

BIOSANTE PHARMACEUTICALS INC

Form 424B3

November 18, 2003

**PROSPECTUS SUPPLEMENT NO. 2**  
**(to Prospectus Dated September 22, 2003)**

**Filed Pursuant to Rule 424(b)(3)**  
**File No. 333-108550**

**7,584,348 Shares**

**Common Stock**

---

This Prospectus Supplement No. 2 supplements the prospectus dated September 22, 2003 and Prospectus Supplement No. 1 dated October 1, 2003 relating to the 7,584,348 shares of common stock of BioSante Pharmaceuticals, Inc. that may be offered for sale for the account of several stockholders of BioSante, their respective donees or pledgees, as stated under the heading "Plan of Distribution" in the original prospectus.

This Prospectus Supplement No. 2 is being filed to update the original prospectus, as supplemented, with respect to developments in BioSante's business that have occurred since the date of the original prospectus, as supplemented. This Prospectus Supplement No. 2 is not complete without, and may not be delivered or utilized except in connection with, the original prospectus, as supplemented. This Prospectus Supplement No. 2 is qualified by reference to the original prospectus, as supplemented, except to the extent that the information contained in this Prospectus Supplement No. 2 supersedes the information contained in the original prospectus, as supplemented.

#### **Recent Development**

Attached hereto and incorporated by reference herein is the Quarterly Report on Form 10-QSB of BioSante Pharmaceuticals, Inc. for the third quarter ended September 30, 2003, as filed with the Securities and Exchange Commission on November 14, 2003.

**The common stock offered involves a high degree of risk. We refer you to "Risk Factors," beginning on page 6 of the original prospectus.**

---

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus Supplement No. 2 is truthful or complete. Any representation to the contrary is a criminal offense.

---

The date of this Prospectus Supplement No. 2 is November 18, 2003

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-QSB**

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

**For the Quarterly Period Ended September 30, 2003**

**Commission file number 1-31812**

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

For the Transition Period From \_\_\_\_\_ To \_\_\_\_\_.

**BIOSANTE PHARMACEUTICALS, INC.**

(Exact name of small business issuer as specified in its charter)

**Delaware**

**58-2301143**

\_\_\_\_\_  
(State of Incorporation)

\_\_\_\_\_  
(IRS Employer Identification No.)

111 Barclay Boulevard  
Lincolnshire, Illinois 60069

\_\_\_\_\_  
(Address of principal executive offices)  
(847) 478-0500

(Issuer's telephone number, including area code)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Class	Outstanding as of November 14, 2003
Common stock, \$0.0001 par value	13,547,905

Transitional Small Business Disclosure Format (check one): Yes o No x



**BIOSANTE PHARMACEUTICALS, INC.**

**FORM 10-QSB  
SEPTEMBER 30, 2003**

**TABLE OF CONTENTS**

Description	Page
<b>PART I. FINANCIAL INFORMATION</b>	
<b>ITEM 1. Financial Statements</b>	
Balance Sheets as of September 30, 2003 and December 31, 2002	3
Statements of Operations for the three months and nine months ended September 30, 2003 and 2002 and the cumulative period from August 29, 1996 (date of incorporation) to September 30, 2003	4
Statements of Cash Flows for the nine months ended September 30, 2003 and 2002 and the cumulative period from August 29, 1996 (date of incorporation) to September 30, 2003	5
Notes to the Financial Statements	6-12
<b>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</b>	<b>13-27</b>
<b>ITEM 3. Quantitative and Qualitative Disclosure About Market Risk</b>	<b>27</b>
<b>ITEM 4. Controls and Procedures</b>	<b>27</b>
<b>PART II. OTHER INFORMATION</b>	
<b>ITEM 2. Changes in Securities and Use of Proceeds</b>	<b>28</b>
<b>ITEM 6. Exhibits and Reports on Form 8-K</b>	<b>28</b>
<b>SIGNATURE PAGE</b>	<b>29</b>
Certifications	30-35

*In this Form 10-QSB, references to BioSante, the Company, we, our or us, unless the context otherwise requires, refer to BioSante Pharmaceuticals, Inc.*

*We own or have the rights to use various trademarks, trade names or service marks, including BioSante®, BioVant, NanoVant, CAP-Oral, BioAir, Bio-T-Gel, Bio-E-Gel, Bio-E/P-Gel, LibiGel and LibiGel-E/T.*

## PART I - FINANCIAL INFORMATION

## ITEM 1 - FINANCIAL STATEMENTS

## BIOSANTE PHARMACEUTICALS, INC.

(a development stage company)

## Balance Sheets

September 30, 2003 and December 31, 2002 (Unaudited)

	September 30, 2003	December 31, 2002
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 10,396,015	\$ 4,883,697
Due from Teva Pharmaceuticals USA, Inc.		520,063
Prepaid expenses and other sundry assets	235,059	144,155
	<u>10,631,074</u>	<u>5,547,915</u>
PROPERTY AND EQUIPMENT, NET	266,370	331,889
	<u>\$ 10,897,444</u>	<u>\$ 5,879,804</u>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 271,694	\$ 470,871
Accrued compensation	168,258	313,287
Other accrued expenses	236,426	236,758
Due to Antares	23,750	235,303
	<u>700,128</u>	<u>1,256,219</u>
<b>COMMITMENTS</b>		
<b>STOCKHOLDERS EQUITY</b>		
Capital stock		
Issued and Outstanding		
466,602 (2002 - 466,602) Class C special stock	467	467
13,485,405 (2002 - 8,571,169) Common stock	36,558,258	26,684,841
	<u>36,558,725</u>	<u>26,685,308</u>
Deficit accumulated during the development stage	(26,361,409)	(22,061,723)
	<u>10,197,316</u>	<u>4,623,585</u>
	<u>\$ 10,897,444</u>	<u>\$ 5,879,804</u>

See accompanying notes to the financial statements.

## ITEM 1 - FINANCIAL STATEMENTS (CONTINUED)

## BIOSANTE PHARMACEUTICALS, INC.

(a development stage company)

## Statements of Operations

Three and nine months ended September 30, 2003 and 2002 and the cumulative

period from August 29, 1996 (date of incorporation) to September 30, 2003

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,		Cumulative period from August 29, 1996 (date of incorporation) to September 30, 2003
	2003	2002	2003	2002	
<b>REVENUE</b>					
Licensing income	\$	\$ 950,000	\$ 65,494	\$ 950,000	\$ 4,582,943
Interest income		25,399	12,556	55,708	42,527
		<u>25,399</u>	<u>962,556</u>	<u>121,202</u>	<u>992,527</u>
					<u>5,623,391</u>
<b>EXPENSES</b>					
Research and development		960,205	1,326,556	2,702,482	2,958,478
General and administration		481,073	413,804	1,648,284	1,364,784
Depreciation and amortization		23,026	23,197	70,122	68,556
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
		<u>1,464,304</u>	<u>1,763,557</u>	<u>4,420,888</u>	<u>4,391,818</u>
					<u>31,984,800</u>
<b>NET LOSS</b>	<b>\$</b>	<b>(1,438,905)</b>	<b>\$ (801,001)</b>	<b>\$ (4,299,686)</b>	<b>\$ (3,399,291)</b>
		<u>(0.12)</u>	<u>(0.11)</u>	<u>(0.43)</u>	<u>(0.49)</u>
<b>BASIC AND DILUTED NET LOSS PER SHARE</b>	<b>\$</b>	<b>(0.12)</b>	<b>\$ (0.11)</b>	<b>\$ (0.43)</b>	<b>\$ (0.49)</b>
		<u>12,022,673</u>	<u>7,375,017</u>	<u>10,056,709</u>	<u>6,986,096</u>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>		<b>12,022,673</b>	<b>7,375,017</b>	<b>10,056,709</b>	<b>6,986,096</b>

See accompanying notes to the financial statements.

## ITEM 1 - FINANCIAL STATEMENTS (CONTINUED)

## BIOSANTE PHARMACEUTICALS, INC.

(a development stage company)

## Statements of Cash Flows

Nine months ended September 30, 2003 and 2002 and the cumulative period from August 29, 1996 (date of incorporation) to September 30, 2003 (Unaudited)

	Nine Months Ended Sept. 30,		Cumulative period from August 29, 1996 (date of incorporation) to September 30, 2003
	2003	2002	
<b>CASH FLOWS USED IN OPERATING ACTIVITIES</b>			
Net loss	\$ (4,299,686)	\$ (3,399,291)	\$ (26,361,409)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation and amortization	70,122	68,556	636,615
Amortization of deferred unearned compensation			42,290
Repurchase of licensing rights			125,000
Employee compensation paid in shares of common stock			151,000
Director compensation paid in shares of common stock	189,000		189,000
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	(90,904)	(79,992)	(232,091)
Due from licensee (Teva Pharmaceuticals USA, Inc.)	520,063		
Accounts payable and accrued expenses	(316,991)	153,478	(36,262)
Due to licensor (Antares/Regents)	(211,553)	(388,425)	23,750
Due from SBI			(128,328)
<b>Net cash used in operating activities</b>	<b>(4,139,949)</b>	<b>(3,645,674)</b>	<b>(20,055,890)</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>			
Purchase of capital assets	(4,603)	(34,841)	(1,026,420)
<b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>			
Issuance of convertible debenture			500,000
Proceeds from sale of capital stock	9,656,870	4,435,844	30,978,325
<b>Net cash provided by financing activities</b>	<b>9,656,870</b>	<b>4,435,844</b>	<b>31,478,325</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>5,512,318</b>	<b>755,329</b>	<b>10,396,015</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>4,883,697</b>	<b>4,502,387</b>	

Edgar Filing: BIOSANTE PHARMACEUTICALS INC - Form 424B3

<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 10,396,015</b>	<b>\$ 5,257,716</b>	<b>\$ 10,396,015</b>
---	----------------------	---------------------	----------------------

**SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION**

Acquisition of SBI			
Purchased in-process research and development	\$	\$	\$ 5,377,000
Other net liabilities assumed			(831,437)
			<u>4,545,563</u>
Less: common stock issued therefor			<u>4,545,563</u>
	\$	\$	\$
Income tax paid	\$	\$	\$
Interest paid	\$ 1,995	\$	\$ 1,995
<b>SIGNIFICANT NON-CASH TRANSACTIONS</b>			
Fair value of common stock warrants issued in connection with the sale of capital stock	\$ 539,872	\$	\$ 539,872

See accompanying notes to the financial statements.

**BIOSANTE PHARMACEUTICALS, INC.  
FORM 10-QSB  
SEPTEMBER 30, 2003**

**Notes to the Financial Statements (Unaudited)**

**1. INTERIM FINANCIAL INFORMATION**

In the opinion of management, the accompanying unaudited financial statements contain all necessary adjustments, which are of a normal recurring nature, to present fairly the financial position of BioSante Pharmaceuticals, Inc. (the Company) as of September 30, 2003, the results of operations for the three and nine months ended September 30, 2003 and 2002 and for the cumulative period from August 29, 1996 (date of incorporation) to September 30, 2003, and the cash flows for the nine months ended September 30, 2003 and 2002 and for the cumulative period from August 29, 1996 (date of incorporation) to September 30, 2003, in conformity with accounting principles generally accepted in the United States of America. Operating results for the three and nine month periods ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

On May 31, 2002, the Company effected a one-for-ten reverse split of its issued and outstanding shares of common stock and class C stock. All share and per share stock numbers in this Form 10-QSB have been adjusted to reflect the reverse stock split.

These unaudited interim financial statements should be read in conjunction with the financial statements and related notes contained in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2002.

*New Financial Accounting Standards Board (FASB) Interpretation*

In November 2002, the FASB Emerging Issues Task Force (EITF) issued FASB Interpretation (FIN) 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN45), which elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN 45 became effective for financial statements of interim and annual periods ending after December 15, 2002, while the initial recognition and measurement provisions of FIN 45 became effective for all for guarantees issued or modified after December 31, 2002. The Company does not believe that the adoption of FIN 45 will have a material impact on the Company's financial position, cash flow or results of operations.

**2. BASIC AND DILUTED NET LOSS PER SHARE**

The basic and diluted net loss per share is computed based on the weighted average number of shares of common stock and class C stock outstanding, all being considered as equivalent of one another. Basic net loss per share is computed by dividing the net loss by the weighted average number of shares outstanding for the reporting period. Diluted net 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. Because the Company has incurred net losses from operations in each of the periods presented, there is generally no difference between basic and diluted net loss per share amounts. The computation of diluted net loss per share does not include options and warrants with dilutive potential that would have an antidilutive effect on net loss per share.

### 3. LICENSE AGREEMENTS

In June 1997, the Company 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 the Company an exclusive license to seven United States patents owned by the University, including rights to sublicense such patents. The license agreement with the University of California requires the Company to undertake various obligations, including but not limited to, the payment of royalties based on net sales, when and if they occur, and the payment of minimum annual royalties.

In June 2000, the Company entered into a license agreement with Antares Pharma Inc. covering four hormone therapy products for the treatment of men and women. The license agreement requires the Company to pay Antares a percentage of future net sales, if any, as a royalty. Under the terms of the license agreement, the Company is also obligated to make milestone payments upon the occurrence of certain events.

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

In August 2001, the Company entered into a sub-license agreement with Solvay Pharmaceuticals, B.V. covering the U.S. and Canadian rights to the estrogen/progestogen combination transdermal hormone therapy gel product licensed from Antares. Under the terms of the agreement, Solvay sub-licensed the Company's estrogen/progestogen combination transdermal hormone therapy gel product for an initial payment of \$2.5 million (\$1.7 million net of the related payments due to Antares and Paladin Labs Inc.), future milestone payments and escalating sales-based royalties. During the third quarter ended September 30, 2002, the Company received a \$950,000 milestone payment pursuant to the Solvay sub-license agreement for certain milestones achieved.

In October 2001, the Company sub-licensed its BioVant 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 the Company milestone payments upon the achievement of certain milestones plus royalty payments on sales if and when vaccines are approved using BioVant and sold on a commercial basis. If Corixa sub-licenses vaccines that include BioVant, the Company will share in milestone payments and royalties received by Corixa. The sub-license agreement covers access to BioVant for a variety of cancer, infectious and autoimmune disease vaccines.

In April 2002, the Company exclusively in-licensed from Wake Forest University and Cedars-Sinai Medical Center three issued U.S. patents claiming triple hormone therapy (the combination use of estrogen plus progestogen plus androgen, *e.g.* testosterone) and an option for triple hormone contraception. The financial terms of the license include an upfront payment by the Company, regulatory milestones, maintenance payments and royalty payments by the Company if a product incorporating the licensed technology is approved and subsequently marketed.

In December 2002, the Company signed a development and license agreement with Teva Pharmaceuticals USA, Inc., a wholly owned subsidiary of Teva Pharmaceutical Industries Ltd. under which Teva USA and the Company will collaborate on the development of a hormone therapy product for

the U.S. market. Upon signing the U.S. development and license agreement, the Company received an upfront payment of \$1.5 million. In addition, Teva will pay the Company development and sales-related milestone payments plus royalties on sales of the product commercialized in this collaboration. In exchange, the Company granted Teva exclusive rights to develop and market a certain hormone therapy product. Teva also is responsible for continued development, regulatory filings and all manufacturing and marketing associated with the product.

**4. COMMITMENTS**

*University of California License*

The Company's license agreement with the University of California requires the Company 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 beginning for the year 2004 to be paid by February 28 of the following year 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
<b>Total</b>	<b>\$6,800,000</b>

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

Payment of the costs of patent prosecution and main