SENESCO TECHNOLOGIES INC
Form 10-Q
February 14, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2012

or

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

For the transition period from _______________ to ______________

Commission File No. 001-31326

SENESCO TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**84-1368850**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

721 Route 202/206, Suite 130
Bridgewater, New Jersey 08807
(Address of principal executive offices)

(908) 864-4444
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes:x No:¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes: x No: ¨

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

Large accelerated filer ¨ Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company x

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

Yes: ¨ No:x

146,975,283 shares of the issuer's common stock, par value $0.01 per share, were outstanding as of January 31, 2013.

SENESCO TECHNOLOGIES, INC. AND SUBSIDIARY

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PART I. FINANCIAL INFORMATION.

Item 1. Financial Statements (Unaudited).

Certain information and footnote disclosures required under United States generally accepted accounting principles have been condensed or omitted from the following consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. However, Senesco Technologies, Inc., a Delaware corporation, and its wholly owned subsidiary, Senesco, Inc., a New Jersey corporation (collectively, “Senesco” or the “Company”), believe that the disclosures are adequate to assure that the information presented is not misleading in any material respect.

The results of operations for the interim periods presented herein are not necessarily indicative of the results to be expected for the entire fiscal year.

SENESCO TECHNOLOGIES, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

	December 31, 2012	June 30, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 640,125	$ 2,001,325
Prepaid research supplies and expenses	1,295,548	1,548,524
Total Current Assets	1,935,673	3,549,849
Equipment, furniture and fixtures, net	5,846	5,857
Intangibles, net	3,517,097	3,393,992
Deferred income tax assets, net	-	-
Security deposit	5,171	5,171
TOTAL ASSETS	$ 5,463,787	$ 6,954,869
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 1,085,629	$ 594,514
Accrued expenses	468,048	369,695
Line of credit	2,199,108	2,199,108
Total Current Liabilities	3,752,785	3,163,317
Warrant liabilities	30,299	238,796
Grant payable	99,728	99,728
TOTAL LIABILITIES	3,882,812	3,501,841
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.01 par value, authorized 5,000,000 shares Series A 10,297 shares issued and 995 and 3,379 shares outstanding, respectively (liquidation preference of $1,019,876 and $3,463,475 at December 31, 2012 and June 30, 2012, respectively)	10	34

Series B 1,200 shares issued and 0 and 1,200 outstanding, respectively (liquidation preference of $0 and $1,230,000 at December 31, 2012 and June 30, 2012, respectively)	-	12
Common stock, $0.01 par value, authorized 350,000,000 shares, issued and outstanding 116,975,283 and 94,112,483, respectively	1,169,753	941,125
Capital in excess of par	71,855,001	69,952,152
Deficit accumulated during the development stage	(71,443,789)	(67,440,295)
Total Stockholders' Equity	1,580,975	3,453,028
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$5,463,787	$6,954,869

See Notes to Condensed Consolidated Financial Statements

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SENESCO TECHNOLOGIES, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(unaudited)

	Three months ended December 31, 2012	2011	Six months ended December 31, 2012	2011	Cumulative Amounts from Inception
Revenue	$ -	$ 200,000	$ -	$ 200,000	$ 1,790,000
Operating expenses:					
General and administrative	708,968	904,621	1,441,688	1,550,580	33,056,365
Research and development	591,079	751,517	1,104,512	1,385,703	22,340,117
Total operating expenses	1,300,047	1,656,138	2,546,200	2,936,283	55,396,482
Loss from operations	(1,300,047)	(1,456,138)	(2,546,200)	(2,736,283)	(53,606,482)
Other non-operating income (expense)					
Grant income	-	-	-	-	244,479
Fair value – warrant liability	64,440	(39,392)	44,292	232,311	8,374,422
Sale of state income tax loss – net	-	-	-	-	586,442
Other noncash (expense) income, net	-	-	-	-	205,390
Loss on extinguishment of debt	-	-	(785,171)	-	(1,147,048)
Write-off of patents abandoned	-	-	-	-	(1,909,224)
Amortization of debt discount and financing costs	-	-	-	-	(11,227,870)
Interest expense – convertible notes	-	-	-	-	(2,027,930)
Interest (expense) income - net	(34,278)	(32,041)	(68,260)	(62,582)	215,728

Net loss	(1,269,885)	(1,527,571)	(3,355,339)	(2,566,554)	(60,292,093)
Preferred dividends	(23,986)	(127,614)	(648,155)	(1,036,460)	(11,151,696)
Loss applicable to common shares	$ (1,293,871)	$ (1,655,185)	$ (4,003,494)	$ (3,603,014)	$ (71,443,789)
Basic and diluted net loss per common share	$ (0.01)	$ (0.02)	$ (0.04)	$ (0.05)	
Basic and diluted weighted-average number of common shares outstanding	116,975,283	80,832,267	112,212,297	80,061,012	

See Notes to Condensed Consolidated Financial Statements

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SENESCO TECHNOLOGIES, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED DECEMBER 31, 2012

(unaudited)

	Preferred Stock		Common Stock		Capital in Excess of Par Value	Deficit Accumulated During the Development Stage	Stockholders' Equity (Deficiency)
	Shares	Amount	Shares	Amount			
Balance at June 30, 2012	4,579	$ 46	94,112,483	$941,125	$ 69,952,152	$(67,440,295)	$3,453,028
Issuance of common stock at $0.26 per share	-	-	353,895	3,539	97,031	-	100,570
Commissions and other fees related to the issuance of common stock	-	-	-	-	(6,387)	-	(6,387)
Preferred stock converted into common stock	(3,584)	(36)	13,784,615	137,846	(137,810)	-	-
Issuance of common stock in lieu of cash payment for dividends	-	-	1,822,098	18,221	478,641	(382,388)	114,474
Issuance of common stock in exchange for warrants	-	-	6,902,192	69,022	(69,022)	-	-
Deemed dividend - preferred stock	-	-	-	-	240,891	(240,891)	-
	-	-	-	-	785,171	-	785,171

Loss on extinguishment of debt							
Reclassification of warrant liability	-	-	-	-	164,205	-	164,205
Fair market value of options and warrants vested	-	-	-	-	350,129	-	350,129
Dividends accrued and upaid at December 31, 2012	-	-	-	-	-	(24,876)	(24,876)
Net loss	-	-	-	-	-	(3,355,339)	(3,355,339)
Balance July 1, 1998 (inception) through December 31, 2012	995	$ 10	116,975,283	$ 1,169,753	$ 71,855,001	$ (71,443,789)	$ 1,580,975

See Notes to Condensed Consolidated Financial Statements

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SENESCO TECHNOLOGIES, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Six months ended December 31, 2012	2011	Cumulative Amounts from Inception
Cash flows from operating activities:			
Net loss	$ (3,355,339)	$ (2,566,554)	$ (60,292,093)
Adjustments to reconcile net loss to net cash used in operating activities:			
Noncash capital contribution	-	-	85,179
Noncash conversion of accrued expenses into equity	-	-	131,250
Noncash income related to change in fair value of warrant liability	(44,292)	(232,311)	(8,695,681)
Noncash charge for change in warrant terms	-	-	115,869
Issuance of common stock and warrants for interest	-	-	2,003,386
Issuance of common stock for services	-	-	53,800
Stock-based compensation expense	350,129	408,028	12,456,082
Depreciation and amortization	130,420	118,986	1,230,725
Write-off of intangibles	-	-	1,909,224
Amortization of convertible note discount	-	-	10,000,000
Amortization of deferred financing costs	-	-	1,227,869
Loss on extinguishment of debt	785,171	-	1,147,048
(Increase) decrease in operating assets:			
Prepaid expenses and other current assets	252,976	(211,076)	(1,295,548)
Security deposit	-	7,187	(5,171)
Increase (decrease) in operating liabilities:			
Accounts payable	491,115	(115,773)	1,085,629
Accrued expenses	187,951	293,628	618,173
Net cash (used in) operating activities	(1,201,869)	(2,297,885)	(38,224,259)
Cash flows from investing activities:			
Patent costs	(252,233)	(227,929)	(6,476,945)
Purchase of equipment, furniture and fixtures	(1,281)	(4,461)	(185,947)
Net cash (used in) provided by investing activities	(253,514)	(232,390)	(6,662,892)
Cash flows from financing activities:			
Proceeds from grant	-	-	99,728
Proceeds from draw-down on line of credit	-	-	2,199,108
Proceeds from issuance of bridge notes	-	-	525,000
Proceeds from issuance of preferred stock and warrants, net	-	-	10,754,841
Redemption of convertible notes and warrants	-	-	(2,160,986)

Proceeds from issuance of convertible notes	-	-	9,340,000
Deferred financing costs	-	-	(651,781)
Proceeds from issuance of common stock and warrants, net and exercise of warrants and options	94,183	473,219	25,421,366
Net cash provided by financing activities	94,183	473,219	45,527,276
Net (decrease) increase in cash and cash equivalents	(1,361,200)	(2,057,056)	640,125
Cash and cash equivalents at beginning of period	2,001,325	3,609,954	-
Cash and cash equivalents at end of period	$ 640,125	$ 1,552,898	$ 640,125
Supplemental disclosure of non-cash transactions:			
Conversion of convertible note into common stock	$ -	$ -	$ 10,000,000
Conversion of bridge notes into common stock	-	-	534,316
Conversion of preferred stock into common stock	137,810	1,555	356,924
Allocation of preferred stock proceeds to warrants and beneficial conversion feature	-	-	8,526,135
Allocation of convertible debt proceeds to warrants and beneficial conversion feature	-	-	9,340,000
Warrants issued for financing costs	-	-	690,984
Issuance of common stock for interest payments on convertible notes	-	-	2,003,386
Issuance of common stock for dividend payments on preferred stock	496,862	259,587	4,118,805
Issuance of common stock in settlement of accounts payable	-	-	175,000
Dividends accrued on preferred stock	(89,598)	(1,127)	24,876
Supplemental disclosure of cash flow information:			
Cash paid for interest	69,776	66,788	441,459

See Notes to Condensed Consolidated Financial Statements

SENESCO TECHNOLOGIES, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1 - Basis of Presentation:

The financial statements included herein have been prepared by Senesco Technologies, Inc. (the “Company”), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with United States generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2012, as amended.

In the opinion of the Company’s management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting solely of those which are of a normal recurring nature, necessary to present fairly its financial position as of December 31, 2012, the results of its operations and cash flows for the three months and six months ended December 31, 2012 and 2011.

Interim results are not necessarily indicative of results for the full fiscal year.

Note 2 – Liquidity:

As shown in the accompanying condensed consolidated financial statements, the Company has a history of losses with a deficit accumulated during the development stage from July 1, 1998 (inception) through December 31, 2012 of $71,443,789. Additionally, the Company has generated minimal revenues by licensing its technology for certain crops to companies willing to share in its development costs. In addition, the Company’s technology may not be ready for commercialization for several years. The Company expects to continue to incur losses for the next several years because it anticipates that its expenditures on research and development and administrative activities will significantly exceed its revenues during that period. The Company cannot predict when, if ever, it will become profitable.

As of December 31, 2012, the Company had cash and cash equivalents in the amount of $640,125, which consisted of checking accounts and money market funds. In January 2013, the Company completed a placement of common stock and warrants for net proceeds in the amount of approximately $2,300,000, after deducting $600,000 in connection with investor relations agreements. The Company estimates that its cash and cash equivalents as of December 31, 2012 and the net proceeds from an equity placement in January 2013 will cover its expenses through July 2013. In order to provide the Company with the cash resources necessary to fund operations through at least December 31, 2013, the Company will need to raise additional capital through a private or public placement of its Common Stock.

The Company will need additional capital and plans to raise additional capital through the placement of debt instruments or equity or both. However, the Company may not be able to obtain adequate funds for its operations when needed or on acceptable terms. If the Company is unable to raise additional funds, it will need to do one or more of the following:

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- delay, scale-back or eliminate some or all of its research and product development programs;
- license third parties to develop and commercialize products or technologies that it would otherwise seek to develop and commercialize itself;
- seek strategic alliances or business combinations;
- attempt to sell the Company;
- cease operations; or
- declare bankruptcy.

Note 3 – Intangible Assets:

The Company conducts research and development activities, the cost of which is expensed as incurred, in order to generate patents that can be licensed to third parties in exchange for license fees and royalties. Because the patents are the basis of the Company's future revenue, the patent costs are capitalized. The capitalized patent costs represent the outside legal fees incurred by the Company to submit and undertake all necessary efforts to have such patent applications issued as patents.

The length of time that it takes for an initial patent application to be approved is generally between four to six years. However, due to the unique nature of each patent application, the actual length of time may vary. If a patent application is denied, the associated cost of that application would be written off. However, the Company has not had any patent applications denied as of December 31, 2012. Additionally, should a patent application become impaired during the application process, the Company would write down or write off the associated cost of that patent application.

Issued patents and agricultural patent applications pending are being amortized over a period of 17 years from inception, the expected economic life of the patent.

The Company assesses the impairment in value of intangible assets whenever events or circumstances indicate that their carrying value may not be recoverable. Factors the Company considers important which could trigger an impairment review include the following:

- significant negative industry trends;
- significant underutilization of the assets;
- significant changes in how the Company uses the assets or its plans for their use; and
- changes in technology and the appearance of competing technology.

If a triggering event occurs and the Company's review determines that the future undiscounted cash flows related to the groups, including these assets, will not be sufficient to recover their carrying value, the Company will reduce the carrying values of these assets down to its estimate of fair value and continue amortizing them over their remaining useful lives. To date, except for certain patents and patents pending that the Company abandoned during the fiscal years ended June 30, 2012 and 2011, the Company has not recorded any impairment of intangible assets.

Note 4 - Loss Per Share:

Basic earnings (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares assumed to be outstanding during the period of computation. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive.

For all periods presented, basic and diluted loss per share are the same, as any additional Common Stock equivalents would be anti-dilutive. Potentially dilutive shares of Common Stock have been excluded from the calculation of the weighted average number of dilutive common shares.

As of December 31, 2012, there were 56,898,202 additional potentially dilutive shares of Common Stock. These additional shares include 3,826,923 shares issuable upon conversion of the Preferred Stock, and 53,071,279 shares issuable upon the exercise of outstanding options and warrants. As of December 31, 2011, there were 87,237,290 additional potentially dilutive shares of Common Stock. These additional shares included 17,944,444 shares issuable upon conversion of Preferred Stock and 69,292,846 shares issuable upon the exercise of outstanding options and warrants.

Note 5 – Stock-Based Transactions:

The terms and vesting schedules for share-based awards vary by type of grant and the employment status of the grantee. Generally, the awards vest based upon time-based conditions or achievement of specified goals and milestones.

On November 16, 2012, the Company issued 3,705,000 options that are subject to vesting first based upon specified goals and milestones and then based upon time-based conditions. Such options had an aggregate Black-Scholes value of $489,060. As of December 31, 2012, the Company reviewed the specified goals and milestones on an employee by employee basis. Based upon the review, the Company has estimated that it was probable that, on average, the employees would achieve 50% of the target goals. As a result, the Company is recognizing 50% of the aggregate fair value of the options ratably over the time-based vesting period.

The fair value of each stock option and warrant granted or vesting has been determined using the Black-Scholes model. The material factors incorporated in the Black-Scholes model in estimating the value of the options and warrants granted during the three months ended December 31, 2012 and 2011 include the following:

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	Three Months Ended December 31,		Six Months Ended December 31,	
	2012	2011	2012	2011
Warrants granted	None	None	None	None
Options granted	6,701,210	647,500	6,701,210	4,860,500
Estimated life in years (1)	2.5-10.0	3.0-5.5	2.5-10.0	3.0-10.0
Risk-free interest rate (2)	0.3%-1.6%	0.4%-0.9%	0.3%-1.6%	0.4% – 1.9%
Volatility	70%-102%	91%-104%	70%-102%	91%-105%
Dividend paid	None	None	None	None

(1) Expected life for employee based stock options was estimated using the "simplified" method, as allowed under the provisions of the Securities and Exchange Commission Staff Accounting Bulletin No.110.

(2) Represents the interest rate on a U.S. Treasury security with a maturity date corresponding to that of the option or warrant term.

The economic values of the options will depend on the future price of the Company's Common Stock, which cannot be forecast with reasonable accuracy.

Stock option activity under the Company's 2008 Plan and 1998 Plan for the six months ended December 31, 2012 is summarized as follows:

	Number of Options	Weighted-Average Exercise Price
Outstanding at July 1, 2012	15,647,742	$ 0.50
Granted	6,701,210	0.17
Exercised	—	—
Forfeited	1,152,450	0.23
Expired	22,500	1.65
Outstanding at December 31, 2012	21,174,002	$ 0.40
Exercisable at December 31, 2012	13,921,231	$ 0.51
Not Exercisable at December 31, 2012	7,252,771	$ 0.21

The weighted average grant date fair value of options granted during the six months ended December 31, 2012 and 2011 was $0.13 and $0.17, respectively.

As of December 31, 2012, the aggregate intrinsic value of stock options outstanding was $0, with a weighted-average remaining term of 7.8 years. The aggregate intrinsic value of stock options exercisable at that same date was $0, with a weighted-average remaining term of 7.0 years. As of December 31, 2012, the Company has 6,030,358 shares available for future stock option grants.

Stock-based compensation expense for the three months ended December 31, 2012 and December 31, 2011 amounted to $196,567 and $284,477, respectively.

Stock-based compensation expense for the six months ended December 31, 2012 and December 31, 2011 amounted to $350,129 and $408,028, respectively.

As of December 31, 2012, total stock-based compensation expense not yet recognized related to stock option grants amounted to approximately $1,052,000**,** which will be recognized over the next 46.5 months.

Note 6 –Line of Credit:

On February 17, 2010, the Company entered into a credit agreement with JMP Securities LLC. The agreement provides the Company with, subject to certain restrictions, including the existence of suitable collateral, up to a $3.0 million line of credit upon which the Company may draw at any time (the “Line of Credit”). Any draws upon the Line of Credit accrue at an annual interest rate of (i) the broker rate in effect at the interest date (which was 3.75% at December 31, 2012), plus (ii) 2.0%. There are no other conditions or fees associated with the Line of Credit. The Line of Credit is not secured by any assets of the Company, but it is secured by certain assets of a member of the Company’s Board of Directors, Harlan W. Waksal, M.D., which is currently held by JMP Securities. The balance outstanding as of December 31, 2012 and June 30, 2012 was $2,199,108. In April 2011, we were required to enter into a new demand note with the clearing agent for JMP Securities in connection with the Line of Credit.

Total interest expense recorded under the Line of Credit for the three months ended December 31, 2012 and 2011 amounted to $34,786 and $33,479, respectively.

Total interest expense recorded under the Line of Credit for the six months ended December 31, 2012 and 2011 amounted to $69,776 and $66,788, respectively.

Note 7 – Income Taxes:

No provision for income taxes has been made for the three months and six months ended December 31, 2012 and 2011 given the Company’s losses in 2012 and 2011 and available net operating loss carryforwards. A benefit has not been recorded as the realization of the net operating losses is not assured and the timing in which the Company can utilize its net operating loss carryforwards in any year or in total may be limited by provisions of the Internal Revenue Code regarding changes in ownership of corporations.

Note 8 - Fair Value Measurements:

The following tables provide the assets and liabilities carried at fair value measured on a recurring basis as of December 31, 2012 and June 30, 2012:

Fair Value Measurement at

	Carrying Value	December 31, 2012 Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$640,125	$ 640,125	$ -	$ -
Liabilities:				
Warrant Liabilities	$30,299	$ -	$ -	$ 30,299

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	Carrying Value	Fair Value Measurement at June 30, 2012 Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$2,001,325	$2,001,325	$ -	$-
Liabilities:				
Warrant Liabilities	$238,796	$-	$ -	$238,796

The following table summarizes the changes in fair value of the Company's Level 3 financial instruments:

	Six months ended December 31, 2012	2011
Beginning Balance	$ 238,796	$ 711,259
Reclassification of warrant liabilities	(164,205)	-
Loss (Gain) due to change in fair value of warrant liabilities, net	(44,292)	(232,311)
Ending Balance	$ 30,299	$ 478,945