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NOVADEL PHARMA INC
Form 10QSB
March 10, 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 six month period ended JANUARY 31, 2003

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

For the transition period from ___ to ___

Commission file number 000-23399

NOVADEL PHARMA INC.
(Exact name of small business issuer as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

22-2407152
(I.R.S. Employer
Identification No.)

31 State Highway 12
Flemington, New Jersey
(Address of Principal Executive Offices)

08822
(Zip Code)

(908)782-3431
(Issuer's telephone number)

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 X No
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APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Check whether the registrant filed all documents and reports required
to be filed by Sections 12, 13 or 15(d) of the Exchange Act after the
distribution of securities under a plan confirmed by a court. Yes ___ No ___

APPLICABLE ONLY TO CORPORATE ISSUERS:

State the number of shares outstanding of each of the issuer's classes
of common equity, as of the latest practicable date. 14,548,509 shares of common
stock outstanding as of January 31, 2003.

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT (CHECK ONE):

YES NO X
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NOVADEL PHARMA INC.

BALANCE SHEETS

	January 31 2003	July 31, 2002
	----- (Unaudited)	----- (Note 1)
ASSETS		
CURRENT ASSETS:		
Cash	\$1,524,000	\$ 3,314,000
Accounts receivable - trade, less allowance for doubtful accounts of \$88,000 at January 31, 2003 and July 31, 2002	-	1,000
Prepaid expenses and other current assets	161,000	96,000
	-----	-----
Total Current Assets	1,685,000	3,411,000
	-----	-----
FURNITURE, FIXTURES, AND EQUIPMENT, LESS ACCUMULATED DEPRECIATION	441,000	406,000
OTHER ASSETS	26,000	22,000
	-----	-----
	\$2,152,000	\$ 3,839,000
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
CURRENT LIABILITIES:		
Accounts payable-trade	\$ 368,000	\$ 125,000
Accrued expenses and other current liabilities	529,000	191,000
	-----	-----
Total Current Liabilities	897,000	316,000
	-----	-----
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY (DEFICIENCY):		
Preferred stock, \$.01 par value:		
Authorized 1,000,000 shares, none issued		
Common stock, \$.001 par value:		
Authorized - 50,000,000 shares		
Issued and outstanding 14,548,509 and 14,448,817; respectively	15,000	14,000
Additional paid-in capital	14,536,000	13,322,000
Accumulated Deficit	(13,296,000)	(9,813,000)
	-----	-----
Total Stockholders' Equity (Deficiency)	1,255,000	3,523,000
	-----	-----
	\$2,152,000	\$ 3,839,000
	=====	=====

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See accompanying notes to financial statements.

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NOVADEL PHARMA INC.
STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended January 31,	
	2003	2002
CONSULTING REVENUES	-	\$183,000
CONSULTING, SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,871,000	548,000
LOSS FROM OPERATIONS	(1,871,000)	(365,000)
BUY-OUT OF CONSULTANT'S CONTRACT	-	(33,000)
INTEREST INCOME	18,000	10,000
NET LOSS BEFORE TAXES	(1,853,000)	(388,000)
DEFERRED INCOME TAX BENEFIT	84,000	88,000
NET LOSS	\$ (1,769,000)	\$ (300,000)
BASIC AND DILUTED LOSS PER SHARE	\$ (.12)	\$ (.03)
SHARES USED IN COMPUTATION OF BASIC AND DILUTED LOSS PER SHARE	14,542,821	9,942,291

See accompanying notes to financial statements.

NOVADEL PHARMA INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)
(Unaudited)

	Common Stock		
	Shares	Par Value	Paid-in Capital
BALANCE, JULY 31, 2002	14,448,817	\$ 14,000	\$13,322,000
SIX MONTHS ENDED JANUARY 31, 2003 -			
Shares issued for Warrants exercised	99,692	1,000	9,000
Options issued for services	-	-	1,198,000
Warrants issued for services	-	-	7,000
Net Loss	-	-	-
BALANCE, JANUARY 31, 2003	14,548,509	\$ 15,000	\$14,536,000

See accompanying notes to financial statements.

NOVADEL PHARMA INC.

STATEMENT OF CASH FLOWS
(Unaudited)

	Six Months January 3
	2003
CASH FLOW FROM OPERATING ACTIVITIES:	
Net (loss)	\$(3,483,000)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:	
Warrants issued for Services	7,000
Options Issued for Services	1,198,000
Shares issued for Warrants exercised	10,000
Depreciation & Amortization	74,000
Allowance for Doubtful Accounts	-
Changes in operating assets and liabilities:	
Accounts receivable	1,000

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Prepaid expenses and other current assets	(65,000)
Demand note receivable, officer	-
Due from joint venture partner for reimbursable expenses	-
Other Assets	(4,000)
Accounts payable - trade	243,000
Accrued expenses and other current liabilities	338,000

Net cash flows from operating activities	(1,681,000)

CASH FLOWS FROM INVESTING ACTIVITIES -	
Purchase of property and equipment	(109,000)

CASH FLOWS FROM FINANCING ACTIVITIES - Proceeds received from issuance of common stock through a private placement offering	-

NET CHANGE IN CASH	(1,790,000)
CASH, BEGINNING OF PERIOD	3,314,000

CASH, END OF PERIOD	\$1,524,000
	=====
SUPPLEMENTAL CASH FLOW INFORMATION:	
Interest paid	\$ -
	=====
Income taxes paid	\$ -
	=====

See accompanying notes to financial statements.

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NOVADEL PHARMA INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION:

The balance sheet at the end of the preceding fiscal year has been derived from the audited balance sheet contained in the Company's Form 10-KSB and is presented for comparative purposes. All other financial statements are unaudited. In the opinion of management, all adjustments, which include only normal recurring adjustments necessary to present fairly the financial position, results of operations and cash flows for all periods presented, have been made in the interim statements. Results of operations for interim periods are not necessarily indicative of the operating results for a full year.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company believes that its current cash levels will be sufficient to satisfy its cash requirements for the next three (3) months. However, beyond this point there is substantial doubt about the Company's ability to continue operations without obtaining additional financing and/or consummating a strategic alliance with a well-funded business partner. There are a number of risks and uncertainties related to the Company's attempt to

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complete a financing or strategic partnering arrangement that are outside the control of the Company. We may not be able to successfully obtain additional financing on terms acceptable to the Company, or at all. These uncertainties raise substantial doubt as to the Company's ability to continue as a going concern.

Footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted in accordance with the published rules and regulations of the Securities and Exchange Commission. The financial statements in this report should be read in conjunction with the financial statements and notes thereto included in the Form 10-KSB of NOVADEL PHARMA INC. (the "Company"), for the year ended July 31, 2002.

NOTE 2 - PREPAID EXPENSES AND OTHER CURRENT ASSETS:

Approximately \$94,000 of prepaid supplies; \$62,000 of prepaid insurance and \$5,000 of employee loan are included in the \$161,000 total.

ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES:

Approximately \$201,000 of accrued employee vacation; \$264,000 of accrued payroll, related payroll taxes and guaranteed bonus (see Note 5); \$51,000 of accrued clinical study costs and \$10,000 of accrued legal and professional fees are included in the \$529,000 total. The remainder is other accrued expenses and other current liabilities.

NOTE 3- STOCK OPTIONS AND WARRANTS:

In October 2002, the Company issued 75,000 options under the 1998 option plan and 200,000 non-plan options to its president. These options vest immediately, have an exercise price of \$1.30 and expire during October 2007.

In November 2002, the Company decided to extend for one year the expiration date of its publicly traded warrants (i.e. to November 18, 2003). All other provisions of the warrants remain unchanged.

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In December 2002, pursuant to an employment agreement with Gary A. Shangold, M.D. (see Note 5, below) 1,000,000 options were issued at an exercise price of \$1.93 per share with a 5 year life. The options vest and become exercisable in three equal annual installments commencing December 1, 2003

NOTE 4 - DEFERRED INCOME TAX BENEFIT:

During December 2002, the Company received approximately \$84,000 as consideration for transferring approximately \$1,116,000 of New Jersey net operating loss tax benefit to a third party corporation buyer. The Technology Tax Certificate Transfer Program for transferring net operating loss and R & D tax benefits is the responsibility of New Jersey Economic Development Authority.

NOTE 5 - CONTRACTS:

In December 2002, the Company entered into a three-year employment agreement with Gary A. Shangold, M.D. pursuant to which he agreed to

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serve as the Company's President and Chief Executive Officer. The Company agreed to pay Dr. Shangold an annual base salary of \$350,000 and a guaranteed bonus of \$150,000. In addition, Dr. Shangold is eligible to receive: (i) an annual discretionary bonus of up to \$262,500, which shall be determined at the sole discretion of the Board; and (ii) an investment and fee bonus equal to 5% of all amounts up to an aggregate of \$7,500,000 (i.e., \$375,000) invested in, or earned by, the Company during his term. The Company is obligated to pay Dr. Shangold at least \$200,000 on or before June 30, 2003. Such investment and fee bonus shall be reduced by certain proceeds received by Dr. Shangold from his former employer. Pursuant to the agreement, Dr. Shangold was also granted non-plan options (see Note 3, above) to purchase 1,000,000 shares of the Company's common stock (at an exercise price of \$1.93 per share) which vest over a three year period.

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NOVADEL PHARMA INC.

Part I, Item 2. Management's Discussion and Analysis

Novadel Pharma inc., a Delaware corporation (the "Company"), is engaged in development of novel application drug delivery systems for presently marketed prescription and over-the-counter ("OTC") drugs and has been a consultant to the pharmaceutical industry. Since 1992, the Company has used its consulting revenues to fund its own product development activities.

Since its inception, substantially all of the Company's revenues have been derived from its consulting activities. The Company has had a history of recurring losses from operation, giving rise to an accumulated deficit at January 31, 2003 of approximately \$13,296,000. For the 6 months ending January 31, 2003, the Company has had no revenue from consulting as the Company has shifted its emphasis away from product development consulting for its clients and to development of its own products.

For the reasons stated above, the Company anticipates that it will incur substantial operating expenses in connection with the testing and approval of its proposed delivery systems, and expects these expenses will result in continuing and significant operating losses until such time, if ever, that the Company is able to achieve adequate sales levels.

In view of the Company's very limited resource, its anticipated expenses and the competitive environment in which the Company operates, there can be no assurance that its operations will be sustained for the duration of the current fiscal year.

RESULTS OF OPERATIONS

THE SIX MONTHS ENDED JANUARY 2003 [THE "2003 PERIOD"] AND JANUARY 2002 [THE "2002 PERIOD"]

Operating revenues for the 2003 Period decreased approximately \$255,000 to \$0 from \$255,000 for the 2002 Period.

Total costs and expenses for the 2003 Period increased approximately \$2,728,000 or 313% to \$3,600,000 from \$872,000 for the 2002 Period. This increase includes approximately: \$1,498,000 in consultants fees primarily due to a non-cash charge

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of approximately \$1,205,000 for options and warrants issued to consultants; \$520,000 in payroll expense primarily due to the establishment of a vacation pay accrual and hiring of additional employees; \$320,000 in legal & professional fees; \$147,000 in laboratory testing and clinical studies costs; \$51,000 in employee recruiting; \$47,000 in insurance expenses due to additional employees and generally increased premiums; \$46,000 in depreciation and amortization expense due to the earlier purchases of internal laboratory equipment; \$29,000 in inside laboratory supplies expenses; \$29,000 in trade show and conference expenses; \$29,000 in travel expenses; \$14,000 in office expenses due to additional employees and \$12,000 in automobile expenses.

Costs and expenses decreases for the 2003 period, as compared to the 2002 period, includes approximately: \$33,000 in buy-out of contract with a consultant and \$17,000 in public company expenses due primarily to a decrease in printing costs.

Interest income increased approximately \$18,000 or 120% to \$33,000 for the 2003 Period from \$15,000 for the 2002 Period due to an increased average cash balance.

Deferred income tax benefit for the 2003 period was approximately \$84,000 compared to approximately \$88,000 for the 2002 period. These benefits resulted from the sale of the Company's New Jersey net operating losses.

The resulting net loss for the 2003 Period was \$3,483,000 compared to a net loss of \$547,000 for the 2002 Period.

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THE THREE MONTHS ENDED JANUARY 2003 [THE "2003 PERIOD"] AND JANUARY 2002 [THE "2002 PERIOD"]

Operating revenues for the 2003 Period decreased approximately \$183,000 to \$0 from \$183,000 for the 2002 Period.

Total costs and expenses for the 2003 Period increased approximately \$1,323,000 or 241% to \$1,871,000 from \$548,000 for the 2002 Period. This increase includes approximately: \$716,000 in consultants fees primarily due to a non-cash charge of approximately \$599,000 for options and warrants issued to consultants; \$372,000 in payroll expense primarily due to the establishment of a vacation pay accrual and hiring of additional employees; \$113,000 in legal & professional fees; \$49,000 in employee recruiting; \$25,000 in insurance expenses due to additional employees and increased premiums; \$21,000 in depreciation and amortization expense due to the earlier purchases of internal laboratory equipment; \$20,000 in travel expenses; \$10,000 in inside laboratory supplies expenses; \$9,000 in laboratory testing and clinical studies costs and \$8,000 in automobile expenses.

Costs and expenses decreases for the 2003 period, as compared to the 2002 period, includes approximately: \$33,000 in buy-out of contract with a consultant; \$18,000 in public company expenses due primarily to decreased printing costs and \$6,000 in bad debt expense.

Interest income increased approximately \$8,000 or 80% to \$18,000 for the 2003 Period from \$10,000 for the 2002 Period due to an increased average cash balance.

Deferred income tax benefit for the 2003 period was approximately \$84,000 compared to approximately \$88,000 for the 2002 period. These benefits resulted

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from the sale of the Company's New Jersey net operating losses.

The resulting net loss for the 2003 Period was \$1,769,000 compared to a net loss of \$300,000 for the 2002 Period.

LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities approximated \$1,681,000 for the 2003 Period compared to net cash used in operating activities of approximately \$242,000 for the 2002 Period. Net cash used in operating activities for both the 2003 and 2002 periods was primarily attributable to the net loss of \$3,483,000 and \$547,000, respectively. For the 2003 period, \$109,000 was used for investing activities compared to \$81,000 for the 2002 Period. For the 2002 period, \$2,984,000 was received from financing activities. Total cash flow for the 2003 period decreased approximately \$1,790,000 as compared to a \$2,661,000 increase for the 2002 period.

The Company believes that it currently has sufficient cash to satisfy its cash requirements for at least the next three (3) months. However, beyond this point there is substantial doubt about the Company's ability to continue operations without obtaining additional financing and/or consummating a strategic alliance with a well-funded business partner. There are a number of risks and uncertainties related to the Company's attempt to complete a financing or strategic partnering arrangement that are outside the control of the Company. We may not be able to successfully obtain additional financing on terms acceptable to the Company, or at all. These uncertainties raise substantial doubt as to the Company's ability to continue as a going concern. The Company's auditors have qualified their audit opinion with regard to the Company's ability to continue as a going concern.

INFLATION

The Company does not believe that inflation has had a material effect on its results of operations during the past three fiscal years. There can be no assurance that the Company's business will not be affected by inflation in the future.

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Part 1, Item 3. Controls and Procedures

Within the 90-day period prior to the date of this report, our Chief Executive Officer and Chief Financial Officer performed an evaluation of our disclosure controls and procedures, which have been designed to permit us to effectively identify and timely disclose important information. They concluded that the controls and procedures were effective. Since the date of the evaluation, we have made no significant changes in our internal controls or in other factors that could significantly affect our internal controls.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities

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In August 2002, the Company issued 85,922 common shares to satisfy the cashless exercise of 136,482 warrants.

In December 2002 the Company issued 13,770 common shares to satisfy the exercise of 13,770 warrants.

Item 3. Defaults Upon Senior Securities

N/A

Item 4. Submissions of Matters to a Vote of Security Holders

N/A

Item 5. Other Information

N/A

Item 6. Exhibits List and Reports on Form 8-K

(a) List of Exhibits

** Exhibit 10.26 Employment Agreement Dated December 3, 2002, between the Company and Gary A. Shangold, M.D.

** Exhibit 10.27 Amendment #1 of Employment Agreement Dated December 22, 2002, between the Company and Gary A. Shangold, M.D.

Exhibit 11. Statement re: computation of earnings per share for the six months ended January 31, 2003

Exhibit 99.1. Certification of Chief Executive Officer and Chief Financial Officer

b) Reports on Form 8-K
None

** Filed herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NOVADEL PHARMA INC

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Dated: March 10, 2003

By: /s/ Gary Shangold, M.D.

Gary Shangold, M.D., President
(Principal Executive Officer)

Dated: March 10, 2003

By: /s/ Donald J. Deitman

Donald J. Deitman
Chief Financial Officer

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CERTIFICATION

I, Gary Shangold, M.D., certify that:

1. I have reviewed this quarterly report on Form 10-QSB of NovaDel Pharma Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) Presented in this quarterly report our conclusions about the

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effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors and material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 10, 2003

Gary Shangold, M.D.
President & Chief Executive Officer

/s/ Gary Shangold, M.D.

(Signature)

CERTIFICATION

I, Donald J. Deitman, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of NovaDel Pharma Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

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b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors and material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 10, 2003

Donald J. Deitman
Chief Financial Officer

/s/ Donald J. Deitman

(Signature)