 2004. The decline is primarily due to lower headcount and resultant payroll expenses in 2005 combined with lower depreciation expense resulting from limited purchases of equipment since mid-2004.

Aventis Reimbursement

A breakdown of the various third-party, drug supply costs and internal costs of scientific and technical personnel, ( Full-Time Equivalents or FTE s ) that Aventis was required to reimburse under our Collaborative Agreement with Aventis, for the three months ended September 30, 2004, follows:

| ($ in thousands) | Three months ended September 30, 2004 |
|---|---|
| Reimbursement to Genta | |
| Third-party costs | $ 3,982 |
| Drug supply costs | 15,620 |
| FTE s | 1,333 |
| Amount due to Genta | 20,935 |
| Reimbursement to Aventis | (446) |
| Net reimbursement to Genta | $ 20,489 |

In September 2004, the Company transferred $15.5 million of vialed Genasense® drug product and Genasense® bulk drug substance to Aventis. This amount is included in Drug supply costs in the above table.

On May 10, 2005, the Company announced that Genta and Aventis had finalized a termination agreement, providing for no future financial obligations by either party. Consequently, none of the research and development expenses incurred by the Company during the three-month period ended September 30, 2005 were reimbursable.

Loss on disposition of property and equipment

In August 2004, the Company completed the closure of its research facility in Salt Lake City, sold all related equipment and assigned its lease on the facility to another company. Additionally, the Company disposed of excess equipment at its corporate headquarters. As a result of these actions, the Company recorded a loss on disposition of property and equipment of approximately $1.3 million for the three months ended September 30, 2004.

Net Loss

The Company recorded a net loss of $7.9 million, or $0.07 per share, for the three months ended September 30, 2005, compared with a net loss of $5.6 million, or $0.07 per share, for the three months ended September 30, 2004. As described above, the prior-year period included revenues of $1.3 million from the continued recognition of the license fee and development funding received in 2002 from Aventis, expenses of $13.3 million related to purchases of Genasense® bulk drug substance and a loss of $1.3 million from the disposition of property and equipment; more than offset by $20.5 million of reimbursement from Aventis, including the transfer of $15.5 million of vialed Genasense® drug product and bulk drug substance to Aventis. The absence of these items in this year s three-month period was primarily offset by lower research and development and selling, general and administrative expenses.

**Results of Operations for the Nine Months Ended September 30, 2005 and 2004**

| ($ in thousands) | Summary Operating Results For the nine months ended September 30, | Increase (Decrease) | | |
|---|---|---|---|---|
| | 2005 | $ | % | 2004 |
| Revenues: | | | | |
| License fees and royalties | $ 5,241 | $ 4,458 | 569% | $ 783 |
| Development funding | 20,988 | 17,843 | 567% | 3,145 |
| Product sales - net | 259 | (452) | (64)% | 711 |
| Total revenues | 26,488 | 21,849 | 471% | 4,639 |
| Cost of goods sold | 56 | (111) | (68)% | 165 |
| Provision for excess inventory | (21) | (712) | (103)% | 693 |
| Total cost of goods sold | 35 | (823) | (96)% | 858 |
| Gross margin | 26,453 | 22,672 | 600% | 3,781 |
| Costs and expenses: | | | | |
| Research and development (including non-cash compensation expense of $158 for the nine months ended September 30, 2004) | 14,040 | (47,900) | (77)% | 61,940 |
| Selling, general and administrative (including non-cash compensation expense of $34 and $50 for the nine months ended September 30, 2005 and September 30, 2004, respectively) | 12,116 | (12,112) | (50)% | 24,228 |
| Loss on disposition of property and equipment | 4 | (1,250) | (100)% | 1,254 |
| Total costs and expenses - gross | 26,160 | (61,262) | (70)% | 87,422 |
| Less: Aventis reimbursement | (6,090) | (30,363) | (83)% | (36,453) |
| Total costs and expenses - net | 20,070 | (30,899) | (61)% | 50,969 |
| Gain on forgiveness of debt | 1,297 | 1,297 | 100% | -- |
| Other income/(expense) | 361 | 440 | 557% | (79) |
| Net income/(loss) | $ 8,041 | $ 55,308 | 117% | $ (47,267) |

Total Revenues

Total revenues, consisting of license fees and royalties, development funding and net product sales were $26.5 million for the nine months ended September 30, 2005 compared with $4.6 million for the nine months ended September 30, 2004. License fees and development funding revenues are generated by the recognition of the initial $10.0 million licensing fee and $40.0 million development funding received from Aventis in 2002 under the Collaborative Agreement.

On November 8, 2004, Aventis gave notice to Genta that it was terminating its Collaborative Agreement with the Company regarding the development and commercialization of Genasense®. On November 9, 2004, we began to recognize the remaining deferred revenue over the

six-month termination notice period; resulting in increased revenue of $22.3 million for the nine months ended September 30, 2005 compared with the nine months ended September 30, 2004.

Product sales of Ganite® during the nine months ended September 30, 2005 are below the prior-year period. In May 2004, the Company eliminated its sales force and significantly reduced its marketing support for Ganite®.

Cost of Goods Sold

Cost of goods sold for the prior-year period includes a provision for excess inventory of Ganite® of $0.7 million. Excluding the provision for excess inventory, cost of goods sold for the three months ended September 30, 2005 decreased from the prior-year period, consistent with the decline in product sales.

Research and Development Expenses

Research and development expenses before reimbursement were $14.0 million for the nine months ended September 30, 2005 compared with $61.9 million for the nine months ended September 30, 2004. During the nine months ended September 30, 2005, approximately $13.3 million or 95% of research and development expenses before reimbursement were incurred on the Genasense® project. In the prior year period research and development expenses before reimbursement incurred on the Genasense® project of approximately $58.0 million included $32.2 million related to the expensing of vialed Genasense® drug product and Genasense® bulk drug substance. Research and development expenses in 2005 also decreased due to our decision in May 2004 to reduce staff and reduce most non-Genasense® related programs. Of the $14.0 million in research and development expenses for the nine months ended September 30, 2005, $6.1 million were reimbursable pursuant to our Collaborative Agreement with Aventis. With the Aventis notice of termination, payments of $6.0 million otherwise due to Genta were applied against the balance of the Line of Credit until it was repaid in May 2005 (see Note 6 to our Financial Statements).

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $12.1 million for the nine months ended September 30, 2005 compared with $24.2 million for the nine months ended September 30, 2004. Expenses in 2005 reflect the impact of the May 2004 elimination of the sales force, reduction of other administrative positions and substantial reduction of marketing support for Ganite®. In addition, in the 2004 period, we recorded $1.0 million of legal expenses related to certain class action lawsuits (see Note 11 to our Financial Statements).

Aventis Reimbursement

A breakdown of the various third-party, drug supply costs and internal costs of scientific and technical personnel, ( Full-Time Equivalents or FTE s ) that Aventis was required to reimburse under our Collaborative agreement with Aventis, follows:

| **($ in thousands)** | **Nine months ended September 30,** | |
|---|---|---|
| Reimbursement to Genta | **2005** | **2004** |
| Third-party costs | $ 2,917 | $ 14,936 |
| Drug supply costs | 1,807 | 18,211 |
| FTE s | 1,513 | 4,668 |
| Amount due to Genta | 6,237 | 37,815 |
| Reimbursement to Aventis | (147) | (1,362) |
| Net reimbursement to Genta | $ 6,090 | $ 36,453 |

Net expense reimbursement from Aventis of $6.1 million for the nine months ended September 30, 2005 declined from $36.5 million for the nine months ended September 30, 2004 due to the termination of the Collaborative Agreement in May 2005 and lower expenses incurred on the Genasense® project. In addition, in September 2004, the Company transferred $15.5 million of vialed Genasense® drug product and Genasense® bulk drug substance to Aventis. This amount is included in Drug supply costs in the above table.

Once Aventis provided notice of termination of the Collaborative Agreement, all payments otherwise due from Aventis were applied against the balance on the Line of Credit until the Line of Credit was repaid in May 2005. Reimbursement of $6.0 million due to Genta was applied to the balance of the Line of Credit.

Gain on forgiveness of debt

On May 10, 2005, the Company announced that Aventis and Genta had finalized the termination of the Collaborative Agreement. Pursuant to the terms of the Collaborative Agreement, $2.8 million of reimbursable costs accrued and owed to the Company by Aventis were applied against the Line of Credit with Aventis and the remaining balance of $1.3 million was forgiven.

Other Income/(Expense)

Net other income for the nine months ended September 30, 2005 of $0.4 million favorably compared with net other expense of $0.1 million for the prior year period. This was the result of lower interest expense, due to lower borrowings from Aventis, partially offset by lower interest income, resulting from lower investment balances.

Net Income/(Loss)

The Company recorded net income of $8.0 million, or $0.08 per share, for the nine months ended September 30, 2005, compared with a net loss of $42.3 million, or $0.60 per share, for the nine months ended September 30, 2004. The increase in net income and net income per share was primarily due to accelerated recognition through May 2005 of the initial licensing fee and up-front development funding previously received from Aventis, lower research and development expenses, lower selling, general and administrative expenses, along with a gain on forgiveness of debt.

Liquidity and Capital Resources

At September 30, 2005, the Company had cash, cash equivalents and marketable securities totaling $28.8 million compared with $42.2 million at December 31, 2004. Cash used in operating activities was $29.1 million for the nine months ended September 30, 2005 compared with $44.4 million for the nine months ended September 30, 2004. This decline reflects our smaller organization and focus on Genasense®. Management continues to anticipate that total average monthly cash outflow will be in the $3.0 million to $4.0 million range. At September 30, 2005, Genta had no outstanding short-term debt compared with the outstanding balance of $7.3 million on the Line of Credit with Aventis as of December 31, 2004.

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 from the U.S. Food and Drug Administration ( FDA ) for commercial sale in one or more indications. Achievement of profitability for the Company is dependent on the timing of Genasense® regulatory approvals in the U.S. and outside the U.S.

The Company has $28.8 million of cash and cash equivalents and marketable securities on hand at September 30, 2005. On August 11, 2005, the Company sold 19.1 million shares of its common stock at a price of $0.92 per share for gross proceeds of $17.5 million, before fees and expenses. After deducting fees and expenses, the Company received net proceeds of $16.3 million. With the completion of this financing, although no assurances can be expressed, management believes that at the current rate of spending, the Company should have sufficient cash funds to maintain its present operations into the middle of 2006.

During the second quarter of 2005, the Company commenced discussions with other companies on a partnership regarding the development and commercialization of Genasense®. Those discussions are ongoing.

Additional alternatives available to the Company to subsequently sustain its operations include other collaborative agreements, equity financing 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 funding will be available on favorable terms, if at all. The Company will need substantial additional funds before it can expect to realize significant product revenue.

Our principal expenditures relate to our research and development activities, primarily focused on Genasense®, which include our ongoing and future clinical trials. We expect these expenditures to continue. The Company may seek collaborative agreements 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 funding will be available on favorable terms, if at all. The Company will need substantial additional funds before it can expect to realize significant product revenue.

If we obtain NDA approval of Genasense® for one or more applications, 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 May 2005, the Financial Accounting Standards Board ( FASB ) issued Statement ( SFAS ) No. 154, *Accounting Changes and Error Corrections*, effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS 154 requires voluntary changes in accounting principle be retrospectively applied to financial statements from previous periods unless such application is impracticable. Under the newly issued standard changes in depreciation, amortization, or depletion for long-lived, non-financial assets should be accounted for as a change in accounting estimate that is effected by a change in accounting principle. We believe that the adoption of this standard will not have a material impact on the Company s results of operations, financial position or cash flow.

In December 2004, the FASB issued SFAS No. 123(R), *Share-Based Payment* that will require compensation costs related to share-based payment transactions to be recognized in the financial statements. With limited exceptions, the amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. In addition, liability awards will be remeasured each reporting period. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. SFAS No. 123(R) replaces SFAS No. 123 *Accounting for Stock-Based Compensation*, and supersedes Accounting Principles Board ( APB ) Opinion No. 25, *Accounting for Stock Issued to Employees*. In April 2005, the Securities and Exchange Commission announced the adoption of a rule that defers the required date of SFAS No 123(R). The Company will adopt the provisions of SFAS No. 123(R) in 2006. The Company is evaluating the impact that the adoption of this standard will have on its results of operations, financial position or cash flows.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Non-monetary Assets*, an amendment of APB Opinion No. 29. The adoption of this statement, effective June 2005, did not have any impact on the Company s results of operations, financial position or cash flows.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs*, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. As the Company uses third-party manufacturers and does not manufacture its own products, the adoption of this statement, effective June 2005, did not have a material impact on the Company s results of operations, financial position or cash flows.

**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 (see Note 2 to our Financial Statements). 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.

Genta s primary market risk exposure with regard to financial instruments is to changes in interest rates, which would impact interest income earned on such instruments. We have no material currency exchange or interest rate risk exposure as of September 30, 2005.

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

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

As required by Rule 13a-15(b), Genta Incorporated Chief Executive Officer and Chief Financial Officer conducted an evaluation as of the end of the period covered by this report of the effectiveness of the Company s disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were operating effectively 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.

**PART II OTHER INFORMATION**

**Item 1.** ***Legal Proceedings***

In 2004, numerous complaints were filed in the United States District Court for the District of New Jersey against Genta and certain of our principal officers on behalf of purported classes of our shareholders who purchased our securities during several class periods. The complaints have been consolidated into a single action and allege that we and certain of our 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 our securities. The shareholder class action complaint in the various actions seeks monetary damages in an unspecified amount and recovery of plaintiffs costs and attorneys fees. On September 30, 2005, the court granted in part and denied in part our motion to dismiss the plaintiffs complaint. The court dismissed plaintiffs claim that the defendants engaged in a scheme or artifice to defraud plaintiffs, but allowed plaintiffs claims to proceed with respect to their allegations that defendants issued false and misleading public statements about Genasense®. On October 17, 2005 defendants filed an answer to the complaint and will soon commence pre-trial discovery.

In addition, two separate shareholder derivative actions have been filed against the directors and certain officers of Genta in New Jersey State and Federal courts. Based on facts substantially similar to those asserted in the shareholder class actions, the derivative plaintiffs claim that defendants have breached their fiduciary duties to the shareholders and other violations of New Jersey law.

The Company believes these litigations are without merit and will continue to vigorously defend against these suits. Management does not believe that this litigation will have a material adverse impact on the Company s financial results or liquidity.

**Item 6.** ***Exhibits.***

(a) Exhibits

| **Exhibit Number** | **Description of Document** |
|---|---|
| 3.1.a | Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3(i).1 to the Company s Annual Report on Form 10-K for the year ended December 31, 1995, Commission File No. 0-19635) |
| 3.1.b | Certificate of Designations of Series D Convertible Preferred Stock of the Company (incorporated by reference to Exhibit 3(i) to the Company s Current Report on Form 8-K filed on February 28, 1997, Commission File No. 0-19635) |
| 3.1.c | Certificate of Amendment of Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3(i).3 to the Company s Annual Report on Form 10-K for the year ended December 31, 1999, Commission File No. 0-19635) |
| 3.1.d | Amended Certificate of Designations of Series D Convertible Preferred Stock of the Company (incorporated by reference to Exhibit 3(i).4 to the Company s Annual Report on Form 10-K for the year ended December 31, 1999, Commission File No. 0-19635) |
| 3.1.e | Certificate of Increase of Series D Convertible Preferred Stock of the Company (incorporated by reference to Exhibit 3(i).5 to the Company s Annual Report on Form 10-K for the year ended December 31, 1999, Commission File No. 0-19635) |
| 3.1.f | Certificate of Amendment of Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3(i).4 to the Company s Annual Report on Form 10-K for the year ended December 31, 1998, Commission File No. 0-19635) |
| 3.1.g | Certificate of Amendment of Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3(i).3 to the Company s Annual Report on Form 10-K for the year ended December 31, 1998, Commission File No. 0-19635) |

| Exhibit Number | Description of Document |
|---|---|
| 3.1.h | Certificate of Amendment of Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3(i).8 to the Company s Annual Report on Form 10-K for the year ended December 31, 1999, Commission File No. 0-19635) |
| 3.1.i | Certificate of Amendment of Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1.i to the Company s Registration Statement on Form S-1, Commission File No. 333-110238) |
| 3.1.j | Certificate of Amendment of Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1.j to the Company s Registration Statement on Form S-1, Commission File No. 333-110238) |
| 3.2 | Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3(ii).1 to the Company s Annual Report on Form 10-K for the year ended December 31, 1998, Commission File No. 0-19635) |
| 31.1 | Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 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 |
| 32.2 | Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

**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: November 7, 2005

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

Raymond P. Warrell, Jr., M.D.
Chairman and Chief Executive Officer

Date: November 7, 2005

/s/ RICHARD J. MORAN

Richard J. Moran
Senior Vice President, Chief Financial Officer and Corporate Secretary

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**Exhibit Index**

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