

BIOSANTE PHARMACEUTICALS INC
Form 10KSB/A
May 02, 2002

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB/A

(Mark one)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2001

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 000-28637

BIOSANTE PHARMACEUTICALS, INC.

(Name of Small Business Issuer in its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

111 Barclay Boulevard, Suite 280
Lincolnshire, Illinois
(Address of Principal Executive Offices)

58-2301143

(I.R.S. Employer
Identification No.)

60069

(Zip Code)

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(847) 478-0500

(Issuer's Telephone Number, including Area Code)

Securities registered under Section 12(b) of the Exchange Act: **None**

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$0.0001 par value

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Check if there is no disclosure of delinquent filers pursuant to Item 405 of Regulation S-B contained in this Form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

The issuer's revenues for the fiscal year ended December 31, 2001 were \$1,921,802.

As of March 1, 2002, 63,218,798 shares of common stock of the registrant were outstanding, and the aggregate market value of the common stock of the registrant as of that date (based upon the last reported sale price of the common stock on that date as reported by the Over-the-Counter Bulletin Board), excluding outstanding shares beneficially owned by directors and executive officers, was \$22,333,603.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report on Form 10-KSB incorporates by reference information (to the extent specific sections are referred to herein) from the registrant's Proxy Statement for its 2002 Annual Meeting of Stockholders to be held May 21, 2002.

Transitional Small Business Disclosure Format (check one): YES NO

EXPLANATORY NOTE

This Form 10-KSB/A is being filed to correct a typographical error in the auditors report to omit the reference to other auditors for years 1998 and prior. No other changes to Item 7 or the financial statements have been made.

Item 7. FINANCIAL STATEMENTS

Description

Independent Auditors Report

Balance Sheets as of December 31, 2001 and 2000

Statements of Operations for the years ended December 31, 2001, 2000 and 1999 and the cumulative period from August 29, 1996 (date of incorporation) to December 31, 2001

Statements of Stockholders Equity for the years ended December 31, 2001, 2000 and 1999 and the cumulative period from August 29, 1996 (date of incorporation) to December 31, 2001

Statements of Cash Flows for the years ended December 31, 2001, 2000 and 1999 and the cumulative period from August 29, 1996 (date of incorporation) to December 31, 2001

Notes to the Financial Statements for the years ended December 31, 2001, 2000 and 1999 and the cumulative period from August 29, 1996 (date of incorporation) to December 31, 2001

Independent Auditors Report

Board of Directors

BioSante Pharmaceuticals, Inc.

Lincolnshire, Illinois

We have audited the accompanying balance sheets of BioSante Pharmaceuticals, Inc. (a development stage company) as of December 31, 2001 and 2000 and the related statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001, and for the period from August 29, 1996 (date of incorporation) through December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2001 and 2000 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, and for the period from August 29, 1996 (date of incorporation) through December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Company is in the development stage.

/s/ Deloitte & Touche LLP

February 15, 2002

Chicago, Illinois

BIOSANTE PHARMACEUTICALS, INC.

(a development stage company)

Balance Sheets**December 31, 2001 and 2000**

| | 2001 | 2000 |
|--|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 4,502,387 | \$ 2,611,755 |
| Prepaid expenses and other sundry assets | 91,859 | 64,341 |
| | 4,594,246 | 2,676,096 |
| PROPERTY AND EQUIPMENT, NET (Note 5) | 384,996 | 390,821 |
| | \$ 4,979,242 | \$ 3,066,917 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable (Note 12) | \$ 90,653 | \$ 44,746 |
| Accrued compensation | 379,346 | 258,598 |
| Other accrued expenses | 24,444 | 137,919 |
| Due to Antares (Note 4) | 433,319 | |
| Convertible debenture (Notes 7 and 13) | | 500,000 |
| | 927,762 | 941,263 |
| COMMITMENTS (Notes 11 and 13) | | |
| STOCKHOLDERS EQUITY (Note 8) | | |
| Capital stock | | |
| Issued and Outstanding | | |
| 2001 - 4,666,024; 2000 - 4,687,684 Class C special stock | 467 | 469 |
| 2001 - 63,218,798; 2000 - 52,952,943 Common stock | 22,302,046 | 17,782,857 |
| | 22,302,513 | 17,783,326 |
| Deferred unearned compensation | | (18,000) |
| Deficit accumulated during the development stage | (18,251,033) | (15,639,672) |
| | 4,051,480 | 2,125,654 |
| | \$ 4,979,242 | \$ 3,066,917 |

See accompanying notes to the financial statements.

BIOSANTE PHARMACEUTICALS, INC.

(a development stage company)

Statements of Operations**Years ended December 31, 2001, 2000 and 1999****and the cumulative period from August 29, 1996 (date of incorporation) to December 31, 2001**

| | Year ended December 31, 2001 | Year ended December 31, 2000 | Year ended December 31, 1999 | Cumulative period from August 29, 1996 (date of incorporation) to December 31, 2001 |
|--|------------------------------------|------------------------------------|------------------------------------|---|
| REVENUE | | | | |
| Licensing income, net (Note 4) | \$ 1,747,386 | \$ | \$ | \$ 1,747,386 |
| Interest income | 174,416 | 227,718 | 198,683 | 920,952 |
| | 1,921,802 | 227,718 | 198,683 | 2,668,338 |
| EXPENSES | | | | |
| Research and development | 2,141,944 | 1,887,832 | 660,588 | 6,426,316 |
| General and administration | 2,298,659 | 1,678,581 | 853,389 | 8,108,897 |
| Depreciation and amortization | 92,560 | 98,500 | 90,965 | 474,394 |
| Loss on disposal of capital assets | | | | 157,545 |
| Costs of acquisition of Structured Biologicals Inc. | | | | 375,219 |
| Purchased in-process research and development | | | | 5,377,000 |
| | 4,533,163 | 3,664,913 | 1,604,942 | 20,919,371 |
| NET LOSS | \$ (2,611,361) | \$ (3,437,195) | \$ (1,406,259) | \$ (18,251,033) |
| BASIC AND DILUTED NET LOSS PER SHARE (Note 2) | \$ (0.04) | \$ (0.06) | \$ (0.03) | |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | 64,853,492 | 57,536,761 | 49,424,140 | |

See accompanying notes to the financial statements.

BIOSANTE PHARMACEUTICALS, INC.**(a development stage company)****Statements of Stockholders' Equity****Years ended December 31, 2001, 2000 and 1999****and the cumulative period from August 29, 1996 (date of incorporation) to December 31, 2001**

| | Class A Special Shares | | Class C Special Shares | | Common Stock | | Deferred Unearned Compensation | Deficit Accumulated During the Development Stage | Total |
|--|---------------------------|--------|---------------------------|--------|--------------|-----------|--------------------------------------|--|-------------|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | |
| Balance, August 29, 1996, | | | | | | | | | |
| Date of incorporation | | \$ | | \$ | | \$ | \$ | \$ | \$ |
| Issuance of Class C shares August 29, 1996 (\$0.0001 per share) | | | 4,150,000 | 415 | | | | | 415 |
| Issuance of Class A shares September 23, 1996 (\$0.0001 per share) | 20,000,000 | 2,000 | | | | | | | 2,000 |
| Issuance of common shares September 23, 1996 | | | | | 4,100,000 | 4,100,000 | | | 4,100,000 |
| Financing fees accrued November 27, 1996 | | | | | | (410,000) | | | (410,000) |
| issued as consideration upon acquisition of SBI (Note 3) | | | | | 7,434,322 | 4,545,563 | | | 4,545,563 |
| Exercise of Series X warrants (Note 7) | | | | | 215,714 | 275,387 | | | 275,387 |
| Exercise of Series Z warrants (Note 7) | | | | | 1,428 | 2,553 | | | 2,553 |
| Net loss | | | | | | | | (6,246,710) | (6,246,710) |
| Balance, December 31, 1996 | 20,000,000 | 2,000 | 4,150,000 | 415 | 11,751,464 | 8,513,503 | | (6,246,710) | 2,269,208 |
| Conversion of shares | | | | | | | | | |
| January 13, 1997 | | | (282,850) | (28) | 282,850 | 70,741 | | | 70,713 |
| January 13, 1997 | | | (94,285) | (9) | 94,285 | 23,580 | | | 23,571 |
| December 2, 1997 | | | (106,386) | (11) | 106,386 | 26,607 | | | 26,596 |
| December 2, 1997 | | | (100,000) | (10) | 100,000 | 25,010 | | | 25,000 |
| Exercise of Series V warrants (Note 7) | | | | | 24,000 | 36,767 | | | 36,767 |
| Exercise of Series X warrants (Note 7) | | | | | 28,571 | 36,200 | | | 36,200 |
| Exercise of Series W warrants (Note 7) | | | | | 20,000 | 25,555 | | | 25,555 |
| Adjustment for partial shares issued upon amalgamation | | | | | 130 | | | | |
| Financing fees reversed | | | | | | 410,000 | | | 410,000 |

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| | | | | | | | | |
|--|--------------|---------|-----------|------|------------|------------|--------------|--------------|
| Net loss | | | | | | | (1,890,093) | (1,890,093) |
| Balance, December 31, 1997 | 20,000,000 | 2,000 | 3,566,479 | 357 | 12,407,686 | 9,167,963 | (8,136,803) | 1,033,517 |
| Conversion of shares | | | | | | | | |
| March 4, 1998 | | | (20,000) | (2) | 20,000 | 5,002 | | 5,000 |
| March 16, 1998 | | | (10,000) | (1) | 10,000 | 2,501 | | 2,500 |
| May 8, 1998 | (15,000,000) | (1,500) | | | 15,000,000 | 3,751,500 | | 3,750,000 |
| June 1, 1998 | (1,000,000) | (100) | | | 1,000,000 | 250,100 | | 250,000 |
| June 1, 1998 | (1,000,000) | (100) | | | 1,000,000 | 250,100 | | 250,000 |
| Return of shares to treasury | | | | | | | | |
| May 8, 1998 | (1,468,614) | (147) | | | | | | (147) |
| May 8, 1998 | | | (250,000) | (25) | | | | (25) |
| Net loss | | | | | | | (2,659,415) | (2,659,415) |
| Balance, December 31, 1998 | 1,531,386 | 153 | 3,286,479 | 329 | 29,437,686 | 13,427,166 | (10,796,218) | 2,631,430 |
| Conversion of shares | | | | | | | | |
| February 2, 1999 | | | (10,000) | (1) | 10,000 | 2,501 | | 2,500 |
| Private placement of common shares, net | | | | | | | | |
| May 6, 1999 | | | | | 23,125,000 | 4,197,843 | | 4,197,843 |
| Share redesignation | | | | | | | | |
| July 13, 1999 | (1,531,386) | (153) | 1,531,386 | 153 | | | | |
| Issuance of common shares | | | | | | | | |
| August 15, 1999 | | | | | 70,000 | 25,000 | | 25,000 |
| Net loss | | | | | | | (1,406,259) | (1,406,259) |
| Balance, December 31, 1999 | | | 4,807,865 | 481 | 52,642,686 | 17,652,510 | (12,202,477) | 5,450,514 |
| Conversion of shares | | | | | | | | |
| March 17, 2000 | | | (10,000) | (1) | 10,000 | 2,501 | | 2,500 |
| March 24, 2000 | | | (31,840) | (3) | 31,840 | 7,963 | | 7,960 |
| June 12, 2000 | | | (50,000) | (5) | 50,000 | 12,505 | | 12,500 |
| July 13, 2000 | | | (28,341) | (3) | 28,341 | 7,088 | | 7,085 |
| Issuance of common shares | | | | | | | | |
| July 18, 2000 | | | | | 190,076 | 58,000 | | 58,000 |
| Issuance of warrants for services received | | | | | | 42,290 | (42,290) | |
| Amortization of deferred unearned compensation | | | | | | | 24,290 | 24,290 |
| Net loss | | | | | | | (3,437,195) | (3,437,195) |
| Balance, December 31, 2000 | | | 4,687,684 | 469 | 52,952,943 | 17,782,857 | (18,000) | (15,639,672) |
| Conversion of shares | | | | | | | | |
| September 15, 2001 | | | (11,660) | (1) | 11,660 | 2,916 | | 2,915 |
| December 15, 2001 | | | (10,000) | (1) | 10,000 | 2,501 | | 2,500 |
| Private placement of common shares, net | | | | | | | | |
| April 4, 2001 | | | | | 9,250,000 | 3,659,408 | | 3,659,408 |
| Issuance of common shares | | | | | | | | |
| August 15, 2001 | | | | | 155,000 | 93,000 | | 93,000 |
| August 15, 2001 | | | | | 476,190 | 500,000 | | 500,000 |
| September 15, 2001 | | | | | 173,611 | 125,000 | | 125,000 |
| September 15, 2001 | | | | | 189,394 | 136,364 | | 136,364 |
| Amortization of deferred unearned compensation | | | | | | | 18,000 | 18,000 |
| Net loss | | | | | | | (2,611,361) | (2,611,361) |

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| | | | | | | | | | | | |
|---------------------------------------|----|-----------|----|-----|------------|----|------------|----|--------------|----|-----------|
| Balance, December 31, 2001 | \$ | 4,666,024 | \$ | 467 | 63,218,798 | \$ | 22,302,046 | \$ | (18,251,033) | \$ | 4,051,480 |
|---------------------------------------|----|-----------|----|-----|------------|----|------------|----|--------------|----|-----------|

See accompanying notes to the financial statements.

BIOSANTE PHARMACEUTICALS, INC.

(a development stage company)

Statements of Cash Flows

Years ended December 31, 2001, 2000 and 1999

and the cumulative period from August 29, 1996 (date of incorporation) to December 31, 2001

| | Year ended December 31, 2001 | Year ended December 31, 2000 | Year ended December 31, 1999 | Cumulative period from August 29, 1996 (date of incorporation) to December 31, 2001 |
|--|------------------------------------|------------------------------------|------------------------------------|---|
| CASH FLOWS USED IN OPERATING ACTIVITIES | | | | |
| Net loss | \$ (2,611,361) | \$ (3,437,195) | \$ (1,406,259) | \$ (18,251,033) |
| Adjustments to reconcile net loss to net cash used in operating activities | | | | |
| Depreciation and amortization | 92,560 | 98,500 | 90,965 | 474,394 |
| Amortization of deferred unearned compensation | 18,000 | 24,290 | | 42,290 |
| Repurchase of licensing rights | 125,000 | | | 125,000 |
| Employee compensation paid in shares of common stock | | 93,000 | 58,000 | 151,000 |
| Purchased in-process research and development | | | | 5,377,000 |
| Loss on disposal of equipment | | | | 157,545 |
| Changes in other assets and liabilities affecting cash flows from operations | | | | |
| Prepaid expenses and other sundry assets | (27,518) | (5,347) | 16,272 | (88,891) |
| Accounts payable and accrued expenses | 146,180 | 102,148 | (444,483) | (245,744) |
| Due to licensor (Antares/Regents) | 433,319 | (25,000) | (102,317) | 433,319 |
| Due from SBI | | | | (128,328) |
| Net cash used in operating activities | (1,823,820) | (3,149,604) | (1,787,822) | (11,953,448) |
| CASH FLOWS USED IN INVESTING ACTIVITIES | | | | |
| Purchase of capital assets | (86,735) | (43,238) | (4,219) | (982,825) |
| CASH FLOWS PROVIDED BY FINANCING ACTIVITIES | | | | |
| Issuance of convertible debenture | | 500,000 | | 500,000 |
| Proceeds from sale or conversion of shares | 3,801,187 | 30,045 | 4,225,343 | 16,938,660 |
| Net cash provided by financing activities | 3,801,187 | 530,045 | 4,225,343 | 17,438,660 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 1,890,632 | (2,662,797) | 2,433,302 | 4,502,387 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | | | | |
| | \$ 2,611,755 | \$ 5,274,552 | \$ 2,841,250 | \$ 4,502,387 |
| | \$ 4,502,387 | \$ 2,611,755 | \$ 5,274,552 | \$ 4,502,387 |

CASH AND CASH EQUIVALENTS AT END OF PERIOD

SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION

| | | | | |
|---|----|----|----|--------------|
| Acquisition of SBI | | | | |
| Purchased in-process research and development | \$ | \$ | \$ | \$ 5,377,000 |
| Other net liabilities assumed | | | | (831,437) |
| | | | | 4,545,563 |
| Less: subordinate voting shares issued therefor | | | | 4,545,563 |
| | \$ | \$ | \$ | \$ |
| Income tax paid | \$ | \$ | \$ | \$ |
| Interest paid | \$ | \$ | \$ | \$ |

See accompanying notes to the financial statements.

BIOSANTE PHARMACEUTICALS, INC.

(a development stage company)

Notes to the Financial Statements

For the years ended December 31, 2001, 2000 and 1999, and the cumulative period

from August 29, 1996 (date of incorporation) to December 31, 2001

1. ORGANIZATION

On December 19, 1996, Ben-Abraham Technologies, Inc. (BAT) was continued under the laws of the State of Wyoming, U.S.A. Previously, BAT had been incorporated under the laws of the Province of Ontario effective August 29, 1996. Pursuant to the shareholders meeting to approve the arrangement on November 27, 1996 and subsequent filing of the articles of arrangement on December 6, 1996, BAT acquired Structured Biologicals Inc. and its wholly-owned subsidiary 923934 Ontario Inc. (SBI), a Canadian public company listed on the Alberta Stock Exchange. The acquisition was effected by a statutory amalgamation wherein the stockholders of BAT were allotted a significant majority of the shares of the amalgamated entity. Upon amalgamation, the then existing stockholders of SBI received 7,434,322 subordinate voting shares of BAT (1 such share for every 3 1/2 shares held in SBI). On November 10, 1999, BAT changed its name to BioSante Pharmaceuticals, Inc. (the Company).

The Company was established to develop prescription pharmaceutical products, vaccines and vaccine adjuvants using its nanoparticle technology (CAP) licensed from the University of California. The research and development on the CAP technology is conducted in the Company's Smyrna, Georgia laboratory facility. In addition to its nanoparticle technology, the Company also is developing its pipeline of hormone replacement products to treat hormone deficiencies in men and women, the technology for which has been licensed from Antares Pharma, Inc. The business office is located in Lincolnshire, Illinois.

The Company has been in the development stage since its inception. The Company's successful completion of its development program and its transition to profitable operations is dependent upon obtaining regulatory approval from the United States (the U.S.) Food and Drug Administration (FDA) prior to selling its products within the U.S., and foreign regulatory approval must be obtained to sell its products internationally. There can be no assurance that the Company's products will receive regulatory approvals, and a substantial amount of time may pass before the achievement of a level of sales adequate to support the Company's cost structure. The Company will also incur substantial expenditures to achieve regulatory approvals and will need to raise additional capital during its developmental period. Obtaining marketing approval will be directly dependent on the Company's ability to implement the necessary regulatory steps required to obtain marketing approval in the United States and in other countries. It is not possible at this time to predict with assurance the outcome of these activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements are expressed in U.S. dollars.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles) and Statement of Financial Accounting Standards (SFAS) No. 7 Accounting and Reporting by Development Stage Enterprises. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions

that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers all instruments with original maturities of three months or less to be cash equivalents.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation of computer, office and laboratory equipment is computed primarily by accelerated methods over estimated useful lives of seven years. Leasehold improvements are amortized on a straight-line basis over the terms of the leases, plus option renewals.

Long-Lived Assets

Long-lived assets are reviewed for possible impairment whenever events indicate that the carrying amount of such assets may not be recoverable. If such a review indicates an impairment, the carrying amount of such assets is reduced to estimated recoverable value.

Research and Development

Research and development costs are charged to expense as incurred.

Basic and Diluted Net Loss Per Share

The basic and diluted net loss per share is computed based on the weighted average number of the aggregate of common stock and Class C shares outstanding, all being considered as equivalent of one another. Basic earnings (loss) per share is computed by dividing income (loss) available to common stockholders by the weighted average number of shares outstanding for the reporting period. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The computation of diluted earnings (loss) per share does not include the Company's stock options, warrants or convertible debt with dilutive potential because of their antidilutive effect on earnings (loss) per share.

Stock-based Compensation

The Company follows the provisions of APB Opinion No. 25, which requires compensation cost for stock-based employee compensation plans be recognized based on the difference, if any, between the quoted market price of the stock on the date of grant and the amount the employee must pay to acquire the stock. As a result of the Company's application of APB No. 25, SFAS No. 123, Accounting for Stock-Based Compensation, requires certain additional disclosures of the pro

forma compensation expense arising from the Company's fixed and performance stock compensation plans. The expense is measured as the fair value of the award at the date it was granted using an option-pricing model that takes into account the exercise price and the expected term of the option, the current price of the underlying stock, its expected volatility, expected dividends on the stock and the expected risk-free rate of return during the term of the option. The compensation cost is recognized over the service period, usually the period from the grant date to the vesting date. The Company has disclosed the required pro forma net loss and loss per share data in Note 9 as if the Company had recorded compensation expense using the fair value method per SFAS No. 123. Warrants issued to non-employees as compensation for services rendered are valued at their fair value on the date of issue.

Revenue Recognition

The Company recognizes revenue from licensing arrangements in the form of upfront license fees, milestone payments, royalties and other fees. Revenue is recognized when cash is received and the Company has completed all of its obligations under the licensing arrangement which are required for the payment to be non-refundable. Any ancillary payments related to the products being licensed, such as royalties to the head licensor, are netted against revenues at the time of revenue recognition. To date, there has been no royalty revenue recognized. Interest income on invested cash balances is recognized on the accrual basis as earned.

New Statements of Financial Accounting Standards

The Company adopted SFAS No. 133, *Accounting for Derivatives Instruments and Hedging Activities*, effective January 1, 2001. This Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. No cumulative transition adjustment was required.

On July 20, 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, *Business Combinations* (SFAS 141), and SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). These statements establish new accounting and reporting standards for business combinations and associated goodwill and intangible assets. They require, among other things, elimination of the pooling of interests method of accounting, no amortization of acquired goodwill, and a periodic assessment for impairment of all goodwill and intangible assets acquired in a business combination. SFAS 141 is effective for all business combinations accounted for by the purchase method that are completed after June 30, 2001. SFAS 142 will be effective for the Company's fiscal year beginning January 1, 2002.

On August 16, 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. The pronouncement addresses the recognition and remeasurement of obligations associated with the retirement of tangible long-lived assets. On October 3, 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144, which supercedes SFAS No. 121 Accounting for Long-lived Assets and for Long-Lived Assets to be Disposed Of and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual, and Infrequently Occurring Events and Transactions, applies to long-lived assets (including discontinued operations) and it develops one accounting model for long-lived assets that are to be disposed of by sale. SFAS 143 will be effective for the Company's fiscal year beginning January 1, 2003. SFAS 144 will be effective for the Company's fiscal year beginning January 1, 2002.

The Company does not believe that the issuance of these four new pronouncements will have an impact on its financial statements.

3. ACQUISITION

Pursuant to the shareholders meeting to approve the arrangement held on November 27, 1996 and the subsequent filing of the articles of arrangement December 6, 1996, the Company completed the acquisition of 100% of the outstanding shares of SBI. The acquisition was effected by a statutory amalgamation wherein the stockholders of the Company were allotted a significant majority of the shares of the amalgamated entity. Upon amalgamation, the then existing shareholders of SBI received 7,434,322 shares of common stock of the Company (1 such share for every 3½ shares they held in SBI). SBI's results of operations have been included in these financial statements from the date of acquisition. The acquisition was accounted for by using the purchase method of accounting, as follows:

| | |
|-------------------------------------|------------------|
| Assets | |
| In-process research and development | \$ 5,377,000 |
| Other | 37,078 |
| | 5,414,078 |
| Liabilities | |
| Current liabilities | 679,498 |
| Due to directors | 60,689 |
| Due to the Company | 128,328 |
| | 868,515 |
| Net assets acquired | \$ 4,545,563 |
| Consideration | |
| Common stock | \$ 4,545,563 |

In connection with the acquisition of SBI, accounted for under the purchase method, the Company acquired the rights to negotiate with the Regents of the University of California for licenses of specific CAP-related technologies and products. The specific technologies and products relate to investigative research funded by SBI. At the time of acquisition, the technologies and products had not yet been approved for human clinical research. The value ascribed to the rights, based on an independent evaluation, was \$5,377,000. This amount was immediately expensed as the technologies and products did not have their technological feasibility established and had no identified future alternative use.

As of the date of acquisition, the technology related to the development of products for six indications (i.e. applications of the technology). The Company determined the value of the in process research and development related to the acquired rights based on an independent valuation using discounted cash flows. Principle assumptions used in the valuation were as follows:

FDA approval for the CAP-related for the six indications was expected to be received at various dates between 2002 and 2004, however, there are many competitive products in development. There are also many requirements that must be met before FDA approval is secured. There is no assurance that the products will be successfully developed, proved to be safe in clinical trials, meet applicable regulatory standards, or demonstrate substantial benefits in the treatment or prevention of any disease.

The estimated additional research and development expenditures required before FDA approval was \$26.5 million, to be incurred over 8 to 10 years.

Future cash flows were estimated based on estimated market size, with costs determined based on industry norms, an estimated annual growth rate of 3%.

The cash flows were discounted at 25%. The rate was preferred due to the high-risk nature of the biopharmaceutical business.

The Company is continuing to develop the technology related to five of the six indications.

In June 1997, the Company exercised its option and entered into a license agreement with UCLA for the technology that it had previously supported.

4. LICENSE AND SUPPLY AGREEMENTS

On June 13, 2000, BioSante entered into a licensing agreement and a supply agreement with Antares Pharma, Inc. (Antares), covering four hormone products for the treatment of hormone deficiencies in men and women. The agreement requires BioSante to pay Antares a percentage of future net sales, if any, as a royalty. Under the terms of the license agreement, BioSante is also obligated to make milestone payments upon the occurrence of certain future events. Under terms of the supply agreement, Antares has agreed to manufacture or have manufactured and sell exclusively

to BioSante, and BioSante has agreed to purchase exclusively from Antares, BioSante's total requirements for the products covered under the license agreement between the two parties.

As allowed by the licensing agreement with Antares, on September 1, 2000, BioSante entered into a sub-license agreement with Paladin Labs Inc. (Paladin) to market the female hormone replacement products in Canada. In exchange for the sub-license, Paladin agreed to make an initial investment in BioSante, make future milestone payments and pay royalties on sales of the products in Canada. The milestone payments will be in the form of a series of equity investments by Paladin in BioSante's common stock at a 10% premium to the market price of BioSante's common stock at the date of the equity investment.

During the third quarter 2001, Paladin made a series of equity investments in BioSante as a result of certain sub-licensing transactions and BioSante reaching certain milestones. These equity investments resulted in BioSante issuing an additional 189,394 shares of its common stock to Paladin at a 10 percent premium to BioSante's market price. The dollar value of the premium, \$39,394, is recorded as licensing income in the statements of operations.

In a series of amendments executed during 2001 between BioSante and Antares, BioSante returned to Antares the license rights to one of the four previously licensed hormone products, namely the estradiol patch, in all countries of the licensed territory. Additionally, BioSante returned to Antares the license rights to the single entity estrogen and testosterone gel products in Malaysia and Australia. In exchange for the return to Antares of the estradiol patch in all the countries and the estradiol and testosterone gel products in Malaysia and Australia, Antares granted BioSante a credit for approximately \$600,000 of manufacturing and formulation services and a license for an undisclosed transdermal hormone replacement gel product. During the third quarter of 2001, Antares informed the Company that the total costs for manufacturing and formulation services had exceeded the \$600,000 credit. Accordingly, beginning in third quarter of 2001 and going forward, the Company will be required to reimburse Antares for such services. At December 31, 2001, the amount owed to Antares for such services was \$433,319.

On August 7, 2001, BioSante entered into a sub-license agreement with Solvay Pharmaceuticals, B.V. (Solvay) covering the U.S. and Canadian rights to the estrogen/progestogen combination transdermal hormone replacement gel product licensed from Antares in June 2000. Under the terms of the agreement, Solvay has sub-licensed BioSante's estrogen/progestogen combination transdermal hormone replacement gel product for an initial payment of \$2.5 million (\$1.7 million net of the related payments due to Antares and Paladin), future milestone payments and escalating sales-based royalties. Solvay will be responsible for all costs of development and marketing of the product. BioSante has retained co-promotion rights to the product and will be compensated for sales generated by BioSante over and above those attributable to Solvay's marketing efforts. The Canadian rights to this product had previously been sub-licensed to Paladin as part of that sub-license arrangement and were repurchased by the Company prior to the Solvay transaction in exchange for \$125,000, paid by the issuance of 173,611 shares of BioSante common stock with a market value of \$125,000 at the date of the transaction.

On October 1, 2001, BioSante sub-licensed its Bio-Vant™ calcium phosphate based vaccine adjuvant on a non-exclusive basis to Corixa Corporation for use in several potential vaccines to be developed by Corixa. Under the agreement, Corixa has agreed to pay BioSante milestone payments upon the achievement by Corixa of certain milestones plus royalty payments on sales by Corixa if and when vaccines are approved using Bio-Vant™ and sold on a commercial basis. If Corixa sub-licenses vaccines that include Bio-Vant™, BioSante will share in milestone payments and royalties received by Corixa. The sub-license agreement covers access to Bio-Vant™ for a variety of cancer, infectious and autoimmune disease vaccines.

In June 1997, we entered into a licensing agreement with the Regents of the University of California, which has subsequently been amended, pursuant to which the University has granted us an exclusive license to nine United States patents owned by the University, including rights to sublicense such patents, in fields of use initially pertaining to: (1) vaccine adjuvants; (2) vaccine constructs or combinations for use in immunization against herpes virus; (3) drug delivery systems; and (4) red blood cell surrogates. The University of California has filed patent applications for this licensed technology in several foreign jurisdictions, including Canada, Europe and Japan.

The license agreement with the University of California requires us to undertake various obligations as described in Note 13.

5. PROPERTIES AND EQUIPMENT

Property and equipment, net of accumulated depreciation at December 31 comprise:

| | 2001 | 2000 |
|---|-------------------|------------|
| Computer equipment | \$ 101,490 | \$ 61,643 |
| Office equipment | 78,051 | 34,208 |
| Laboratory equipment | 103,012 | 103,012 |
| Leasehold improvements Laboratory | 477,339 | 474,294 |
| | 759,892 | 673,157 |
| Accumulated depreciation and amortization | (374,896) | (282,336) |
| | \$ 384,996 | \$ 390,821 |

6. INCOME TAXES

The components of the Company's net deferred tax asset at December 31, 2001, 2000 and 1999 were as follows:

| | 2001 | 2000 | 1999 |
|----------------------------------|--------------------|--------------|--------------|
| Net operating loss carryforwards | \$ 4,861,792 | \$ 3,886,495 | \$ 2,367,292 |
| Amortization of intangibles | 1,323,455 | 1,468,699 | 1,613,942 |
| Research & development credits | 580,141 | 191,358 | 235,310 |
| Other | 79,197 | 60,993 | 38,794 |
| | 6,844,585 | 5,607,545 | 4,255,338 |
| Valuation allowance | (6,844,585) | (5,607,545) | (4,255,338) |
| | \$ | \$ | \$ |

The Company has no current tax provision due to its accumulated losses, which result in net operating loss carryforwards. At December 31, 2001, the Company had approximately \$13,140,000 of net operating loss carryforwards that are available to reduce future taxable income for a period of up to 20 years. The net operating loss carryforwards expire in the years 2011-2021. The net operating loss carryforwards as well as amortization of various intangibles, principally acquired in-process research and development, generate deferred tax benefits, which have been recorded as deferred tax assets and are entirely offset by a tax valuation allowance. The valuation allowance has been provided at 100% to reduce the deferred tax assets to zero, the amount management believes is more likely than not to be realized. Additionally, the Company has approximately \$580,000 of research and development credits available to reduce future income taxes through the year 2014.

The provision for income taxes differs from the amount computed by applying the statutory federal income tax rate of 34% to pre-tax income as follows:

| | 2001 | 2000 | 1999 |
|-------------------------------------|--------------|----------------|--------------|
| Tax at U.S. federal statutory rate | \$ (887,863) | \$ (1,160,388) | \$ (469,799) |
| State taxes, net of federal benefit | (355,149) | (195,854) | (91,015) |
| Change in valuation allowance | 1,237,041 | 1,352,207 | 556,972 |
| Other, net | 5,971 | 4,035 | 3,842 |
| | \$ | \$ | \$ |

7. CONVERTIBLE DEBENTURE

In September 2000, in connection with entering into a sub-license agreement, the Company issued a convertible debenture to Paladin Labs Inc. (Paladin) in the face amount of \$500,000. The debenture did not bear interest and was due September 1, 2001, unless converted into shares of the Company's common stock. On August 13, 2001, the Company exercised its right and declared the debenture converted in full at a price of \$1.05 per share. Accordingly, 476,190 shares of the Company's common stock were issued to Paladin. This was a non-cash financing transaction.

8. STOCKHOLDERS' EQUITY

By articles of amendment dated July 20, 1999 (effective as of July 13, 1999), the subordinate voting shares of the Company were redesignated as common stock, the Class A special shares were reclassified as Class C special shares and the Class B special shares were eliminated. There were no changes in the number of shares outstanding.

a) *Authorized*

Preference shares

An unlimited number of preference shares issuable in series subject to limitation, rights, and privileges as determined by the directors. No preference shares have been issued as of December 31, 2001.

Special Shares

An unlimited number of Class C special shares without par value, convertible to common stock on the basis of one Class C special share and U.S. \$0.25. These shares are not entitled to a dividend and carry one vote per share.

Common Stock

An unlimited number of common shares of stock without par value, which carry one vote per share.

Significant Equity Transactions

Significant equity transactions since the date of the Company's incorporation are as follows:

Prior to the Amalgamation on December 6, 1996, the Company issued 20,000,000 shares of the Company's Class A stock for \$0.0001 per share, 4,150,000 shares of Class C stock for \$0.0001 per share and 4,100,000 shares of the Company's common stock for \$1.00 per share.

Pursuant to the shareholders meeting to approve the arrangement held on November 27, 1996 and the subsequent filing of articles of arrangement on December 6, 1996, the Company completed the acquisition of 100% of the outstanding shares of SBI. Upon the effectiveness of this Amalgamation, the then existing stockholders of SBI received 7,434,322 shares of common stock of the Company (1 common share of the Company for every 3½ shares of SBI). The deemed fair market value of this stock was \$4,545,563.

In May 1998, the Company and Avi Ben-Abraham, M.D., a director and a founder of the Company and the Company's then Chief Executive Officer and Chairman of the Board, entered into an agreement pursuant to which Dr. Ben-Abraham would relinquish his executive position and remain as a director of the Company. Pursuant to the agreement, Dr. Ben-Abraham converted shares of the Company's Class A stock held by him into 15,000,000 shares of common stock at \$0.25 per share for proceeds to the Company of \$3,750,000. In addition, Dr. Ben-Abraham agreed to return to the Company 1,468,614 shares of Class A stock and 250,000 shares of Class C stock to the Company, and also agreed not to sell any of his shares of common stock or any other securities of the Company for a period of 15 months. The Company and Dr. Ben-Abraham agreed to cross-indemnify each other upon the occurrence of certain events.

In June 1998, the Company issued an aggregate of 2,000,000 shares of common stock pursuant to the conversion of Class A stock at a conversion price of \$0.25 per share.

On May 6, 1999, the Company sold an aggregate of 23,125,000 common shares and warrants to purchase 11,562,500 shares of common stock at an exercise price of \$0.30 per share to 31 accredited investors in a private placement, including several current members of the board of directors and one executive officer. Net proceeds to the Company from this private placement were approximately \$4.2 million.

In August 1999, an outstanding liability of \$25,000 was converted into 70,000 shares of common stock.

In July 2000, 190,076 shares of common stock were issued to certain corporate officers in lieu of a cash bonus.

On April 4, 2001, the Company sold an aggregate of 9,250,000 common shares and warrants to purchase 4,625,000 shares of common stock at an exercise price of \$0.50 per share to 48 accredited investors in a private placement, including several current members of the board of directors and five executive officers. Net proceeds to the Company from this private placement were approximately \$3.7 million.

During the third quarter 2001, Paladin made a series of equity investments in BioSante as result of certain sub-licensing transactions and BioSante reaching certain milestones. These equity investments resulted in BioSante issuing an additional 189,394 shares of its common stock to Paladin at a 10 percent premium to BioSante's market price on the date of the transactions. The dollar value of the premium is recorded as licensing income in the statements of operations.

On August 7, 2001, BioSante entered into a sub-license agreement with Solvay Pharmaceuticals, B.V. (Solvay) covering the U.S. and Canadian rights to the estrogen/progestogen combination transdermal hormone replacement gel product licensed from Antares in June 2000. The Canadian rights to this product had previously been sub-licensed to Paladin as part of that sub-license arrangement and were repurchased by the Company prior to the Solvay transaction in exchange for \$125,000, paid by the issuance of 173,611 shares of BioSante common stock with a market value of \$125,000 at the date of the transaction.

In August 2001, 155,000 shares of common stock were issued to certain corporate officers in lieu of a cash bonus.

On August 13, 2001, the Company exercised its right and declared a convertible debenture in the face amount of \$500,000 issued to Paladin Labs Inc. (Paladin) converted in full at a price of \$1.05 per share. See Note 7. Accordingly, 476,190 shares of the Company's common stock were issued to Paladin.

b) Warrants

The Company, upon the acquisition of SBI, assumed 2,577,129 exercisable warrants to purchase common stock, all of which expired prior to or as of December 31, 1998. Of this amount, 72,571 were exercised in 1997 prior to their expiration.

Pursuant to the Company's private placement financing in May 1999, warrants to purchase an aggregate of 11,562,500 shares of common stock were issued at an exercise price of \$0.30 per share with a term of five years. These warrants remain outstanding and are all exercisable as of December 31, 2001.

In June 2000, a five-year warrant to purchase 250,000 shares of common stock at an exercise price of \$0.88 was issued to a communications firm for various consulting services. The warrant vests quarterly over the first year. As of December 31, 2001, all 250,000 of these shares were exercisable. The Company recognized expense of approximately \$18,000 for this warrant grant in 2000 and 2001.

9. STOCK OPTIONS

Pursuant to the Company's private placement financing in April 2001, warrants to purchase an aggregate of 4,625,000 shares of common stock were issued at an exercise price of \$0.50 per share with a term of five years. These warrants remain outstanding and are all exercisable as of December 31, 2001.

The Company has a stock option plan for certain officers, directors and employees whereby 8,500,000 shares of common stock have been reserved for issuance. Options for 6,994,657 shares of common stock have been granted as of December 31, 2001 at prices equal to either the ten-day weighted average closing price, or the closing price of the stock at the date of the grant, and are exercisable and vest in a range substantially over a three-year period. The options expire either in five or ten years from the date of the grants.

The Company applies APB Opinion No. 25 and related interpretations in accounting for its plan. Accordingly, no compensation cost has been recognized for the plan. Had the compensation cost for the Company's plan been determined based on the fair value of the awards under the plan consistent with the method of SFAS No. 123 the Company's net loss, cumulative net loss, and basic net loss per common share would have been increased to the pro forma amounts indicated below:

| | 2001 | 2000 | 1999 |
|---|-----------------|----------------|----------------|
| Net loss | | | |
| As reported | \$ (2,611,361) | \$ (3,437,195) | \$ (1,406,259) |
| Pro forma | \$ (3,501,822) | \$ (3,960,210) | \$ (1,713,693) |
| Basic and diluted net loss per share | | | |
| As reported | \$ (0.04) | \$ (0.06) | \$ (0.03) |
| Pro forma | \$ (0.05) | \$ (0.07) | \$ (0.03) |
| Cumulative net loss | | | |
| As reported | \$ (18,251,033) | | |
| Pro forma | \$ (20,318,982) | | |

The weighted average fair value of the options at the date of the grant for options granted during 2001, 2000 and 1999 was \$0.50, \$0.90 and \$0.33 was estimated using the Cox Rubinstein binomial model and the Black-Scholes option-pricing model with following weighted average assumptions:

| | 2001 | 2000 | 1999 |
|---------------------------------|---------|---------|---------|
| Expected option life (years) | 10 | 10 | 5 |
| Risk free interest rate | 5.39% | 6.03% | 4.59% |
| Expected stock price volatility | 118.79% | 157.06% | 238.08% |
| Dividend yield | | | |

The following table summarizes the Company's stock option activity:

| | 2001 | Weighted Average Exercise Price | 2000 | Weighted Average Exercise Price | 1999 | Weighted Average Exercise Price |
|--|-----------|---------------------------------|-----------|---------------------------------|-----------|---------------------------------|
| Options outstanding, Beginning of period | 5,263,125 | \$ 0.33 | 4,973,125 | \$ 0.30 | 2,465,000 | \$ 0.37 |
| Options granted | 1,741,532 | \$ 0.52 | 510,000 | \$ 0.91 | 3,068,125 | \$ 0.24 |
| Options cancelled/expired | (10,000) | \$ 0.75 | (220,000) | \$ 1.00 | (560,000) | \$ 0.31 |
| Options exercised | | \$ | | \$ | | \$ |
| Options outstanding, End of period | 6,994,657 | \$ 0.38 | 5,263,125 | \$ 0.33 | 4,973,125 | \$ 0.30 |
| Options exercisable, End of year | 5,424,835 | \$ 0.34 | 3,865,025 | \$ 0.28 | 2,117,113 | \$ 0.35 |

The following table summarizes information about stock options outstanding at December 31, 2001:

| Range of Exercise Prices | Number Outstanding | Outstanding Options | | Options Exercisable | |
|--------------------------|--------------------|--|------------------------------|---------------------|------------------------------|
| | | Weighted Avg. Remaining Contractual Life | Weighted Avg. Exercise Price | Number Outstanding | Weighted Avg. Exercise Price |
| \$0.23 | 2,378,125 | 2.2 years | \$ 0.23 | 2,255,713 | \$ 0.23 |
| \$0.28 - \$0.29 | 2,325,000 | 2.1 years | \$ 0.28 | 2,315,000 | \$ 0.28 |
| \$0.40 - \$0.67 | 1,741,532 | 9.2 years | \$ 0.52 | 304,122 | \$ 0.53 |
| \$0.91 - \$1.04 | 550,000 | 8.5 years | \$ 0.92 | 550,000 | \$ 0.92 |
| | 6,994,657 | | | 5,424,835 | |

10. RETIREMENT PLAN

In July 1998, the Company began offering a discretionary 401(k) Plan (the Plan) to all of its employees. Under the Plan, employees may defer income on a tax-exempt basis, subject to IRS limitation. Under the Plan the Company can make discretionary matching contributions. Company contributions expensed in 2001, 2000 and 1999 totaled \$30,743, \$26,296 and \$23,899, respectively.

11. LEASE ARRANGEMENTS

The Company has entered into lease commitments for rental of its office space and laboratory facilities. The future minimum lease payments are:

| | | |
|-------------------|-----------|----------------|
| 2002 | \$ | 142,811 |
| 2003 | | 131,877 |
| Thereafter | | |
| | \$ | 274,688 |

Rent expense amounted to \$119,765, \$82,069 and \$89,110 for the years ended December 31, 2001, 2000 and 1999, respectively. Effective September 16, 1999, the Company entered into a sublease agreement for its Atlanta office space under which the Company receives approximately \$3,400 per month from the sub-tenant through September 14, 2002.

12. RELATED PARTY TRANSACTIONS

Included in current liabilities are \$5,074, \$379, and \$5,588 which represent amounts due to directors and officers of the Company as of December 31, 2001, 2000 and 1999, respectively.

Prior to the Amalgamation on December 6, 1996, the Company issued 20,000,000 shares of class A stock and 4,150,000 shares of class C stock for \$0.0001 per shares. 17,000,000 of the class A shares were sold to a director of the Company. 1,050,000 of the class C shares were sold to the same director of the Company to be held by him in trust for the benefit of others; 500,000 of the class C shares were sold to a separate company controlled by a then officer of the Company; and 2,000,000 of the class C shares were sold to other directors of the Company.

The 20,000,000 class A shares and 4,150,000 class C shares were founder's shares and the terms under the authorization of these shares, provided for their conversion to common stock at \$0.25 per share.

In May 1998, the Company and Avi Ben-Abraham, M.D., a director and a founder of the Company and the Company's then Chief Executive Officer and Chairman of the Board, entered into an agreement pursuant to which Dr. Ben-Abraham would relinquish his executive position and remain as a director of the Company. See Note 8.

In connection with the May 1999 private placement of 23,125,000 shares of common stock and warrants to purchase 11,562,500 shares of common stock, the Company's Chief Executive Officer purchased 250,000 shares of the common stock sold and warrants to purchase 125,000 shares of common stock. Three other individuals, who purchased either individually or through affiliated entities, an aggregate 10,250,000 shares of common stock and warrants to purchase 5,125,000 shares of common stock, became directors of the Company upon their acquisition of the shares or sometime later.

In connection with the April 2001 private placement of 9,250,000 shares of common stock and warrants to purchase 4,625,000 shares of common stock, the Company's Chief Executive Officer, Chief Financial Officer and other senior officers purchased an aggregate of 528,750 shares of the common stock sold and warrants to purchase 264,375 shares of common stock. Three directors, either individually or through affiliated entities, purchased an aggregate 3,125,000 shares of common stock and warrants to purchase 1,562,500 shares of common stock.

13. COMMITMENTS

University of California License

The Company's license agreement with the University of California requires it to undertake various obligations, including:

Payment of royalties to the University based on a percentage of the net sales of any products incorporating the licensed technology;

Payment of minimum annual royalties on February 28 of each year beginning in the year 2004 in the amounts set forth below, to be credited against earned royalties, for the life of the agreement;

| Year | Minimum Annual Royalty Due | |
|-------------|---------------------------------------|-----------|
| 2004 | \$ | 50,000 |
| 2005 | | 100,000 |
| 2006 | | 150,000 |
| 2007 | | 200,000 |
| 2008 | | 400,000 |
| 2009 | | 600,000 |
| 2010 | | 800,000 |
| 2011 | | 1,500,000 |
| 2012 | | 1,500,000 |
| 2013 | | 1,500,000 |
| | \$ | 6,800,000 |

Development of products incorporating the licensed technology until a product is introduced to the market;

Payment of the costs of patent prosecution and maintenance of the patents included in the agreement which for the year ended December 31, 2001 have amounted to \$11,358 and which management estimates will equal approximately \$15,000 per year;

Meeting performance milestones relating to:

Hiring or contracting with personnel to perform research and development, regulatory and other activities relating to the commercial launch of a proposed product;

Testing proposed products;

Obtaining government approvals;

Conducting clinical trials; and

Introducing products incorporating the licensed technology into the market.

Entering into partnership or alliance arrangements or agreements with other entities regarding commercialization of the technology covered by the license.

The Company has agreed to indemnify, hold harmless and defend the University of California and its affiliates, as designated in the license agreement, against any and all claims, suits, losses, damage, costs, fees and expenses resulting from or arising out of exercise of the license agreement, including but not limited to, any product liability claims.

Antares Pharma, Inc. License

The Company's license agreement with Antares Pharma, Inc. (formerly known as Permatec Technologie, AG) required the Company to make a \$1.0 million upfront payment to Antares. The Company expects to fund the development of the products, make milestone payments and once regulatory approval to market is received, pay royalties on the sales of products.

The Company's sub-license agreement in Canada (of the Antares license) with Paladin Labs Inc. required Paladin to make an initial investment in the Company of \$500,000 in the form of a convertible debenture. On August 13, 2001, the Company exercised its right and declared the convertible debenture converted in full at a price of \$1.05 per share. Accordingly, 476,190 shares of the Company's common stock were issued to Paladin.

Paladin will also make milestone payments to the Company in the form of a series of equity investments at a 10 percent premium to the Company's market price at the time the equity investment is made. In addition, Paladin will pay the Company a royalty on sales of the sub-licensed products.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this amendment to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 2, 2002

BIOSANTE PHARMACEUTICALS, INC.

By */s/ Stephen M. Simes*
Stephen M. Simes
Vice Chairman, President and Chief Executive Officer
(Principal Executive Officer)

By */s/ Phillip B. Donenberg*
Phillip B. Donenberg
Chief Financial Officer, Treasurer and Secretary
(Principal Financial and Accounting Officer)

**BIOSANTE PHARMACEUTICALS, INC.
REGISTRATION STATEMENT ON FORM SB-2
EXHIBIT INDEX**

| Exhibit No. | Exhibit | Method of Filing |
|--------------------|---|--|
| 2.1 | Arrangement Agreement, dated October 23, 1996, between Structured Biologicals Inc. and BioSante Pharmaceuticals, Inc. | Incorporated by reference to Exhibit 2.1 contained in BioSante's Registration Statement on Form 10-SB, as amended (File No. 0-28637) |
| 3.1 | Amended and Restated Certificate of Incorporation of BioSante Pharmaceuticals, Inc. | Incorporated by reference to Exhibit 3.1 contained in BioSante's Registration Statement on Form SB-2, as amended, (File No. 333-64218) |
| 3.2 | Bylaws of BioSante Pharmaceuticals, Inc. | Incorporated by reference to Exhibit 3.2 contained in BioSante's Registration Statement on Form SB-2, as amended, (File No. 333-64218) |
| 4.1 | Form of Warrant issued in connection with May 1999 Private Placement | Incorporated by reference to Exhibit 4.1 contained in BioSante's Registration Statement on Form 10-SB, as amended (File No. 0-28637) |
| 4.2 | Form of Warrant issued in connection with April 2001 Private Placement | Incorporated by reference to Exhibit 4.2 contained in BioSante's Registration Statement on Form SB-2, as amended (File No. 333-64218) |

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| | | |
|------|--|--|
| 10.1 | License Agreement, dated June 18, 1997, between BioSante Pharmaceuticals, Inc. and The Regents of the University of California (1) | Incorporated by reference to Exhibit 10.1 contained in BioSante's Registration Statement on Form 10-SB, as amended (File No. 0-28637) |
| 10.2 | Amendment to License Agreement, dated October 26, 1999, between BioSante Pharmaceuticals, Inc. and the Regents of the University of California (1) | Incorporated by reference to Exhibit 10.2 contained in BioSante's Registration Statement on Form 10-SB, as amended (File No. 0-28637) |
| 10.3 | Amended and Restated 1998 Stock Option Plan | Incorporated by reference to Exhibit 10.3 contained in BioSante's Registration Statement on Form SB-2, as amended (File No. 333-64218) |
| 10.4 | Stock Option Agreement, dated December 7, 1997, between BioSante Pharmaceuticals, Inc. and Edward C. Rosenow, III, M.D. | Incorporated by reference to Exhibit 10.5 contained in BioSante's Registration Statement on Form 10-SB, as amended (File No. 0-28637) |
| 10.5 | Form of Stock Option Agreement between BioSante Pharmaceuticals, Inc. and each of BioSante's executive officers | Incorporated by reference to Exhibit 10.5 to BioSante's Annual Report on Form 10-KSB, filed on March 28, 2002 (File No. 0-28637) |

| | | |
|-------|---|--|
| 10.6 | Escrow Agreement, dated December 5, 1996, among BioSante Pharmaceuticals, Inc., Montreal Trust Company of Canada, as Escrow Agent, and certain shareholders of BioSante Pharmaceuticals, Inc. | Incorporated by reference to Exhibit 10.9 contained in BioSante's Registration Statement on Form 10-SB, as amended (File No. 0-28637) |
| 10.7 | Registration Rights Agreement, dated May 6, 1999, between BioSante Pharmaceuticals, Inc. and certain shareholders of BioSante Pharmaceuticals, Inc. | Incorporated by reference to Exhibit 10.13 contained in BioSante's Registration Statement on Form 10-SB, as amended (File No. 0-28637) |
| 10.8 | Securities Purchase Agreement, dated May 6, 1999, between BioSante Pharmaceuticals, Inc. and certain shareholders of BioSante Pharmaceuticals, Inc. | Incorporated by reference to Exhibit 10.14 contained in BioSante's Registration Statement on Form 10-SB, as amended (File No. 0-28637) |
| 10.9 | Lease, dated September 15, 1997, between BioSante Pharmaceuticals, Inc. and Highlands Park Associates | Incorporated by reference to Exhibit 10.15 contained in BioSante's Registration Statement on Form 10-SB, as amended (File No. 0-28637) |
| 10.10 | Employment Agreement, dated January 21, 1998, between BioSante Pharmaceuticals, Inc. and Stephen M. Simes, as amended | Incorporated by reference to Exhibit 10.16 contained in BioSante's Registration Statement on Form 10-SB, as amended (File No. 0-28637) |

| | | |
|-------|--|--|
| 10.11 | Employment Agreement, dated June 11, 1998, between BioSante Pharmaceuticals, Inc. and Phillip B. Donenberg, as amended | Incorporated by reference to Exhibit 10.17 contained in BioSante's Registration Statement on Form 10-SB, as amended (File No. 0-28637) |
| 10.12 | License Agreement, dated June 13, 2000, between Permatec Technologie, AG and BioSante Pharmaceuticals, Inc. (1) | Incorporated by reference to Exhibit 10.1 contained in BioSante's Current Report on Form 8-K on July 11, 2000 (File No. 0-28637) |
| 10.13 | Supply Agreement, dated June 13, 2000, between Permatec Technologie, AG and BioSante Pharmaceuticals, Inc. (1) | Incorporated by reference to Exhibit 10.2 contained in BioSante's Current Report on Form 8-K on July 11, 2000 (File No. 0-28637) |
| 10.14 | Employment Agreement, dated August 1, 2000, between BioSante Pharmaceuticals, Inc. and John E. Lee | Incorporated by reference to Exhibit 10.18 to BioSante's Annual Report on Form 10-KSB filed on March 30, 2001 (File No. 0-28637) |
| 10.15 | Employment Agreement, dated December 15, 2000, between BioSante Pharmaceuticals, Inc. and Leah Lehman, Ph.D. | Incorporated by reference to Exhibit 10.19 to BioSante's Annual Report on Form 10-KSB filed on March 30, 2001 (File No. 0-28637) |
| 10.16 | Form of Subscription Agreement in connection with the April 2001 Private Placement | Incorporated by reference to Exhibit 10.19 to BioSante's Registration Statement on Form SB-2, as amended, (File No. 333-64218) |

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| 10.17 | Sublease Agreement, dated August 29, 2001, between ICON InfoSystems, Inc. and BioSante Pharmaceuticals, Inc. | Incorporated by reference to Exhibit 10.20 to BioSante's Registration Statement on Form SB-2, as amended, (File No. 333-64218) |
| 10.18 | Amendment No. 1 to the License Agreement, dated May 20, 2001, between Antares Pharma and BioSante Pharmaceuticals, Inc. (2) | Incorporated by reference to Exhibit 10.18 to BioSante's Annual Report on Form 10-KSB, filed on March 28, 2002 (File No. 0-28637) |
| 10.19 | Amendment No. 2 to the License Agreement, dated July 5, 2001, between Antares Pharma and BioSante Pharmaceuticals, Inc. (2) | Incorporated by reference to Exhibit 10.19 to BioSante's Annual Report on Form 10-KSB, filed on March 28, 2002 (File No. 0-28637) |
| 10.20 | Amendment No. 3 to the License Agreement, dated August 30, 2001, between Antares Pharma and BioSante Pharmaceuticals, Inc. (2) | Incorporated by reference to Exhibit 10.20 to BioSante's Annual Report on Form 10-KSB, filed on March 28, 2002 (File No. 0-28637) |
| 10.21 | Consulting Agreement, dated January 1, 2001, between BioSante Pharmaceuticals, Inc. and Scientific Research Development Corp. | Incorporated by reference to Exhibit 10.21 to BioSante's Annual Report on Form 10-KSB, filed on March 28, 2002 (File No. 0-28637) |

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| 10.22 | Employment Agreement, dated October 1, 2000, between BioSante Pharmaceuticals, Inc. and Steven J. Bell, Ph.D. | Incorporated by reference to Exhibit 10.22 to BioSante's Annual Report on Form 10-KSB, filed on March 28, 2002 (File No. 0-28637) |
| 10.23 | Amendment No. 2 to the License Agreement, dated May 7, 2001, between BioSante Pharmaceuticals, Inc. and The Regents of the University of California (2) | Incorporated by reference to Exhibit 10.23 to BioSante's Annual Report on Form 10-KSB, filed on March 28, 2002 (File No. 0-28637) |
| 10.24 | Separation and Release Agreement, dated February 1, 2002, between BioSante Pharmaceuticals, Inc. and John E. Lee | Incorporated by reference to Exhibit 10.24 to BioSante's Annual Report on Form 10-KSB, filed on March 28, 2002 (File No. 0-28637) |
| 23.1 | Consent of Deloitte & Touche LLP | Filed herewith electronically |

(1) Confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended, has been granted with respect to designated portions of this document.

(2) Confidential treatment has been requested with respect to designated portions of this document. Such portions have been omitted and filed separately with the Secretary of the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.