

Edgar Filing: NOVADEL PHARMA INC - Form 10QSB

NOVADEL PHARMA INC  
Form 10QSB  
December 10, 2002

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF  
-----  
THE SECURITIES EXCHANGE ACT OF 1934

For the three month period ended OCTOBER 31, 2002

\_\_\_\_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  No

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. 14,534,739 shares of common stock outstanding as of October 31, 2002.

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT (CHECK ONE):

YES\_\_\_ NO

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NOVADEL PHARMA INC.

BALANCE SHEETS

	October 31 2002 (Unaudited)	July 31, 2002 (Note 1)
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash	\$ 2,211,000	\$ 3,314,000
Accounts receivable - trade, less allowance for doubtful accounts of \$88,000 at October 31, 2002 and July 31, 2002	0	1,000
Prepaid expenses and other current assets	111,000	96,000
	-----	-----
Total Current Assets	2,322,000	3,411,000
	-----	-----
FURNITURE, FIXTURES, AND EQUIPMENT, LESS ACCUMULATED DEPRECIATION	478,000	406,000
OTHER ASSETS	23,000	22,000
	-----	-----
	\$ 2,823,000	\$ 3,839,000
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
CURRENT LIABILITIES:		
Accounts payable-trade	\$ 183,000	\$ 125,000
Accrued expenses and other current liabilities	251,000	191,000
	-----	-----
Total Current Liabilities	434,000	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 14,534,739 and 14,448,817; respectively	15,000	14,000
Additional paid-in capital	13,901,000	13,322,000
Accumulated Deficit	(11,527,000)	(9,813,000)
	-----	-----
Total Stockholders' Equity (Deficiency)	2,389,000	3,523,000
	-----	-----
	\$ 2,823,000	\$ 3,839,000
	=====	=====

See accompanying notes to financial statements.

NOVADEL PHARMA INC.

STATEMENTS OF OPERATIONS  
(Unaudited)

	Three Months Ended October 31	
	2002	2001
	-----	-----
CONSULTING REVENUES	\$ 0	\$ 72,000
CONSULTING, SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,729,000	324,000
	-----	-----
LOSS FROM OPERATIONS	(1,729,000)	(252,000)
INTEREST INCOME	15,000	5,000
	-----	-----
NET LOSS	\$ (1,714,000)	\$ (247,000)
	=====	=====
BASIC AND DILUTED LOSS PER SHARE	\$ (.12)	\$ (.03)
	=====	=====
SHARES USED IN COMPUTATION OF BASIC AND DILUTED LOSS PER SHARE	14,509,523	7,724,900
	=====	=====

See accompanying notes to financial statements.

NOVADEL PHARMA INC.

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

Common Stock				Stockhol Equit (Deficie
Shares	Par Value	Paid-in Capital	Accumulated Deficit	
-----	-----	-----	-----	-----

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BALANCE, JULY 31, 2002	14,448,817	\$14,000	\$13,322,000	\$ (9,813,000)	\$ 3,523,000
THREE MONTHS ENDED OCTOBER 31, 2002 -					
Shares issued for Warrants exercised	85,922	1,000	(1,000)	-	-
Options issued for services	-	-	573,000	-	573,000
Warrants issued for services	-	-	7,000	-	7,000
Net Loss	-	-	-	(1,714,000)	(1,714,000)
BALANCE, October 31, 2002	14,534,739	\$15,000	\$13,901,000	\$ (11,527,000)	\$ 2,389,000

See accompanying notes to financial statements.

4

NOVADEL PHARMA INC.

STATEMENT OF CASH FLOWS  
(Unaudited)

	Three Months Ended October 31	
	2002	2001
CASH FLOW FROM OPERATING ACTIVITIES:		
Net loss	\$ (1,714,000)	\$ (247,000)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Options issued for services	573,000	-
Warrants issued for services	7,000	-
Depreciation and amortization	37,000	12,000
Changes in operating assets and liabilities:		
Accounts receivable	1,000	(143,000)
Prepaid expenses and other current assets	(15,000)	7,000
Due from Joint Venture partner for reimbursable expenses	-	(4,000)
Accounts payable - trade	58,000	26,000
Accrued expenses and other current liabilities	60,000	142,000
Net cash flows from operating activities	\$ (993,000)	\$ (207,000)
CASH FLOWS FROM INVESTING ACTIVITIES -		
Purchase of property and equipment	(110,000)	(15,000)
Net cash flows from investing activities	(110,000)	\$ (15,000)
NET CHANGE IN CASH	(1,103,000)	\$ (222,000)
CASH, BEGINNING OF PERIOD	3,314,000	585,000
CASH, END OF PERIOD	2,211,000	\$ 363,000

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SUPPLEMENTAL CASH FLOW INFORMATION:

	=====	=====
Interest paid	\$ -	\$ -
	=====	=====
Income taxes paid	\$ -	\$ -
	=====	=====

See accompanying notes to financial statements.

5

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 together with revenues from operations, will be sufficient to satisfy its cash requirements for the next five (5) 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.

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 \$71,000 of prepaid supplies, approximately \$15,000 of prepaid insurance and approximately \$8,000 of employee loan

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are included in the \$111,000 total. The remainder is other prepaid expenses.

### ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES:

Approximately \$143,000 of accrued clinical study costs, approximately \$66,000 of accrued employee vacation, approximately \$20,000 of accrued legal and professional fees and approximately \$11,000 of accrued payroll and related payroll taxes are included in the \$251,000 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 extended 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.

6

### 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 October 31, 2002 of approximately \$11,527,000. Revenues from consulting may be expected to continue to decline in the future as the Company shifts its emphasis away from product development consulting for its clients and towards 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.

#### RESULTS OF OPERATIONS

THE THREE MONTHS ENDED OCTOBER 2002 [THE "2002 PERIOD"] AND OCTOBER 2001 [THE "2001 PERIOD"]

Operating revenues for the 2002 Period decreased approximately \$72,000 to \$0 from \$72,000 for the 2001 Period.

Total costs and expenses for the 2002 Period increased approximately \$1,405,000 to \$1,729,000 from \$324,000 for the 2001 Period. This increase includes approximately: \$783,000 in outside consultant fees primarily due to a non-cash charge of approximately \$580,000 for options and warrants issued to consultants;

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\$208,000 in legal & professional fees; \$148,000 in payroll expense primarily due to additional employees and the establishment of a vacation pay accrual; \$140,000 in laboratory testing and clinical studies costs; \$25,000 in depreciation and amortization expense due to the earlier purchase of internal laboratory equipment; \$22,000 in insurance expenses; \$16,000 in laboratory expenses due to additional lab employees requiring additional supplies and services; \$10,000 in office expenses due to increased activities and a Company name change; \$9,000 increase in travel expenses; and a \$7,000 increase in rent.

Interest income increased approximately \$10,000 to \$15,000 for the 2002 Period from \$5,000 for the 2001 Period due to an increased average cash balance.

The resulting net loss for the 2002 Period was \$1,714,000 compared to a net loss of \$247,000 for the 2001 Period.

### LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities approximated \$967,000 for the 2002 Period compared to net cash used in operating activities of approximately \$207,000 for the 2001 Period. Net cash used in operating activities for both the 2002 and 2001 periods was primarily attributable to the net loss of \$1,714,000 and \$247,000, respectively. For the 2002 Period, approximately \$110,000 was used for investing activities compared to approximately \$15,000 for the 2001 Period. For the 2002 period, approximately \$26,000 was used for financing activities. Total cash flow for the 2002 period decreased approximately \$1,103,000 as compared to a \$222,000 decrease for the 2001 period.

The Company believes that it currently has sufficient cash to satisfy its cash requirements for at least the next five (5) months.

7

### 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.

### 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

In August 2002, the Company issued 85,922 common shares to

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satisfy the cashless exercise of 136,482 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 11. Statement re: computation of earnings per share  
for the three months ended October 31, 2002

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

b) Reports on Form 8-K

None

8

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

Dated: December 10, 2002  
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By: /s/ Harry A. Dugger, III  
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Harry A. Dugger, III, President  
(Principal Executive Officer)

Dated: December 10, 2002  
-----

By: /s/ Donald J. Deitman  
-----

Donald J. Deitman  
Chief Financial Officer



CERTIFICATION

I, Harry A. Dugger III, Ph.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 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: December 10, 2002

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Harry A. Dugger III, Ph.D  
President & Chief Executive Officer

/s/ Harry A. Dugger III

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(Signature)

10

CERTIFICATION

I, Donald J. Deitman, certify that:  
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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 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

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subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 10, 2002  
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Donald J. Deitman  
Chief Financial Officer

/s/ Donald J. Deitman  
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(Signature)