

BIOSANTE PHARMACEUTICALS INC
Form DEF 14A
April 11, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant X

Filed by a Party other than the Registrant O

Check the appropriate box:

- Preliminary Proxy Statement
 Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
 Definitive Proxy Statement
 Definitive Additional Materials
 Soliciting Material Pursuant to §240.14a-12

BioSante Pharmaceuticals, Inc.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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| (2) | Form, Schedule or Registration Statement No.: |
| (3) | Filing Party: |
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111 Barclay Boulevard

Lincolnshire, Illinois 60069

April 11, 2011

Dear Fellow Stockholder:

We are pleased to invite you to join us for the BioSante Pharmaceuticals, Inc. Annual Meeting of Stockholders to be held on Thursday, May 26, 2011, at 9:00 a.m., local time, at our corporate office located at 111 Barclay Boulevard, Lincolnshire, Illinois 60069. Details about the meeting, nominees for election to the Board of Directors and other matters to be acted on at the meeting are presented in the Notice of Annual Meeting of Stockholders and proxy statement that follow.

It is important that your shares be represented at the meeting, regardless of the number of shares you hold and whether you plan to attend the meeting in person. Accordingly, please exercise your right to vote by following the instructions for voting on the Notice Regarding the Availability of Proxy Materials you received for the meeting or, if you received a paper copy of the proxy materials, by completing, signing, dating and returning your proxy card, or by using Internet or telephone voting as described in the proxy statement.

We are pleased again this year to take advantage of the Securities and Exchange Commission rules that allow issuers to furnish proxy materials to their stockholders on the Internet. We believe these rules allow us to provide our stockholders with the information they need, while lowering the costs of delivery and reducing the environmental impact of our meeting.

On behalf of BioSante's Board of Directors and management, it is my pleasure to express our appreciation for your continued support.

Sincerely,

/s/ Stephen M. Simes

Stephen M. Simes

Vice Chairman, President and Chief Executive Officer

Your vote is important. Please exercise your right to vote as soon as possible by following the instructions for voting on the Notice Regarding the Availability of Proxy Materials you received for the meeting or, if you received a paper copy of the proxy materials, by completing, signing, dating and returning your proxy card, or by using Internet or telephone voting as described in the proxy statement. By doing so, you may save us the expense of additional solicitation.

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MAY 26, 2011**

To the Stockholders of BioSante Pharmaceuticals, Inc.:

The Annual Meeting of Stockholders of BioSante Pharmaceuticals, Inc., a Delaware corporation, will be held on Thursday, May 26, 2011, at 9:00 a.m., local time, at our corporate office located at 111 Barclay Boulevard, Lincolnshire, Illinois 60069, for the following purposes:

1. To elect seven persons to serve as directors until our next annual meeting of stockholders or until their respective successors are elected and qualified.
2. To consider a proposal to approve the BioSante Pharmaceuticals, Inc. Second Amended and Restated 2008 Stock Incentive Plan.
3. To consider a proposal to ratify the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the year ending December 31, 2011.
4. To hold an advisory vote on executive compensation.
5. To hold an advisory vote on the frequency of an executive compensation advisory vote.
6. To transact such other business as may properly come before the meeting or any adjournment of the meeting.

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Only stockholders of record at the close of business on April 1, 2011 will be entitled to notice of, and to vote at, the meeting and any adjournments thereof. A stockholder list will be available at BioSante's corporate office beginning May 16, 2011 during normal business hours for examination by any stockholder registered on BioSante's stock ledger as of the record date for any purpose germane to the annual meeting.

By Order of the Board of Directors,

/s/ Phillip B. Donenberg

Phillip B. Donenberg

Senior Vice President of Finance, Chief Financial Officer and Secretary

April 11, 2011
Lincolnshire, Illinois

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111 Barclay Boulevard

Lincolnshire, Illinois 60069

**PROXY STATEMENT FOR
ANNUAL MEETING OF STOCKHOLDERS**

May 26, 2011

The Board of Directors of BioSante Pharmaceuticals, Inc. is soliciting your proxy for use at the 2011 Annual Meeting of Stockholders to be held on Thursday, May 26, 2011. The Board of Directors expects to make available to our stockholders beginning on or about April 11, 2011 the Notice of Annual Meeting of Stockholders, this proxy statement and a form of proxy on the Internet, or send these materials to stockholders.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS

Our proxy statement and annual report to stockholders, which includes our annual report on Form 10-K, are available at www.proxyvote.com/BioSante. Pursuant to rules adopted by the Securities and Exchange Commission, or SEC, we have elected to provide access to our proxy materials over the Internet. Accordingly, we are sending a Notice Regarding the Availability of Proxy Materials to our stockholders of record and beneficial owners (excluding those stockholders of record and beneficial owners who previously have requested that they receive electronic or paper copies of our proxy materials). All stockholders have the ability to access our proxy materials on the website referred to in the Notice Regarding the Availability of Proxy Materials or request to receive a printed set of our proxy materials. Instructions on how to access our proxy materials over the Internet or to request a printed copy may be found in the Notice Regarding the Availability of Proxy Materials. In addition, stockholders may request to receive proxy materials in printed form by mail or electronically by e-mail on an ongoing basis. We believe that this process should expedite your receipt of our proxy materials, lower the costs of our Annual Meeting and reduce the environmental impact of our meeting.

GENERAL INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

Date, Time, Place and Purposes of Meeting

The Annual Meeting of Stockholders of BioSante Pharmaceuticals, Inc. will be held on Thursday, May 26, 2011, at 9:00 a.m., local time, at our corporate office located at 111 Barclay Boulevard,

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Lincolnshire, Illinois 60069 for the purposes set forth in the Notice of Annual Meeting of Stockholders.

Who Can Vote

Stockholders of record at the close of business on April 1, 2011 will be entitled to notice of and to vote at the meeting or any adjournment of the Annual Meeting. As of that date, there were 93,590,612 shares of our common stock and 391,286 shares of our class C special stock outstanding. Each share of our common stock and class C special stock is entitled to one vote on each matter to be voted on at the Annual Meeting. Stockholders are not entitled to cumulate voting rights.

How You Can Vote

Your vote is important. Whether you hold shares directly as a stockholder of record or beneficially in street name (through a broker, bank or other nominee), you may vote your shares without attending the Annual Meeting. You may vote by granting a proxy or, for shares held in street name, by submitting voting instructions to your stockbroker or nominee.

If you are a stockholder whose shares are registered in your name, you may vote your shares in person at the meeting or by one of the three following methods:

- **Vote by Internet**, by going to the web address <http://www.proxyvote.com> and following the instructions for Internet voting shown on the Notice of Internet Availability of Proxy Materials or on your proxy card.
- **Vote by Telephone**, by dialing 1-800-690-6903 and following the instructions for telephone voting shown on the Notice of Internet Availability of Proxy Materials or on your proxy card.
- **Vote by Proxy Card**, by completing, signing, dating and mailing the enclosed proxy card in the envelope provided if you received a paper copy of these proxy materials. If you vote by Internet or telephone, please do not mail your proxy card.

If your shares are held in street name, you may receive a separate voting instruction form or you may need to contact your broker, bank or other nominee to determine whether you will be able to vote electronically using the Internet or telephone.

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The deadline for voting by telephone or by using the Internet is 11:59 p.m., Eastern Daylight Savings Time, on Wednesday, May 25, 2011. Please see the Notice of Internet Availability of Proxy Materials, your proxy card or the information your bank, broker or other holder of record provided to you for more information on your options for voting.

If you return your signed proxy card or use Internet or telephone voting before the Annual Meeting, the named proxies will vote your shares as you direct.

For Proposal No. 1 Election of Directors, you may:

- Vote **FOR** all seven of the nominees for director,
- **WITHHOLD** your vote from all seven of the nominees for director or

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- **WITHHOLD** your vote from one or more of the seven nominees for director that you designate.

For Proposal No. 2 Approval of BioSante Pharmaceuticals, Inc. Second Amended and Restated 2008 Stock Incentive Plan, Proposal No. 3 Ratification of Selection of Independent Registered Public Accounting Firm and Proposal No. 4 Executive Compensation Advisory Vote, you may:

- Vote **FOR** the proposal,
- Vote **AGAINST** the proposal or
- **ABSTAIN** from voting on the proposal.

For Proposal No. 5 Advisory Vote on the Frequency of Executive Compensation Advisory Vote, you may vote for a frequency of every year, every two years or every three years, or you may abstain from voting on the proposal.

If you send in your proxy card or use Internet or telephone voting, but you do not specify how you want to vote your shares, the proxies will vote your shares **FOR** all seven of the nominees for director in Proposal No. 1 Election of Directors, **FOR** Proposal No. 2 Approval of BioSante Pharmaceuticals, Inc. Second Amended and Restated 2008 Stock Incentive Plan, **FOR** Proposal No. 3 Ratification of Selection of Independent Registered Public Accounting Firm, **FOR** Proposal No. 4 Executive Compensation Advisory Vote and for a frequency of every **THREE YEARS** on Proposal No. 5 Advisory Vote on the Frequency of Executive Compensation Advisory Vote.

How the Board of Directors Recommends that You Vote

The Board of Directors unanimously recommends that you vote:

- **FOR** all seven of the nominees for director in Proposal No. 1 Election of Directors;
- **FOR** Proposal No. 2 Approval of BioSante Pharmaceuticals, Inc. Second Amended and Restated 2008 Stock Incentive Plan;

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- **FOR** Proposal No. 3 Ratification of Selection of Independent Registered Public Accounting Firm;
- **FOR** Proposal No. 4 Executive Compensation Advisory Vote; and
- for a frequency of every **THREE YEARS** on Proposal No. 5 Advisory Vote on the Frequency of Executive Compensation Advisory Vote.

How You May Revoke or Change Your Vote

If you are a stockholder whose shares are registered in your name, you may revoke your proxy at any time before it is voted by one of the following methods:

- Submitting another proper proxy with a more recent date than that of the proxy first given by following the Internet or telephone voting instructions or completing, signing, dating and returning a proxy card to us;

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- Sending written notice of revocation to our Corporate Secretary; or
- Attending the Annual Meeting and voting by ballot.

If you hold your shares through a broker, bank or other nominee, you may revoke your proxy by following instructions your broker, bank or other nominee provides.

Quorum Requirement

The presence at the Annual Meeting, in person or by proxy, of the holders of a majority (46,795,307 shares) of the outstanding shares of our common stock and a majority (195,644 shares) of the outstanding shares of our class C special stock as of the record date will constitute a quorum for the transaction of business at the Annual Meeting. In general, shares of our common stock and shares of our class C special stock represented by a properly signed and returned proxy card will be counted as shares present and entitled to vote at the Annual Meeting for purposes of determining a quorum. Shares represented by proxies marked *Abstain* and *broker non-votes* are counted in determining whether a quorum is present. A *broker non-vote* is a proxy returned by a broker on behalf of its beneficial owner customer that is not voted on a particular matter because voting instructions have not been received by the broker from the customer, and the broker does not have discretionary authority to vote on behalf of such customer on such matter. If there is not a quorum, a majority of the shares present at the annual meeting may adjourn the annual meeting to a later date as discussed below under *Discretionary Voting and Adjournments*.

Vote Required

Assuming a quorum is represented at the Annual Meeting, either in person or by proxy, the following vote is required for each of the following matters:

- Proposal No. 1 Election of Directors requires the affirmative vote of a plurality of the shares of our common stock and class C special stock, present in person or by proxy and entitled to vote, voting together as a single class.
- Proposal No. 2 Approval of BioSante Pharmaceuticals, Inc. Second Amended and Restated 2008 Stock Incentive Plan requires the affirmative vote of the holders of a majority of the shares of our common stock and class C special stock, present in person or by proxy and entitled to vote, voting together as a single class. In addition, under the Listing Rules of the NASDAQ Stock Market, the approval of the BioSante Pharmaceuticals, Inc. Second Amended and Restated 2008 Stock Incentive Plan requires the affirmative vote of a majority of the total votes cast on the proposal.

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- Proposal No. 3 Ratification of Selection of Independent Registered Public Accounting Firm requires the affirmative vote of a majority of our common stock and class C special stock, present in person or by proxy and entitled to vote, voting together as a single class.

- Proposal No. 4 Executive Compensation Advisory Vote requires the affirmative vote of a majority of our common stock and class C special stock, present in person or by proxy and entitled to vote, voting together as a single class. Although this is a non-binding, advisory vote, our Compensation Committee and Board expect to take into account the outcome of the vote when considering future executive compensation decisions.

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- Proposal No. 5 Advisory Vote on the Frequency of Executive Compensation Advisory Vote will be decided by the affirmative vote of a plurality of shares of our common stock and class C special stock, present in person or by proxy and entitled to vote, voting together as a single class. A plurality for Proposal No. 5 means the choice of frequency that receives the greatest number of votes cast. Although this is a non-binding, advisory vote, our Compensation Committee and Board expect to take into account the outcome of the vote when considering the frequency of future executive compensation advisory votes.

If your shares are held in street name and you do not indicate how you wish to vote, your broker is permitted to exercise its discretion to vote your shares on certain routine matters. The only routine matter to be submitted to our stockholders at the Annual Meeting is Proposal No. 3 Ratification of Selection of Independent Registered Public Accounting Firm. None of our other four proposals are routine matters. Accordingly, if you do not direct your broker how to vote for a director in Proposal No. 1 or how to vote for Proposal No. 2, Proposal No. 4 or Proposal No. 5, your broker may not exercise discretion and may not vote your shares on that proposal.

For purposes of Proposal No. 1, Proposal No. 2, Proposal No. 4 and Proposal No. 5, broker non-votes are considered to be shares represented by proxy at the meeting but are not considered to be shares entitled to vote or votes cast at the meeting. As such, a broker non-vote will not be counted as a vote For or Withheld with respect to a director in Proposal No. 1, a vote For or Against Proposal No. 2 or Proposal No. 4 or a vote for a frequency of every year, every two years or every three years in Proposal No. 5; and, therefore, will have no effect on the outcome of the vote on any such proposal. Proxies marked Abstain will be counted in determining the total number of shares entitled to vote and votes cast on each of the proposals and will have the effect of a vote Against a proposal, except for Proposal No. 5, where the abstention will have no effect on the outcome of the vote.

Who Will Count the Votes

Phillip B. Donenberg, our Senior Vice President of Finance, Chief Financial Officer and Secretary will tabulate stockholder votes and act as our independent inspector of elections for the Annual Meeting.

Discretionary Voting and Adjournments

We currently are unaware of any business to be acted upon at the Annual Meeting other than that described in this proxy statement. If, however, other matters properly are brought before the Annual Meeting, or any adjournment or postponement of the Annual Meeting, your proxy includes discretionary authority on the part of the individuals appointed to vote your common stock or class C special stock or act on those matters according to their best judgment, including to adjourn the Annual Meeting.

Adjournment of the Annual Meeting may be made for the purpose of, among other things, soliciting additional proxies. Any adjournment may be made from time to time by approval of the holders of common stock and class C special stock, voting together as a single class, representing a majority of the votes present in person or by proxy at the Annual Meeting, whether or not a quorum exists, without further notice other than by an announcement made at the Annual Meeting.

Table of Contents**STOCK OWNERSHIP****Significant Common Stockholders**

The table below sets forth information as to individuals and entities that have reported to the SEC or have advised us that they are a beneficial owner, as defined by the SEC's rules and regulations, of more than five percent of our outstanding common stock.

Name and Address of Beneficial Owner	Common Stock		Class C Special Stock		Common Stock and Common Stock Equivalents	Percent of Total Voting Power(1)
	Number	Percent	Number	Percent		
Great Point Partners LLC 165 Mason Street, 3rd Floor Greenwich, CT 06830	7,909,706(2)	8.5%			7,909,706	8.5%

* Represents beneficial ownership of less than one percent.

- (1) In calculating the percent of total voting power, the voting power of shares of our common stock and shares of our class C special stock is combined.
- (2) According to a Schedule 13G/A filed with the SEC on February 14, 2011, Great Point Partners, LLC owns 7,909,706 shares of our common stock. The ownership consists of 2,317,442 shares owned by Biomedical Value Fund, LP (BVF), 2,229,854 shares owned by Biomedical Offshore Value Fund, Ltd. (BOVF), 719,770 shares owned by Biomedical Institutional Value Fund, LP (BIVF), 837,696 shares owned by Lyrical Multi-Manager Fund, LP (Lyrical), 1,396,159 shares owned by Class D Series of GEF-PS, LP (GEF-PS), 55,845 shares owned by David J. Morrison (Morrison) and 352,940 shares owned by WS Investments III, LLC (WS). Does not include 1,077,763 shares underlying a warrant held by BVF, 995,945 shares underlying a warrant held by BOVF, 308,277 shares underlying a warrant held by BIVF, 433,526 shares underlying a warrant held by Lyrical, 722,543 shares underlying a warrant held by GEF-PS, 28,901 shares underlying a warrant held by Morrison and 176,470 shares underlying a warrant held by WS. The provisions of such warrants restrict the exercise of such warrants to the extent that, after giving effect to such exercise, the holder of the warrants and its affiliates and any other person or entities with which such holder would constitute a group would beneficially own in excess of 9.99 percent of the number of shares of our common stock outstanding immediately after giving effect to such exercise. Great Point Partners, LLC is the investment manager of each of BVF, BOVF, BIVF, Lyrical, GEF-PS, Morrison and WS and by virtue of such status may be deemed to be the beneficial owner of such shares. Each of Dr. Jeffrey R. Jay, M.D., as senior managing member of Great Point Partners, LLC, and Mr. David Kroin, as special managing member of Great Point Partners, LLC, has voting and dispositive power with respect to such shares, and therefore may be deemed to be the beneficial owners of such shares. Notwithstanding the foregoing, each of Great Point Partners, LLC, Dr. Jay and Mr. Kroin disclaim beneficial ownership of such shares except to the extent of their respective pecuniary interests.

Table of Contents**Directors and Executive Officers**

The table below sets forth information known to us regarding the beneficial ownership of each class of our capital stock as of April 1, 2011 for:

- each of our directors and nominees for directors;
- each of the executive officers named in the Summary Compensation Table under the heading "Executive Compensation - Summary of Cash and Other Compensation" (we collectively refer to these persons as our "named executive officers"); and
- all of our current directors and executive officers as a group.

The number of shares beneficially owned by a person includes shares subject to options held by that person that are currently exercisable or that become exercisable within 60 days of April 1, 2011. Percentage calculations assume, for each person and group, that all shares that may be acquired by such person or group pursuant to options currently exercisable or that become exercisable within 60 days of April 1, 2011 are outstanding for the purpose of computing the percentage of common stock owned by such person or group. However, such unissued shares of common stock described above are not deemed to be outstanding for calculating the percentage of common stock owned by any other person.

Except as otherwise indicated, the persons in the table below have sole voting and investment power with respect to all shares of capital stock shown as beneficially owned by them, subject to community property laws where applicable and subject to the information contained in the notes to the table. Unless otherwise indicated, the address for each of the individuals in the table below is c/o BioSante Pharmaceuticals, Inc., 111 Barclay Boulevard, Lincolnshire, IL 60069.

Name and Address of Beneficial Owner	Common Stock		Class C Special Stock		Common Stock and Common Stock Equivalents	Percent of Total Voting Power(3)
	Number	Percent	Number	Percent		
Louis W. Sullivan, M.D.	167,898	*	100,000	25.6%	267,898	*
Stephen M. Simes	1,108,848(4)	1.2%			1,108,848	1.2%
Fred Holubow	181,259	*			181,259	*
Peter Kjaer	154,425	*			154,425	*
Ross Mangano	2,380,416(5)	2.5%			2,380,416	2.5%
Edward C. Rosenow, III, M.D.	137,540	*			137,540	*
John T. Potts, Jr., M.D.	19,331(6)	*			19,331	*
Stephen A. Sherwin, M.D.	218,869	*			218,869	*
Phillip B. Donenberg	519,767	*			519,767	*
Michael C. Snabes, M.D., Ph.D.	191,667	*			191,667	*

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All directors and executive officers as a group (10 persons)	5,080,020(7)	5.3%	100,000	25.6%	5,180,020	5.4%
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* Represents beneficial ownership of less than one percent.

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- (1) Includes for the persons listed below the following shares subject to options held by that person that are currently exercisable or become exercisable within 60 days of April 1, 2011:

Directors	
Stephen M. Simes	906,581
Peter Kjaer	120,000
Edward C. Rosenow, III, M.D.	120,000
Stephen A. Sherwin, M.D.	132,109
Stephen M. Simes	906,581
Michael C. Snabes, M.D., Ph.D.	191,667

- (2) Includes shares held by the following persons in securities brokerage accounts, which in certain circumstances under the terms of the standard brokerage account form may involve a pledge of such shares as collateral: Dr. Sullivan (10,000 shares), Mr. Simes (94,728 shares), Mr. Holubow (61,259 shares), Mr. Mangano (66,800 shares), Dr. Rosenow (17,000 shares), Dr. Sherwin (86,760 shares) and Mr. Donenberg (42,322 shares).
- (3) In calculating the percent of total voting power, the voting power of shares of our common stock and shares of our class C special stock is combined.
- (4) Mr. Simes's beneficial ownership includes 202,167 shares of common stock held by Mr. Simes's trust and 100 shares of common stock held by Mr. Simes's child.
- (5) Mr. Mangano's beneficial ownership includes: (1) 1,929,661 shares of common stock held by JO & Co., of which Mr. Mangano is President; (2) 30,000 shares of common stock held by Oliver & Co., of which Mr. Mangano is the trustee; and (3) an aggregate of 214,999 shares of common stock held in various accounts, of which Mr. Mangano is an advisor and/or a trustee. Mr. Mangano has sole voting and investment power over these shares.
- (6) Includes 2,924 shares of common stock held in irrevocable trusts for Dr. Potts's children, as to which Dr. Potts disclaims any beneficial ownership.
- (7) The amount beneficially owned by all current directors and executive officers as a group includes 2,331,552 shares issuable upon the exercise of stock options held by these individuals, 210,575 shares held in trusts and 100 shares held by immediate family members of the directors and executive officers. See notes (1), (4), (5) and (6) above.

Table of Contents**Significant Class C Stockholders**

The table below sets forth information as to each individual or entity that to our knowledge is a beneficial owner, as defined by the SEC's rules and regulations, of more than five percent of our outstanding class C special stock.

Name and Address of Beneficial Owner	Common Stock		Class C Special Stock		Common Stock and Common Stock Equivalents	Percent of Total Voting Power(1)
	Number	Percent	Number	Percent		
Hans Michael Jebsen c/o Jebsen 7 Co., Ltd. 28/F Caroline Center 28 Yun Ping Road Causeway Bay, Hong Kong China	425,000	*	100,000	25.6%	525,000	*
Marcus Jebsen c/o Jebsen 7 Co., Ltd. 28/F Caroline Center 28 Yun Ping Road Causeway Bay, Hong Kong China	125,000	*	50,000	12.8%	175,000	*
Angela Ho c/o Jet Asia Ltd. 39/F Shun Tak Center 200 Connaught Road Central Hong Kong, China	80,000	*	100,000	25.6%	180,000	*

* Represents beneficial ownership of less than one percent.

(1) In calculating the percent of total voting power, the voting power of shares of our common stock and shares of our class C special stock is combined.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers and all persons who beneficially own more than 10 percent of the outstanding shares of our common stock to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock. Directors, executive officers and greater than 10 percent beneficial owners also are required to furnish us with copies of all Section 16(a) forms they file. To our knowledge, based on review of the copies of such reports and amendments to such reports furnished to us with respect to the year ended December 31, 2010, and based on written representations by our directors and executive officers, all required Section 16 reports under the Securities Exchange Act of 1934, as amended, for our directors, executive officers and beneficial owners of greater than 10 percent of our common stock were filed on a timely basis during the year ended December 31, 2010.

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PROPOSAL NO. 1 ELECTION OF DIRECTORS

Number of Directors

Our bylaws provide that the Board of Directors will consist of at least one member, or such other number as may be determined by the Board of Directors or our stockholders. The Board of Directors has fixed the number of directors at seven, effective as of the date of the Annual Meeting.

Nominees for Director

The Board of Directors has nominated the following seven individuals to serve as our directors until the next annual meeting of our stockholders or until their successors are elected and qualified. All of the nominees named below are current members of the Board of Directors.

- Louis W. Sullivan, M.D.
- Stephen M. Simes
- Fred Holubow
- Ross Mangano
- Edward C. Rosenow III, M.D.
- John T. Potts, Jr., M.D.
- Stephen A. Sherwin, M.D.

Peter Kjaer, a current director, is not standing for re-election at our 2011 annual meeting of stockholders. Mr. Kjaer will continue to serve as a director of our company until the 2011 annual meeting of stockholders. The Board of Directors thanks Mr. Kjaer for his many years of service to the Board.

Proxies only can be voted for the number of persons named as nominees in this proxy statement, which is seven.

Board Designation Rights

Under an employment letter agreement we entered into with Mr. Simes in connection with his acceptance of our offer of employment as an executive officer of our company, Mr. Simes agreed to serve as a director of our company and we agreed to nominate him as a nominee for director and solicit proxies for his election so long as Mr. Simes is employed by us.

Information About Current Directors and Board Nominees

The table below sets forth certain information that has been furnished to us by each current director and each individual who has been nominated by the Board of Directors to serve as a director of our company. Peter Kjaer is not standing for re-election at our 2011 annual meeting of stockholders.

Name	Age	Principal Occupation	Director Since
Louis W. Sullivan, M.D.(1)(2)(3)	77	President Emeritus of the Morehouse School of Medicine and Chairman of the Board of Directors of BioSante	1996

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Name	Age	Principal Occupation	Director Since
Stephen M. Simes	59	Vice Chairman, President and Chief Executive Officer of BioSante	1998
Fred Holubow(1)(3)	72	Managing Director of William Harris Investors, Inc.	1999
Peter Kjaer	51	President and Chief Executive Officer of Jet-Asia Ltd.	1999
Ross Mangano(1)(2)(3)	65	President of Oliver Estate, Inc.	1999
John T. Potts, Jr., M.D.	79	Jackson Distinguished Professor of Clinical Medicine at Harvard Medical School	2009
Edward C. Rosenow III, M.D.(2)(3)	76	Master Fellow of the American College of Physicians and the American College of Chest Physicians	1997
Stephen A. Sherwin, M.D.(2)	62	Chairman of the Board and Co-Founder of Ceregene, Inc.	2009

-
- (1) Member of the Audit and Finance Committee
 - (2) Member of the Compensation Committee
 - (3) Member of the Nominating and Corporate Governance Committee

Additional Information About Current Directors and Board Nominees

The paragraphs below provide information about each current director and nominee for director, including all positions he holds, his principal occupation and business experience for the past five years, and the names of other publicly-held companies of which he currently serves as a director or served as a director during the past five years. We believe that all of our current directors and director nominees display personal and professional integrity; satisfactory levels of education and/or business experience; broad-based business acumen; an appropriate level of understanding of our business and its industry and other industries relevant to our business; the ability and willingness to devote adequate time to the work of the Board of Directors and its committees; a fit of skills and personality with those of our other directors that helps build a board of directors that is effective, collegial and responsive to the needs of our company; strategic thinking and a willingness to share ideas; a diversity of experiences, expertise and background; and the ability to represent the interests of all of our stockholders. The information presented below regarding each director and nominee for director also sets forth specific experience, qualifications, attributes and skills that led the Board of Directors to the conclusion that he should serve as a director in light of our business and structure.

The Honorable Louis W. Sullivan, M.D. has been our Chairman of the Board since 1998 and has been a director of our company since its formation. Dr. Sullivan served as Secretary of Health and Human Services in the cabinet of President George H.W. Bush from 1989 to 1993. Since retiring from the Bush Administration, Dr. Sullivan has been associated with the Morehouse School of Medicine in Atlanta, Georgia. Currently, he serves as President Emeritus and he previously served as President and Dean of the School from 1981 to 1985 and as President from 1985 to 1989 and from 1993 to

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2002. Dr. Sullivan serves on the board of directors of Henry Schein Inc., United Therapeutics Corporation and Emergent BioSolutions Inc. Dr. Sullivan also serves as chairman of the National Health Museum in Atlanta, Georgia and as chairman of the Sullivan Alliance to Increase Diversity in the Health Profession. Dr. Sullivan previously served on the boards of directors of Inhibitex, Inc., 3M Corp., Bristol-Myers Squibb Company, Cigna Corporation and Georgia Pacific Corp.

Dr. Sullivan is an experienced public company director having served as a member of the boards of directors of several large and small public companies. As such, Dr. Sullivan contributes an enhanced knowledge of public company requirements and issues to our Board of Directors, including corporate governance matters, which are specifically relevant to his role as our Chairman of the Board and as a member of our Nominating and Corporate Governance Committee, and executive compensation matters, which are relevant to his role as Chair of our Compensation Committee. As our longest serving director having served as a director of our company for over 14 years, Dr. Sullivan has a deep and meaningful knowledge of our company, business and industry, all of which we believe is helpful and gives important perspective to our Board of Directors. Finally, Dr. Sullivan is a medical doctor and thus adds medical expertise to our Board of Directors.

Stephen M. Simes has served as our Vice Chairman, President and Chief Executive Officer and a director of our company since 1998. From 1994 to 1997, Mr. Simes was President, Chief Executive Officer and a Director of Unimed Pharmaceuticals, Inc., (currently a wholly owned subsidiary of Abbott Laboratories) a company with a product focus on infectious diseases, AIDS, endocrinology and oncology. From 1989 to 1993, Mr. Simes was Chairman, President and Chief Executive Officer of Gynex Pharmaceuticals, Inc., a company which concentrated on the AIDS, endocrinology, urology and growth disorders markets. In 1993, Gynex was acquired by Savient Pharmaceuticals Inc. (formerly Bio-Technology General Corp.), and from 1993 to 1994, Mr. Simes served as Senior Vice President and director of Savient Pharmaceuticals Inc. Mr. Simes' career in the pharmaceutical industry started in 1974 with G.D. Searle & Co. (now a part of Pfizer Inc.). Mr. Simes currently serves as our designee on the board of directors of Ceregene, Inc., a privately-held biotechnology company focused on the treatment of major neurodegenerative disorders.

We believe Mr. Simes' qualifications to serve as a member of our Board of Directors include his extensive depth of knowledge of our company, business, management and employees and our company's day-to-day operations which he has gained through his position as President and Chief Executive Officer of our company for over 13 years. As both a member of our executive team and Board of Directors, Mr. Simes provides a critical link between management and our Board of Directors, enabling our Board of Directors to perform its oversight function with the benefits of management's perspectives on the business. In addition, Mr. Simes' extensive experience and knowledge of the pharmaceutical industry as a result of his previous executive positions with other pharmaceutical companies, as well as our company, and his involvement with the pharmaceutical industry for over 35 years add tremendous value to our Board of Directors. Mr. Simes has substantial U.S. Food and Drug Administration (FDA) regulatory and licensing experience which he has gained through his prior positions with other pharmaceutical companies and experience with our company, and which has been particularly important to our company and his service on our Board of Directors.

Fred Holubow has been a director of our company since 1999. Since 2001, Mr. Holubow has been a Managing Director of William Harris Investors, Inc., a registered investment advisory firm. From 1982 to 2001, Mr. Holubow served as Vice President of Pegasus Associates, a registered investment advisory firm he co-founded. He specializes in analyzing and investing in pharmaceutical and biotechnology companies. Mr. Holubow previously served on the boards of directors of Micrus

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Endovascular Corporation, ThermoRetec Corporation, Savient Pharmaceuticals, Inc. (formerly Bio-Technology General Corp.), Gynex Pharmaceuticals, Inc. and Unimed Pharmaceuticals, Inc.

We believe Mr. Holubow's qualifications to serve as a member of our Board of Directors include his significant experience of analyzing and investing in pharmaceutical and biotechnology companies both in his current position as Managing Director of William Harris Investors and in his prior position as Vice President of Pegasus Associates. In addition, through his experience of serving on the boards of directors and more specifically the audit committees of several other public companies, Mr. Holubow has developed a substantial financial and accounting expertise with pharmaceutical and biotechnology companies, which he contributes to our Board of Directors and more specifically to our Audit and Finance Committee in his role as Chair of our Audit and Finance Committee.

Peter Kjaer has been a director of our company since 1999. Mr. Kjaer has been President and Chief Executive Officer of Jet-Asia Ltd., a Hong Kong-based aircraft and management company, since 1996.

We believe Mr. Kjaer's qualifications to serve as a member of our Board of Directors include his general business experience. Peter Kjaer is not standing for re-election at our 2011 annual meeting of stockholders.

Ross Mangano has been a director of our company since 1999. Mr. Mangano has been the President and a director of Oliver Estate, Inc., a management company specializing in investments in public and private companies, since 1971. Mr. Mangano in the past has served on the boards of directors of Cerprobe Corporation, Tower Federal Savings & Loan, Cypress Communications, Inc. and Mego Financial Corp.

We believe Mr. Mangano's qualifications to serve as a member of our Board of Directors include his significant general business experience as President of Oliver Estate, Inc. and his significant experience analyzing and investing in public and private companies. In addition, we believe Mr. Mangano provides our Board of Directors valuable business, leadership and management experience and insights into many aspects of our business. Mr. Mangano is President of JO & Co., which is a significant stockholder of our company, and controls all voting and investment power with respect to shares of our common stock held by JO & Co., which we believe gives him and our Board of Directors the perspective of a significant stockholder in making decisions.

John T. Potts, Jr., M.D. has been a director of our company since October 2009 when he was elected to our board of directors in connection with our merger with Cell Genesys, Inc. His career spans more than 40 years of service in science and medicine. Dr. Potts is currently the Jackson Distinguished Professor of Clinical Medicine at Harvard Medical School. After medical training at the University of Pennsylvania, he did his internship and residency at Massachusetts General Hospital (MGH) from 1957 to 1959, then went to the National Institutes of Health (NIH) to work with Nobel laureate Christian Anfinsen in protein chemistry. Dr. Potts remained at the NIH from 1959 to 1968, when he returned to the MGH as chief of endocrinology. He served as chairman of the Department of Medicine and physician-in-chief from 1981 to 1996. In his role as director of research from 1995 to 2004, Dr. Potts was responsible for developing policies and strategies for preserving and strengthening the extensive scientific research effort at MGH, an endeavor which he continues to the present. The author or co-author of more than 500 scientific publications, he is a member of the National Academy of Sciences, the Institute of Medicine, and the American Academy of Arts and Sciences. Dr. Potts is a director of Zeltiq Aesthetics, a founder of Radius Health, Inc., and a member of the Scientific Advisory Boards of Radius Health, Inc., MPM Capital and HealthCare Ventures.

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During the past five years, Dr. Potts previously served on the boards of directors of Cell Genesys, Inc. and Celltaxsys.

We believe Dr. Potts's qualifications to serve as a member of our Board of Directors include his prior experience as a director of Cell Genesys, Inc. and his familiarity with our cancer vaccines and the other technologies we acquired as a result of our merger with Cell Genesys. Dr. Potts is a well accomplished endocrinologist and thus has significant experience and interest in the industry in which our company participates.

Edward C. Rosenow, III, M.D. has been a director of our company since 1997. Dr. Rosenow is a Master Fellow of the American College of Physicians as well as Master Fellow of the American College of Chest Physicians. Dr. Rosenow was the Arthur M. and Gladys D. Gray Professor of Medicine at the Mayo Clinic from 1988 until his retirement in 1996. Beginning with his residency in 1960, Dr. Rosenow has worked at the Mayo Clinic in many professional capacities including as a Consultant in Internal Medicine (Thoracic Diseases) from 1966 to 1996, an Assistant Professor, Associate Professor and Professor of Medicine at the Mayo Clinic Medical School, President of the Mayo Clinic Staff in 1986, and Chair of the Division of Pulmonary and Critical Care Medicine from 1987 to 1994. In 1994, Dr. Rosenow received the Mayo Distinguished Clinician Award. Dr. Rosenow also has served as a consultant to NASA, space station FREEDOM at the Johnson Space Center in Houston, Texas from 1989 to 1990 and as the President of the American College of Chest Physicians from 1989 to 1990. In 1998, he received the Mayo Distinguished Alumnus Award. In 2007, Dr. Rosenow was awarded a named professorship, the Edward C. Rosenow III, M.D. Professorship in the Art of Medicine at the Mayo Clinic School of Medicine, given by Bruce, Martha and Zylpha Clinton. In 2009, he received the Plummer Society Award for Excellence in Medicine.

We believe Dr. Rosenow's qualifications to serve as a member of our Board of Directors include his significant prior experience as a medical doctor and his interest in the industry in which our company participates. As our second longest serving director having served as a director of our company for over 13 years, Dr. Rosenow has a deep and meaningful knowledge of our company, business and industry, all of which we believe is helpful to our Board of Directors.

Stephen A. Sherwin, M.D. has been a director of our company since October 2009 when he was elected to our board of directors in connection with our merger with Cell Genesys, Inc. Dr. Sherwin is currently chairman of the board of directors of Ceregene, Inc., a company which he co-founded in 2001. Dr. Sherwin served as chief executive officer and a director of Cell Genesys, Inc. from the beginning of company operations in 1990 to October 2009 and as chairman of the board from 1994 to October 2009. From 1983 to 1990, Dr. Sherwin held various positions at Genentech, Inc., most recently as vice president of clinical research. Prior to 1983, Dr. Sherwin was on the staff of the National Cancer Institute. Dr. Sherwin also was a co-founder of Abgenix, Inc, an antibody company, which was acquired by Amgen in 2006. He also is a director of Biogen Idec, Inc., Neurocrine Biosciences, Inc. and Rigel Pharmaceuticals, Inc. and also currently serves as chairman of the board of the Biotechnology Industry Organization (BIO). Dr. Sherwin holds a B.A. in biology from Yale University, an M.D. from Harvard Medical School and is board-certified in internal medicine and medical oncology. During the past five years, Dr. Sherwin previously served on the board of directors of Cell Genesys, Inc.

We believe Dr. Sherwin's qualifications to serve as a member of our Board of Directors include his prior experience as chief executive officer of Cell Genesys, Inc. and his familiarity with our cancer vaccines and other technologies we acquired from Cell Genesys. Dr. Sherwin has extensive knowledge of the life sciences industry and brings to our Board of Directors more than 25 years of

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experience in senior leadership positions at large and small publicly traded life sciences companies and as chairman of the board of BIO. Dr. Sherwin's medical expertise in internal medicine and oncology provides a unique contribution to our Board of Directors. As an experienced public company director and executive, Dr. Sherwin contributes an enhanced knowledge of public company requirements and issues, including corporate governance matters, which are specifically relevant to his role as Chair of our Nominating and Corporate Governance Committee, and executive compensation matters, which are relevant to his service as a member of our Compensation Committee.

Board Recommendation

The Board of Directors unanimously recommends a vote FOR the election of all of the seven nominees for director named in the proxy statement.

If prior to the Annual Meeting, the Board of Directors should learn that any nominee will be unable to serve for any reason, the proxies that otherwise would have been voted for this nominee will be voted for a substitute nominee as selected by the Board of Directors. Alternatively, the proxies, at the discretion of the Board of Directors, may be voted for that fewer number of nominees as results from the inability of any nominee to serve. The Board of Directors has no reason to believe that any of the nominees will be unable to serve.

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CORPORATE GOVERNANCE

Corporate Governance Guidelines

The Board of Directors has adopted Corporate Governance Guidelines. A copy of these Corporate Governance Guidelines can be found on the Investors Corporate Governance section of our corporate website at www.biosantepharma.com. Among the topics addressed in our Corporate Governance Guidelines are:

- Board size, composition and qualifications;
- Selection of directors;
- Board leadership;
- Board committees;
- Board and committee meetings;
- Executive sessions of outside directors;
- Meeting attendance by directors and non-directors;
- Appropriate information and access;
- Ability to retain advisors;
- Conflicts of interest;
- Board interaction with corporate constituencies;
- Change of principal occupation and board memberships;
- Retirement and term limits;
- Board compensation;
- Stock ownership by directors and executive officers;
- Loans to directors and executive officers;

- CEO evaluation;
- Board evaluation;
- Director continuing education; and
- Succession planning.

Director Independence

The Board of Directors has determined affirmatively that seven of our eight current directors — Louis W. Sullivan, M.D., Fred Holubow, Peter Kjaer, Ross Mangano, Edward C. Rosenow III, M.D., John T. Potts, Jr., M.D. and Stephen A. Sherwin, M.D. — are independent directors under the Listing Rules of the NASDAQ Stock Market. The Listing Rules of the NASDAQ Stock Market provide a non-exclusive list of persons who are not considered independent. For example, under these rules, a director who is, or during the past three years was, employed by the company or by any parent or subsidiary of the company, other than prior employment as an interim chairman or chief executive officer, would not be considered independent. No director qualifies as independent unless the Board of Directors affirmatively determines that the director does not have a material relationship with the listed company that would interfere with the exercise of independent judgment. In making an affirmative determination that a director is an independent director, the Board of Directors reviewed and discussed information provided by these individuals and by us with regard to each of their business and personal activities as they may relate to us and our management.

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Board Leadership Structure

The Board of Directors believes that our stockholders are best served if the Board of Directors retains the flexibility to adapt its leadership structure to applicable facts and circumstances, which necessarily change over time. Accordingly, under our Corporate Governance Guidelines, the office of Chairman of the Board and Chief Executive Officer may or may not be held by one person. The Board of Directors believes it is best not to have a fixed policy on this issue and that it should be free to make this determination based on what it believes is best under the circumstances. However, the Board of Directors strongly endorses the concept of an independent director being in a position of leadership for the rest of the outside directors. Under our Corporate Governance Guidelines, if at any time the Chief Executive Officer and Chairman of the Board positions are held by the same person, the Board of Directors, upon recommendation of the Nominating and Corporate Governance Committee, will elect an independent director as a lead independent director.

Louis W. Sullivan, M.D. currently serves as our non-executive Chairman of the Board. Stephen M. Simes currently serves as our Vice Chairman, President and Chief Executive Officer. Because the Chief Executive Officer and Chairman of the Board positions currently are not held by the same person, we do not have a lead independent director. We currently believe this leadership structure is in the best interests of our company and our stockholders and strikes the appropriate balance between the Chief Executive Officer's responsibility for the strategic direction, day-to-day leadership and performance of our company and the Chairman's responsibility to provide oversight of our company's corporate governance and guidance to our chief executive officer and to set the agenda for and preside over meetings of the Board of Directors.

Executive Sessions

At each regular meeting of the Board of Directors, our independent directors meet in executive session with no company management present during a portion of the meeting. Dr. Sullivan as our Chairman of the Board presides over these executive sessions and serves as a liaison between the independent directors and our President and Chief Executive Officer.

Board Meetings and Attendance

The Board of Directors held seven meetings during 2010. All of our directors, attended 75 percent or more of the aggregate meetings of the Board of Directors and all committees on which they served during 2010.

Board Committees

The Board of Directors has three standing committees: Audit and Finance Committee, Compensation Committee and Nominating and Corporate Governance Committee. Each of these committees has the composition and responsibilities described below. The Board of Directors from time to time may establish other committees to facilitate the management of our company and may change the composition and the responsibilities of our existing committees. Each committee has a charter which can be found on the Investors Corporate Governance Board Committees section of our corporate website at www.biosantepharm.com.

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The table below summarizes the current membership of each of our three standing board committees.

Director	Audit and Finance	Compensation	Nominating and Corporate Governance
Louis W. Sullivan, M.D.	ü	Chair	ü
Stephen M. Simes			
Fred Holubow	Chair		ü
Peter Kjaer			
Ross Mangano	ü	ü	ü
John T. Potts, Jr., M.D.			
Edward C. Rosenow III, M.D.		ü	
Stephen A. Sherwin, M.D.		ü	Chair

Audit and Finance Committee

Responsibilities. The primary responsibilities of the Audit and Finance Committee include:

- overseeing our accounting and financial reporting processes, systems of internal control over financial reporting and disclosure control and procedures on behalf of the Board of Directors and reporting the results or findings of its oversight activities to the Board;
- having sole authority to appoint, retain and oversee the work of our independent registered public accounting firm and establishing the compensation to be paid to the independent registered public accounting firm;
- establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls and/or auditing matters and for the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;
- reviewing and pre-approving all audit services and permissible non-audit services to be performed for us by our independent registered public accounting firm as provided under the federal securities laws and rules and regulations of the Securities and Exchange Commission; and
- overseeing our system to monitor and manage risk, and legal and ethical compliance programs, including the establishment and administration (including the grant of any waiver from) a written code of ethics applicable to each of our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions.

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The Audit and Finance Committee has the authority to engage the services of outside experts and advisors as it deems necessary or appropriate to carry out its duties and responsibilities.

Composition and Audit Committee Financial Expert. The current members of the Audit and Finance Committee are Messrs. Holubow and Mangano and Dr. Sullivan. Mr. Kjaer served as a member of the Audit and Finance Committee until March 2010, at which time Mr. Mangano joined the Audit and Finance Committee. Mr. Holubow is the chair of the Audit and Finance Committee.

Each current member of the Audit and Finance Committee qualifies as independent for purposes of membership on audit committees pursuant to the Listing Rules of the NASDAQ Stock Market and

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the rules and regulations of the SEC and is financially literate as required by the Listing Rules of the NASDAQ Stock Market. In addition, the Board of Directors has determined that Mr. Holubow qualifies as an audit committee financial expert as defined by the rules and regulations of the SEC and meets the qualifications of financial sophistication under the Listing Rules of the NASDAQ Stock Market as a result of his Masters in Business Administration in Finance, and his previous experience as an investment analyst and portfolio manager for over 40 years and as a former member of an audit committee of another public company. Stockholders should understand that these designations related to the Audit and Finance Committee members' experience and understanding with respect to certain accounting and auditing matters are disclosure requirements of the SEC and the NASDAQ Stock Market and do not impose upon any of them any duties, obligations or liabilities that are greater than those generally imposed on a member of the Audit and Finance Committee or of the Board of Directors.

Meetings and Other Information. The Audit and Finance Committee met four times during 2010. At all of these meetings, the Audit and Finance Committee met in private session with our independent registered public accounting firm. Additional information regarding the Audit and Finance Committee and our independent registered public accounting firm is disclosed under the Audit-Related Matters and Proposal No. 3 Ratification of Selection of Independent Registered Public Accounting Firm sections of this proxy statement.

Compensation Committee

Responsibilities. The primary responsibilities of the Compensation Committee include:

- recommending to the Board of Directors, for its determination, the annual salaries, incentive compensation, long-term incentive compensation, special or supplemental benefits or perquisites and any and all other compensation applicable to our chief executive officer and other executive officers;
- reviewing and making recommendations to the Board of Directors regarding any revisions to corporate goals and objectives with respect to compensation for our chief executive officer and other executive officers and establishing and leading a process for the full Board of Directors to evaluate the performance of our chief executive officer and other executive officers in light of those goals and objectives;
- administering our equity-based compensation plans applicable to any employee of our company and recommending to the Board of Directors specific grants of options and other awards for all executive officers and determining specific grants of options and other awards for all other employees, under our equity-based compensation plans; and
- reviewing and discussing with our President and Chief Executive Officer and reporting periodically to the Board of Directors plans for executive officer development and corporate succession plans for the President and Chief Executive Officer and other key executive officers and employees.

The Compensation Committee has the authority to engage the services of outside experts and advisors as it deems necessary or appropriate to carry out its duties and responsibilities.

Composition. The current members of the Compensation Committee are Dr. Sullivan, Mr. Mangano, Dr. Rosenow and Dr. Sherwin. Dr. Sherwin joined the Compensation Committee in March 2010.

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Dr. Sullivan is the chair of the Compensation Committee. Each of the four current members of the Compensation Committee is an independent director under the Listing Rules of the NASDAQ Stock Market and a non-employee director within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended.

Processes and Procedures for Consideration and Determination of Executive Compensation. As described above under the heading

Responsibilities, the Board of Directors has delegated to the Compensation Committee the responsibility, among other things, to make recommendations to the Board of Directors regarding any and all compensation payable to our executive officers, including annual salaries, incentive compensation, long-term incentive compensation and any special or supplemental benefits or perquisites. The Board of Directors also has delegated to the Compensation Committee the responsibility to administer our equity and incentive compensation plans applicable to any employee of our company and to recommend to the Board of Directors specific grants of options and other awards for all executive officers and determine specific grants of options and other awards for all other employees, under our equity-based compensation plans. Under the terms of its formal written charter, the Compensation Committee has the power and authority to delegate any of its duties and responsibilities to subcommittees as the Compensation Committee may deem appropriate in its sole discretion. Historically, the Compensation Committee has not generally delegated any of its duties and responsibilities to subcommittees, but rather has taken such actions as a committee, as a whole.

In December 2010, the Board of Directors delegated to the Compensation Committee the authority to determine annual discretionary performance bonuses for our executive officers for 2010, annual base salaries for 2011 and annual stock option grants for 2011. The Board of Directors decided to delegate these matters since there was a full discussion of such matters at the regular Board meeting in December and it made sense at the time to delegate the final decisions to the Compensation Committee in order to streamline the process.

Our President and Chief Executive Officer assists the Compensation Committee in gathering compensation related data regarding our executives, including himself, and making recommendations to the Compensation Committee regarding the form and amount of compensation to be paid to each executive, including himself. In making final decisions regarding compensation to be paid to our executives, the Compensation Committee and Board of Directors considers the recommendations of our President and Chief Executive Officer recognizing that due to his reporting and otherwise close relationship with employees, the President and Chief Executive Officer is often in a better position than the Compensation Committee and Board of Directors to evaluate the performance of employees (other than himself). In some cases, the Compensation Committee also considers input from other executives regarding their own compensation. However, the Compensation Committee recognizes the inherent conflict of interest involved in connection with the recommendations of our President and Chief Executive Officer and other members of management, especially with respect to their own compensation. Our President and Chief Executive Officer attends most Compensation Committee meetings at the invitation of the Compensation Committee; however, neither our President and Chief Executive Officer nor any other executive officer is present during any discussions, final deliberations and decisions regarding executive officer compensation.

The Compensation Committee engaged an independent compensation consultant, BDO Seidman, LLP, to assist the Compensation Committee and the Board of Directors in determining base salaries and option grants for 2010 and an independent compensation consultant, Radford, an Aon Consulting Company, to assist the Compensation Committee and Board of Directors in determining annual bonuses for 2010 and executive compensation for 2011. Neither BDO Seidman nor Radford provided

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other services to management during the time they provided services to the Compensation Committee. Radford's current engagement with the Compensation Committee includes reviewing and advising on all significant aspects of executive compensation. This includes base salaries, bonuses and equity awards, as well as severance and change in control arrangements. During 2010, at the request of the Compensation Committee, Radford recommended a peer group of 20 other life-sciences companies, collected relevant market data from these companies to allow the Compensation Committee to compare elements of our compensation program to those of our peers, provided information on executive compensation trends and implications for our company and made other recommendations to the Compensation Committee regarding certain aspects of our executive compensation program. The Chair of the Compensation Committee, Louis W. Sullivan, M.D., consulted with a representative of either BDO Seidman or Radford prior to most of the Compensation Committee meetings held in 2010. A representative of BDO Seidman or Radford also was invited to attend several meetings of the Compensation Committee and Board of Directors during 2010. Both BDO Seidman and Radford were engaged directly by our Compensation Committee and did not advise our management and only worked with management with the express permission of the Compensation Committee. Neither BDO Seidman nor Radford provided any services to our company other than those for which it was retained by the Compensation Committee.

In making final recommendations and decisions regarding compensation to be paid to our executive officers, the Compensation Committee and the Board of Directors consider the recommendations of our President and Chief Executive Officer and the Compensation Committee's compensation consultant, but also considers other factors, such as its own views as to the form and amount of compensation to be paid, the peer group data provided by the Compensation Committee's compensation consultant, the general performance of the company and the individual officers and the company's cash position and anticipated ability to raise any necessary additional financing. For information on the compensation of our named executive officers, please refer to the Executive Compensation section of this proxy statement.

Meetings and Other Information. The Compensation Committee met 11 times during 2010.

Nominating and Corporate Governance Committee

Responsibilities. The primary responsibilities of the Nominating and Corporate Governance Committee are:

- identifying individuals qualified to become Board members;

- recommending director nominees for each annual meeting of our stockholders and director nominees to fill any vacancies that may occur between meetings of stockholders;

- being aware of the best practices in corporate governance and developing and recommending to the Board of Directors a set of corporate governance standards to govern the Board of Directors, its committees, the company and its employees in the conduct of the business and affairs of the company;

- developing and overseeing the annual Board and Board committee evaluation process; and

- establishing and leading a process for determination of the compensation applicable to the non-employee directors on the Board.

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The Nominating and Corporate Governance Committee has the authority to engage the services of outside experts and advisors as it deems necessary or appropriate to carry out its duties and responsibilities.

Processes and Procedures for Consideration and Determination of Director Compensation. As described in more detail above under the heading Responsibilities, the Board of Directors has delegated to the Nominating and Corporate Governance Committee the responsibility, among other things, to establish and lead a process for determination of compensation payable to our non-employee directors. The Nominating and Corporate Governance Committee makes recommendations regarding compensation payable to our non-employee directors to the entire Board of Directors, which then makes the final decisions. Under the terms of its formal written charter, the Nominating and Corporate Governance Committee has the power and authority to delegate any of its duties and responsibilities to subcommittees as the Nominating and Corporate Governance Committee may deem appropriate in its sole discretion. Historically, the Nominating and Corporate Governance Committee has not generally delegated any of its duties and responsibilities to subcommittees, but rather has taken such actions as a committee, as a whole.

At the end of 2010, the Nominating and Corporate Governance Committee engaged Radford, a compensation consulting firm, to conduct a competitive assessment to assist the Nominating and Corporate Governance Committee in formulating its recommendations regarding and the Board of Directors in determining director compensation. Radford conducted an assessment of the following pay elements: cash compensation, including annual retainers and meeting fees; equity grants, including stock options; and additional compensation paid to Board chairs and Board committee chairs and members. The assessment was based on the practices of the 20 peer group companies used to evaluate the market competitiveness of our executive compensation program. We refer you to the information under the heading Executive Compensation Summary of Cash and Other Compensation Use of Peer Group Data later in this proxy statement for a listing of the 20 peer companies.

In making final recommendations and decisions regarding compensation to be paid to our directors, the Nominating and Corporate Governance Committee and the Board of Directors consider the recommendations of Radford, but also other factors, such as its own views as to the form and amount of compensation to be paid, the peer group data provided by Radford, the current and anticipated time demands placed on directors and other factors that may be relevant.

In February 2011, the Board of Directors, upon recommendation of the Nominating and Corporate Governance Committee, approved certain changes to our director compensation program as described under the heading Director Compensation Overview later in this proxy statement.

Composition. The composition of the Nominating and Corporate Governance Committee changed in December 2010. The current members of the Nominating and Corporate Governance Committee are Dr. Sullivan, Mr. Holubow, Mr. Mangano and Dr. Sherwin. Dr. Sherwin is the chair of the Nominating and Corporate Governance Committee. During most of 2010, Dr. Sullivan, Mr. Holubow, Mr. Kjaer, Mr. Mangano and Mr. Rosenow were members of the Nominating and Corporate Governance Committee and Dr. Sullivan was the chair. Each of the four current members of the Nominating and Corporate Governance Committee is an independent director within the meaning of the Listing Rules of the NASDAQ Stock Market.

Meetings and Other Information. The Nominating and Corporate Governance Committee met three times during 2010. Additional information regarding the Nominating and Corporate Governance

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Committee is disclosed under the Director Nominations Process and Director Compensation Overview sections of this proxy statement.

Director Nominations Process

Pursuant to a Director Nominations Process adopted by the Board of Directors, in selecting nominees for the Board of Directors, the Nominating and Corporate Governance Committee first determines whether the incumbent directors are qualified to serve, and wish to continue to serve, on the Board. The Nominating and Corporate Governance Committee believes that our company and its stockholders benefit from the continued service of qualified incumbent directors because those directors have familiarity with and insight into our company's affairs that they have accumulated during their tenure with the company. Appropriate continuity of Board membership also contributes to the Board's ability to work as a collective body. Accordingly, it is the practice of the Nominating and Corporate Governance Committee, in general, to re-nominate an incumbent director at the upcoming annual meeting of stockholders if the director wishes to continue his or her service with the Board, the director continues to satisfy the Nominating and Corporate Governance Committee's criteria for membership on the Board, the Nominating and Corporate Governance Committee believes the director continues to make important contributions to the Board, and there are no special, countervailing considerations against re-nomination of the director. After completing the Director Nominations Process in early 2011, it was the unanimous recommendation of the Nominating and Corporate Governance Committee that based on his other commitments and priorities Mr. Kjaer not stand for re-election to the Board of Directors at the Annual Meeting.

Pursuant to the Director Nominations Process adopted by the Board of Directors, in identifying and evaluating new candidates for election to the Board, the Nominating and Corporate Governance Committee intends to first solicit recommendations for nominees from persons whom the Nominating and Corporate Governance Committee believes are likely to be familiar qualified candidates having the qualifications, skills and characteristics required for Board nominees from time to time. Such persons may include members of the Board of Directors and senior management of BioSante. In addition, the Nominating and Corporate Governance Committee may engage a search firm to assist it in identifying qualified candidates. The Nominating and Corporate Governance Committee then intends to review and evaluate each candidate whom it believes merits serious consideration, taking into account available information concerning the candidate, any qualifications or criteria for Board membership established by the Nominating and Corporate Governance Committee, the existing composition of the Board, and other factors that it deems relevant. In conducting its review and evaluation, the Nominating and Corporate Governance Committee may solicit the views of our management, other Board members, and any other individuals it believes may have insight into a candidate. The Nominating and Corporate Governance Committee may designate one or more of its members and/or other Board members to interview any proposed candidate.

The Nominating and Corporate Governance Committee will consider recommendations for the nomination of directors submitted by our stockholders. For more information, see the information set forth under the heading Other Matters Director Nominations for 2011 Annual Meeting. The Nominating and Corporate Governance Committee will evaluate candidates recommended by stockholders in the same manner as those recommended as stated above.

There are no formal requirements or minimum qualifications that a candidate must meet in order for the Nominating and Corporate Governance Committee to recommend the candidate to the Board of Directors. The Nominating and Corporate Governance Committee believes that each nominee should be evaluated based on his or her merits as an individual, taking into account the needs of our company

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and the Board of Directors. However, in evaluating candidates, there are a number of criteria that the Nominating and Corporate Governance Committee generally views as relevant and is likely to consider. Some of these factors include:

- whether the candidate is an independent director under the Listing Rules of the NASDAQ Stock Market and meets any other applicable independence tests under the federal securities laws and rules and regulations of the SEC;
- whether the candidate is financially sophisticated and otherwise meets the requirements for serving as a member of an audit committee under the Listing Rules of the NASDAQ Stock Market;
- whether the candidate is an audit committee financial expert under the rules and regulations of the SEC;
- the needs of our company with respect to the particular talents and experience of our directors;
- the personal and professional integrity and reputation of the candidate;
- the candidate's level of education and business experience;
- the candidate's broad-based business acumen;
- the candidate's level of understanding of our business and its industry and other industries relevant to our business;
- the candidate's ability and willingness to devote adequate time to work of the Board of Directors and its committees;
- the fit of the candidate's skills and personality with those of other directors and potential directors in building a board of directors that is effective, collegial and responsive to the needs of our company;
- whether the candidate possesses strategic thinking and a willingness to share ideas;

- the candidate's diversity of experiences, expertise and background; and
- the candidate's ability to represent the interests of all stockholders and not a particular interest group.

While we do not have a stand-alone diversity policy, in considering whether to recommend any director nominee, including candidates recommended by stockholders, the Nominating and Corporate Governance Committee will consider the factors above, including the candidate's diversity of experiences, expertise and background. The Nominating and Corporate Governance Committee seeks nominees with a broad diversity of experience, expertise and backgrounds. The Nominating and Corporate Governance Committee does not assign specific weights to particular criteria and no particular criterion is necessarily applicable to all prospective nominees. We believe that the backgrounds and qualifications of the directors, considered as a group, should provide a significant

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mix of experience, knowledge and abilities that will allow the Board of Directors to fulfill its responsibilities.

Board Oversight of Risk

The Board of Directors as a whole has responsibility for risk oversight, with more in-depth reviews of certain areas of risk being conducted by the relevant Board committees that report on their deliberations to the full Board of Directors. The oversight responsibility of the Board and its committees is enabled by management reporting processes that are designed to provide information to the Board about the identification, assessment and management of critical risks and management's risk mitigation strategies. The areas of risk that we focus on include regulatory, operational, financial (accounting, credit, liquidity and tax), legal, compensation, competitive, health, safety and environment, economic, political and reputational risks.

The standing committees of the Board of Directors oversee risks associated with their respective principal areas of focus. The Audit and Finance Committee's role includes a particular focus on the qualitative aspects of financial reporting to stockholders, on our processes for the management of business and financial risk, our financial reporting obligations and for compliance with significant applicable legal, ethical and regulatory requirements. The Audit and Finance Committee, along with management, is also responsible for developing and participating in a process for review of important financial and operating topics that present potential significant risk to our company. The Compensation Committee is responsible for overseeing risks and exposures associated with our compensation programs and arrangements, including our executive and director compensation programs and arrangements, and management succession planning. The Nominating and Corporate Governance Committee oversees risks relating to our corporate governance matters and policies and director succession planning.

We recognize that a fundamental part of risk management is understanding not only the risks a company faces and what steps management is taking to manage those risks, but also understanding what level of risk is appropriate for the company. The involvement of the full Board of Directors in setting our business strategy is a key part of the Board's assessment of management's appetite for risk and also a determination of what constitutes an appropriate level of risk for our company.

We believe our current Board leadership structure is appropriate and helps ensure proper risk oversight for our company for a number of reasons, including: (1) general risk oversight by the full Board of Directors in connection with its role in reviewing our key long-term and short-term business strategies and monitoring on an on-going basis the implementation of our key business strategies; (2) more detailed oversight by our standing Board committees that are currently comprised of and chaired by our independent directors, and (3) the focus of our Chairman of the Board on allocating appropriate Board agenda time for discussion regarding the implementation of our key business strategies and specifically risk management.

Code of Conduct and Ethics

Our Code of Conduct and Ethics applies to all of our directors, executive officers, including our President and Chief Executive Officer and our Chief Financial Officer, and other employees, and meets the requirements of the SEC. A copy of our Code of Conduct and Ethics is available on the Investors' Corporate Governance Code of Conduct and Ethics section of our corporate website at www.biosantepharma.com.

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Policy Regarding Director Attendance at Annual Meetings of Stockholders

It is the policy of the Board of Directors that directors standing for re-election should attend our annual meeting of stockholders, if their schedules permit. All of the directors attended our annual meeting of stockholders in June 2010, except Dr. Potts.

Complaint Procedures

The Audit and Finance Committee has established procedures for the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls, or auditing matters, and the submission by our employees, on a confidential and anonymous basis, of concerns regarding questionable accounting or auditing matters. Our personnel with such concerns are encouraged to discuss their concerns with their supervisor first, who in turn will be responsible for informing our Compliance Officer of any concerns raised. Our President and Chief Executive Officer, Stephen M. Simes, currently serves as our Compliance Officer. If an employee prefers not to discuss a particular matter with his or her own supervisor, the employee may instead discuss such matter with our Compliance Officer. If an individual prefers not to discuss a matter with the Compliance Officer or if the Compliance Officer is unavailable and the matter is urgent, the individual is encouraged to contact the Chairman of the Audit and Finance Committee, Mr. Fred Holubow.

Process Regarding Stockholder Communications with Board of Directors

Stockholders may communicate with the Board of Directors or any one particular director by sending correspondence, addressed to our Corporate Secretary, BioSante Pharmaceuticals, Inc., 111 Barclay Boulevard, Suite 400, Lincolnshire, IL 60069, with an instruction to forward the communication to the Board of Directors or one or more particular directors. Our Corporate Secretary will forward promptly all such stockholder communications to the Board of Directors or the one or more particular directors, with the exception of any advertisements, solicitations for periodical or other subscriptions and other similar communications.

Table of Contents**DIRECTOR COMPENSATION****Summary of Cash and Other Compensation**

The table below provides summary information concerning the compensation of each individual who served as a director of our company during the year ended December 31, 2010, other than Stephen M. Simes, our Vice Chairman, President and Chief Executive Officer, whose compensation is set forth under the heading Executive Compensation.

DIRECTOR COMPENSATION - 2010

Name	Fees Earned or Paid in Cash (\$)	Option Awards \$(1)(2)	All Other Compensation \$(3)	Total (\$)
Louis W. Sullivan, M.D.	\$ 76,500	\$ 18,154	\$ 0	\$ 94,654
Fred Holubow	45,900	12,103	0	58,003
Peter Kjaer	30,600	12,103	0	42,703
Ross Mangano	45,000	12,103	0	57,103
John T. Potts, Jr., M.D.	27,900	12,103	0	40,003
Edward C. Rosenow III, M.D.	39,600	12,103	0	51,703
Stephen A. Sherwin, M.D.	36,000	12,103	0	48,103

(1) On March 31, 2010, each of our non-employee directors received an option to purchase 10,000 shares of our common stock at an exercise price of \$1.79 per share granted under the BioSante Pharmaceuticals, Inc. Amended and Restated 2008 Stock Incentive Plan, the material terms of which are described in more detail under the heading Executive Compensation Grants of Plan-Based Awards BioSante Pharmaceuticals, Inc. Amended and Restated 2008 Stock Incentive Plan. In addition, Dr. Sullivan, as Chairman of the Board, received an option to purchase an additional 5,000 shares of our common stock. Such options expire on March 30, 2020 and vested in full on March 31, 2011. Amounts reported in the Option Awards column represent the aggregate grant date fair value for option awards granted to each director in 2010 computed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718. The grant date fair value is determined based on our Black-Scholes option pricing model. The grant date fair value per share for the options granted on March 31, 2010 was \$1.21 and was determined using the following specific assumptions: risk free interest rate: 2.89%; expected life: 6 years; expected volatility: 75.72%; and expected dividend yield: 0%.

(2) The following table provides information regarding the aggregate number of options to purchase shares of our common stock outstanding at December 31, 2010 and held by each of the directors listed in the table:

Name	Aggregate Number of Securities Underlying Options	Exercisable/ Unexercisable	Range of Exercise Price(s)	Range of Expiration Date(s)
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Louis W. Sullivan, M.D.	130,000	115,000/15,000	\$1.51	4.405	03/15/2016	03/30/2020
Fred Holubow	120,000	110,000/10,000	1.51	4.405	03/15/2016	03/30/2020
Peter Kjaer	120,000	110,000/10,000	1.51	4.405	03/15/2016	03/30/2020
Ross Mangano	120,000	110,000/10,000	1.51	4.405	03/15/2016	03/30/2020
John T. Potts, Jr., M.D.	25,000	3,750/21,250	1.79	1.82	10/13/2019	03/30/2020
Edward C. Rosenow III, M.D.	120,000	110,000/10,000	1.51	4.405	03/15/2016	03/30/2020
Stephen A. Sherwin, M.D.(a)	143,359	122,109/21,250	1.79	36.82	02/03/2015	03/30/2020

(a) Of the total number of options held by Dr. Sherwin, options to purchase an aggregate of 118,359 shares of our common stock at a weighted average exercise price of \$17.90 were granted under equity-based compensation plans of Cell Genesys, Inc. and assumed by us in our October 2009 merger with Cell Genesys.

(3) We do not provide perquisites or other personal benefits to our directors.

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Overview of Director Compensation Program

As described in more detail under the heading **Corporate Governance Nominating and Corporate Governance Committee Responsibilities**, the Board of Directors has delegated to the Nominating and Corporate Governance Committee the responsibility, among other things, to establish and lead a process for the determination of compensation payable to our non-employee directors. The Nominating and Corporate Governance Committee makes recommendations regarding compensation payable to our non-employee directors to the entire Board of Directors, which then makes final decisions regarding such compensation. The processes and procedures the Nominating and Corporate Governance Committee and the Board of Directors use to consider and determine director compensation are described under the heading **Corporate Governance Nominating and Corporate Governance Committee Processes and Procedures for Determination of Director Compensation**.

The principal elements of our director compensation program for 2010 included:

- annual cash retainers;
- meeting fees; and
- long-term equity-based incentive compensation, in the form of stock options.

We do not compensate Mr. Simes separately for serving on the Board of Directors. We do, however, reimburse each member of the Board of Directors, including Mr. Simes, for out-of-pocket expenses incurred in connection with attending Board and Board committee meetings.

Recent Changes to Director Compensation Program

The Board of Directors, upon recommendation of the Nominating and Corporate Governance Committee, reviewed our director compensation program and made several changes to the program in February 2011.

As described in more detail under the heading **Corporate Governance Nominating and Corporate Governance Committee Processes and Procedures for Determination of Director Compensation**, the Nominating and Corporate Governance Committee engaged Radford, a compensation consulting firm, at the end of 2010 to conduct a competitive assessment of director compensation of companies in our industry sector to assist the Nominating and Corporate Governance Committee in reviewing our director compensation program. Our industry sector is defined as a peer group of 20 other publicly-held life science companies in late stage clinical development and/or the FDA approval process, with market capitalizations, revenues and organization sizes similar to ours. Almost all of the members of our peer group at the time our peer group was created had a market capitalization between \$50 million and \$450 million, revenue of less than \$125 million and an organization size of under 300 employees. We use the same peer group for purposes of analyzing our executive compensation. We refer you to the information

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under the heading Executive Compensation Overview Use of Peer Group Data for the names of the companies in our peer group and for additional information regarding the peer group.

Radford conducted an assessment of the following director pay elements: cash compensation, including annual retainers and meeting fees; equity grants, including stock options; and additional Board and Board committee chair and member compensation. In determining director compensation,

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the Nominating and Corporate Governance Committee targets total compensation and each element of compensation at the 50th percentile of our peer group. According to the findings of Radford:

- our average total direct compensation for our non-employee directors was below the peer 50th percentile;
- our baseline Board member cash compensation, which similar to 55 percent of our peer companies, consists of an annual Board retainer plus Board meeting fees, was below the peer 50th percentile;
- additional cash provided to our Board committee chairs and members was below the peer 50th percentile; and
- our initial and annual equity grants were below the peer 50th percentile in long-term incentive value delivered and in total shares granted as a percent of company.

The changes to our director compensation approved by the Board of Directors, upon recommendation of the Nominating and Corporate Governance Committee, in February 2011 are described below. As a result of the changes to our director compensation,

- our average total direct compensation for our non-employee directors is still below the peer 50th percentile;
- our baseline Board member cash compensation, which consists of an annual Board retainer plus Board meeting fees, is slightly below the peer 50th percentile;
- additional cash provided to our Board committee chairs and members is either between the peer 50th percentile and peer 75th percentile, or in some cases, above the peer 75th percentile; and
- our initial and annual equity grants are below the peer 50th percentile in terms of long-term incentive value delivered but between the peer 50th percentile and 75th percentile in terms of total shares granted as a percent of company.

Both the Board of Directors and Nominating and Corporate Governance Committee recognize that the additional cash provided to our Board committee chairs and members is above the targeted peer 50th percentile and that our initial and annual equity grants while below the peer 50th percentile in terms of long-term incentive value delivered are between the peer 50th percentile and 75th percentile in terms of total shares

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granted as a percent of company. In approving such components, the Board of Directors and Nominating and Corporate Governance Committee considered:

- the fact that our average total direct compensation per director and certain other components of our revised director compensation program are still below the peer 50th percentile;
- the increasing amount of workload delegated to and performed by our Board committee chairs and members;
- the intent that our revised director compensation program apply during both 2011 and 2012; and

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- the peer market data is based on 2009 peer group practices, and according to Radford, a number of our peer companies have increased their director compensation since 2009, which means that our revised director compensation likely will be at the 50th percentile in the near future in light of such increases.

Cash Compensation

The cash compensation paid to our non-employee directors consists of annual Board and Board committee cash retainers and meeting fees.

The table below sets forth the annual cash retainers paid to our non-employee directors during 2010 and the annual cash retainers to be paid during 2011 effective February 23, 2011:

Description	2010 Annual Cash Retainer	2011 Annual Cash Retainer
Board Member	\$ 18,000	\$ 25,000
Chairman of the Board (in addition to Board member retainer)	22,500	12,500
Audit and Finance Committee Chair	9,000	15,000
Compensation Committee Chair	4,500	10,000
Nominating and Corporate Governance Committee Chair	4,500	7,000
Audit and Finance Committee Member (other than Chair)	0	7,500
Compensation Committee Member (other than Chair)	0	5,000
Nominating and Corporate Governance Committee Member (other than Chair)	0	3,500

The annual cash retainers are paid on a quarterly basis in the beginning of each calendar quarter. For example, the retainers paid in the beginning of the first calendar quarter are for the period from January 1 through March 31.

The table below sets forth the per meeting fees paid to our non-employee directors during 2010 and the per meeting fees to be paid during 2011 effective February 23, 2011:

Description	2010 Meeting Fees	2011 Meeting Fees
Board Meeting (in person)	\$ 1,800	\$ 2,000
Board Meeting (telephonic)	900	1,000
Board Committee (in person or telephonic)	900	1,000

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Each of our non-employee directors receives an automatic grant of options to purchase shares of our common stock upon the director's initial election to the Board of Directors and on an annual basis on the last business day of March each year. In addition, our Chairman of the Board receives an additional automatic option grant. The options have a ten-year term and an exercise price equal to the fair market value of our common stock on the grant date. The initial options vest and become exercisable in four equal annual installments and the annual options vest and become exercisable in full on the one-year anniversary of the grant date. The table below sets forth the number of options granted to each of our non-employee directors as initial and annual grants during 2010 and 2011 and the additional option grant to our Chairman of the Board:

Description	Number of Shares Underlying 2010 Option Grants	Number of Shares Underlying 2011 Option Grants
New Board Member (initial grant)	15,000	50,000
Board Member (annual basis)	10,000	25,000
Chairman of the Board (annual basis)	5,000	10,000

We refer you to note 1 to the Director Compensation table above for a summary of all options granted to our directors, excluding Mr. Simes, during the year ended December 31, 2010. We refer you to note 2 to the Director Compensation table above for a summary of all options to purchase shares of our common stock held by our directors, excluding Mr. Simes, as of December 31, 2010. Information regarding stock option grants to Mr. Simes during the year ended December 31, 2010 is set forth under the heading "Executive Compensation - Grants of Plan-Based Awards" and information regarding all stock options held by Mr. Simes as of December 31, 2010 is set forth under the heading "Executive Compensation - Outstanding Equity Awards at Fiscal Year End."

Under the terms of our stock option agreements, upon a director's termination of service with our company, other than for cause, such director's vested and outstanding options as of such date remain vested and outstanding for a period of three months and all non-vested options terminate. Depending upon the circumstances of a director's separation of service with our company, however, we may change these terms, although any adverse change would require the consent of the director. In February 2011, the Board of Directors, upon recommendation of the Nominating and Corporate Governance Committee, approved an amendment to Mr. Kjaer's outstanding stock options effective as of his last day of service as a director of our company to extend his post-separation of service exercise period from three months to one year (but no later than the original expiration date of the options). The Board of Directors decided to extend the exercise period of Mr. Kjaer's stock options in light of his over 10 years of service as a member of our Board of Directors.

Indemnification Agreements

We have entered into agreements with all of our directors under which we are required to indemnify them against expenses, judgments, penalties, fines, settlements and other amounts actually and reasonably incurred, including expenses of a derivative action, in connection with an actual or threatened proceeding if any of them may be made a party because he or she is or was one of our directors. We will be obligated to pay these amounts only if the director acted in good faith and in a manner that he or she reasonably believed to be in or not opposed to our best interests. With respect to any criminal proceeding, we will be obligated to pay these amounts only if the director had no reasonable cause to believe his or her conduct was unlawful. The indemnification agreements also set forth procedures that will apply in the event of a claim for indemnification.

Table of Contents**EXECUTIVE COMPENSATION****Summary of Cash and Other Compensation**

The table below provides summary information concerning all compensation awarded to, earned by or paid to our principal executive officer and our principal financial officer during the years ended December 31, 2010, 2009 and 2008 and our only other executive officer during the year ended December 31, 2010. We did not have any other executive officers as of December 31, 2010. We refer to the three individuals named in the table below as our named executive officers or our executives in this proxy statement.

SUMMARY COMPENSATION TABLE - 2010

Name and Principal Position	Year	Salary(1)	Bonus(2)	Option Awards(3)	All Other Compensation(4)	Total
Stephen M. Simes	2010	\$ 486,231	\$ 270,900	\$ 156,000	\$ 36,248	\$ 949,379
<i>Vice Chairman, President and Chief Executive Officer</i>	2009	417,640	275,000	300,000	37,162	1,038,802
	2008	417,640	0	249,000	30,879	697,519
Phillip B. Donenberg	2010	285,552	112,000	104,000	28,663	530,215
<i>Senior Vice President of Finance, Chief Financial Officer and Secretary</i>	2009	232,140	175,000	128,750	21,507	557,397
	2008	232,140	0	149,400	20,123	401,663
Michael C. Snabes, M.D., Ph.D.(5)	2010	374,487	109,500	26,000	18,200	528,187
<i>Senior Vice President of Medical Affairs</i>						

(1) For 2010, includes \$34,731, \$19,885 and \$26,154 paid to Mr. Simes, Mr. Donenberg and Dr. Snabes, respectively, for unused accrued vacation time. We refer you to the information under the heading Payout of Certain Accrued Vacation Balances for more information regarding these payments. In addition, we refer you to the information under the heading Base Salaries for a discussion of the factors taken into consideration by the Board of Directors in determining the base salaries for each executive.

(2) Represents discretionary performance cash bonuses earned in year as indicated, but in the case of some years, paid during the following year. We refer you to the information under the heading Annual Discretionary Performance Bonus for a discussion of the factors taken into consideration by the Board of Directors in determining the amount of discretionary annual cash bonus paid to each executive.

(3) Amounts reported in the Option Awards column represent the aggregate grant date fair value for option awards granted to each named executive officer during each of the years presented, as computed in accordance with FASB ASC Topic 718. The grant date fair value is determined based on our Black-Scholes option pricing model. The following table sets forth the specific assumptions used in the valuation of

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each such option award:

Grant Date	Grant Date Fair Value Per Share	Risk Free Interest Rate	Expected Life	Expected Volatility	Expected Dividend Yield
02/02/10	\$ 1.04	2.37%	6 years	76.87%	0%
02/02/09	1.03	2.76%	6 years	76.83%	0%
01/15/08	2.49	3.72%	6 years	67.51%	0%

(4) The amounts shown in the All Other Compensation column for 2010 include the following with respect to each named executive officer:

Name	401(k) Match(a)	Insurance Premiums(b)	Tax Gross-Up(c)	Auto Allowance
Stephen M. Simes	\$ 11,000	\$ 9,178	\$ 4,070	\$ 12,000
Phillip B. Donenberg	11,000	8,056	2,407	7,200

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Name	401(k) Match(a)	Insurance Premiums(b)	Tax Gross-Up(c)	Auto Allowance
Michael C. Snabes, M.D., Ph.D.	11,000	0	0	7,200

(a) Based on 50 percent of the amount the named executive officer voluntarily contributed to the plan.

(b) Includes reimbursement for premiums paid by the named executive officer for long-term disability insurance and for supplemental term life insurance.

(c) Based on the named executive officer's tax rate at the time the premium was paid.

(5) Dr. Snabes was promoted to an executive officer in August 2010 and was not a named executive officer in 2009 or 2008; and therefore, information on his compensation for those fiscal years is not included.

Compensation Philosophy and Target Positioning. During 2010, the Compensation Committee approved an executive compensation philosophy and target positioning. Our executive compensation program is designed to:

- Attract and retain executives important to the success of our company and the creation of value for our stockholders;
- Motivate our executives to achieve company and individual performance objectives and create stockholder value; and
- Reward our executives for the achievement of company and individual performance objectives, the creation of stockholder value in the short and long term and their contributions, in general, to the success of our company.

In order to achieve these objectives, the Compensation Committee targets base compensation and total compensation at the 50th percentile of companies in our peer group. The Compensation Committee believes that median positioning attracts and retains executive talent, but at the same time recognizes our company's cost structure, especially with respect to fixed base compensation. The actual target compensation for each individual executive may be higher or lower than the targeted market position based on the individual's skills, experience, contribution, performance, tenure or other factors that the Compensation Committee may take into account that are relevant to the individual executive.

Use of Peer Group Data. During 2010, the Compensation Committee engaged Radford to conduct an executive compensation competitive assessment of the base salaries, annual bonus opportunity, total cash compensation, stock options and total direct compensation paid to our

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executive officers in comparison to similar executives of other companies in our peer group. The Compensation Committee used this information to assist it in determining the amount of base salary, annual incentive compensation, total compensation and the form and amount of long-term equity-based incentive compensation to pay our executives.

During 2010, the Compensation Committee worked with Radford to define a peer group of 20 other publicly-held life science companies in late stage clinical development and the FDA approval process, with market capitalizations, revenues and organization sizes similar to ours. Almost all of the members of our peer group at the time the peer group was created had a market capitalization between \$50 million and \$450 million, revenue of less than \$125 million and an organization size of under 300 employees. We use the same peer group for purposes of analyzing our director compensation.

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The companies in our peer group include:

Alexza Pharmaceuticals, Inc.	Antares Pharma, Inc.	Cornerstone Therapeutics Inc.
Curis, Inc.	Cytokinetics, Incorporated	CytRx Corporation
Dyax Corp.	GTx, Inc.	Idenix Pharmaceuticals, Inc.
Inspire Pharmaceuticals, Inc.	Ista Pharmaceuticals, Inc.	Jazz Pharmaceuticals, Inc.
Ligand Pharmaceuticals Incorporated	NPS Pharmaceuticals, Inc.	Omeros Corporation
OncoGenex Pharmaceuticals, Inc.	Oncothyreon Inc.	Pozen Inc.
Progenics Pharmaceuticals, Inc.	Sucampo Pharmaceuticals, Inc.	

In reviewing benchmarking data, the Compensation Committee recognizes that benchmarking may not always be appropriate as a stand-alone tool for setting compensation due to the aspects of our business and objectives that may be unique to our company. Nevertheless, the Compensation Committee believes that gathering this information is an important part of its compensation-related decision-making process. The Compensation Committee believes that compensation paid by peer group companies is representative of the compensation required to attract, retain and motivate our executive talent. However, where a sufficient basis for comparison does not exist between the peer group data and an executive, the Compensation Committee gives less weight to the peer group data. For example, relative compensation benchmarking analysis does not consider individual specific performance or experience.

Executive Compensation Components. The principal elements of our executive compensation program for 2010 were:

- base salary;
- short-term cash incentive compensation, in the form of an annual discretionary performance cash bonus;
- long-term equity-based incentive compensation, in the form of stock options; and
- other compensation arrangements, such as benefits made generally available to our other employees, limited executive benefits and perquisites, and severance and change in control arrangements.

In determining the form of compensation to pay our named executive officers, the Compensation Committee views these elements of our executive compensation program as related but distinct. The Compensation Committee does not believe that significant compensation derived by an executive from one element of our compensation program should necessarily result in a reduction in the amount of compensation the executive receives from other elements. At the same time, the Compensation Committee does not believe that minimal compensation derived from one element of compensation should result necessarily in an increase in the amount the executive should receive from one or more other elements of compensation.

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Except as described below, the Compensation Committee has not adopted any formal or informal policies or guidelines for allocating compensation between long-term and currently paid out compensation, between cash and non-cash compensation, or among different forms of non-cash compensation. However, the Compensation Committee's philosophy is to make a greater percentage of an executive's compensation performance-based, and therefore at risk, as the executive's position and responsibility increases given the influence more senior level executives generally have on

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company performance. Thus, individuals with greater roles and responsibilities associated with achieving our company's objectives should bear a greater proportion of the risk that those goals are not achieved and should receive a greater proportion of the reward if objectives are met or surpassed. For example, this philosophy is illustrated by the higher cash incentive targets and equity-based awards of our President and Chief Executive Officer as compared to our other two executives.

Total Compensation Mix and Pay for Performance. The table below illustrates how total compensation for our named executive officers for 2010 was allocated between performance and non-performance based components, how performance based compensation is allocated between short-term and long-term components and how total compensation is allocated between cash-based and equity-based components.

	Total Compensation Mix (base salary, short-term cash incentives, long-term equity incentives and executive benefits and perquisites)					
	Percent of Total Compensation that is:		Percent of Performance Based Total Compensation that is:		Percent of Total Compensation that is:	
	Performance Based(1)	Fixed(2)	Annual(3)	Long-Term(4)	Cash Based(5)	Equity Based(6)
Stephen M. Simes	45.0%	55.0%	63.5%	36.5%	83.6%	16.4%
Phillip B. Donenberg	40.7%	59.3%	51.9%	48.1%	80.4%	19.6%
Michael C. Snabes, M.D., Ph.D.	25.7%	74.3%	80.8%	19.2%	95.1%	4.9%

-
- (1) Short-term cash incentives plus long-term equity incentives divided by total compensation
 - (2) Base salary plus executive benefits and perquisites divided by total compensation
 - (3) Short-term cash incentives divided by short-term cash incentives plus long-term equity incentives
 - (4) Long-term equity incentives divided by short-term cash incentives plus long-term equity incentives
 - (5) Base salary plus short-term cash incentives and executive benefits and perquisites divided by total compensation
 - (6) Long-term equity incentives divided by total compensation

To align the interests of our named executive officers with the interests of our stockholders, a significant part of the total compensation paid to our named executive officers, was performance-based, and a significant part of the performance-based compensation was in the form of long-term equity incentives. It is the intent of the Compensation Committee to increase the percentage of total compensation paid to our named executive officers that is equity-based in order to further align the interests of our named executive officers with the interests of our stockholders. In furtherance of this objective, as described in more detail later in this proxy statement, the Compensation Committee granted significant option grants to our named executive officers in January 2011. Such option grants, however, are subject to a longer four-year vesting as opposed to the typical three-year vesting of prior executive grants.

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Simes Employment Letter Agreement. In January 1998, we entered into an employment letter agreement with Stephen M. Simes. We amended the agreement in July 2008 to ensure compliance with regulations on non-qualified deferred compensation severance benefits as mandated by Section 409A of the Internal Revenue Code of 1986 and to make certain changes to the change in control provisions. We have not amended the agreement since July 2008. The current term of the agreement continues until December 31, 2013. On January 1 of each year, the term is automatically extended for an additional one year unless on or before October 1 immediately preceding the extension, either party gives written notice to the other of the termination of the agreement or cessation of further

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extensions. Under the agreement, Mr. Simes is entitled to a base salary in an amount determined by the Board of Directors, which base salary, however, must be adjusted upward each year at a minimum equal to changes in the Consumer Price Index. Mr. Simes is entitled to receive an annual discretionary performance bonus, the amount and terms of which will be determined in the discretion of the Board of Directors. Mr. Simes also is entitled to a monthly stipend of \$1,000 for automobile use, reimbursement of premiums for supplemental term life and long-term disability insurance and taxes associated with such premiums and four weeks paid vacation each year. If Mr. Simes is terminated without cause or upon a change in control or if he terminates his employment for good reason, he will be entitled to certain payments and benefits as described in more detail under the heading Potential Payments Upon Termination or Change in Control. Under the agreement, Mr. Simes is subject to customary assignment of inventions, confidentiality and non-competition provisions.

Donenberg Employment Letter Agreement. In June 1998, we entered into an employment letter agreement with Phillip B. Donenberg. We amended the agreement in July 2008 to ensure compliance with regulations on non-qualified deferred compensation severance benefits as mandated by Section 409A of the Internal Revenue Code of 1986 and to make certain changes to the change in control provisions. We have not amended the agreement since July 2008. The term of the agreement continues until either party gives 30 days written notice to the other of the termination of the agreement. Under the agreement, Mr. Donenberg is entitled to a base salary in an amount determined by the Board of Directors, which base salary, however, must be adjusted upward each year at a minimum equal to changes in the Consumer Price Index. Mr. Donenberg is entitled to receive an annual discretionary performance bonus, the amount and terms of which will be determined in the discretion of the Board of Directors. Mr. Donenberg also is entitled to a monthly stipend of \$600 for automobile use, reimbursement of premiums for supplemental term life and long-term disability insurance and taxes associated with such premiums and four weeks paid vacation each year. If Mr. Donenberg is terminated without cause or upon a change in control or if he terminates his employment for good reason, he will be entitled to certain payments and benefits as described in more detail under the heading Potential Payments Upon Termination or Change in Control. Under the agreement, Mr. Donenberg is subject to customary assignment of inventions, confidentiality and non-competition provisions.

Snabes Offer Letter and Change of Control and Severance Agreement. In April 2008, we entered into an offer letter agreement with Michael C. Snabes, M.D., Ph.D. Dr. Snabes is employed at-will and is not guaranteed employment for any specified duration. The offer letter does not contain any commitments regarding future salary increases or benefits, except for the timing of payments and a general description of benefits. Dr. Snabes is entitled to receive an annual discretionary performance bonus of up to 30 percent of his then base salary, the amount and terms of which will be determined in the discretion of the Board of Directors. Dr. Snabes also is entitled to a monthly stipend of \$600 for automobile use, reimbursement for reasonable monthly cell phone charges and 15 days paid vacation each year. Under a separate change of control and severance agreement, if Dr. Snabes is terminated without cause or upon a change in control, he will be entitled to certain payments and benefits as described in more detail under the heading Potential Payments Upon Termination or Change in Control. Dr. Snabes is subject to customary assignment of inventions, confidentiality and non-competition obligations.

Base Salaries. We provide a base salary for our named executive officers, which, unlike some of the other elements of our executive compensation program, is not subject to company or individual performance risk. We recognize the need for most executives to receive at least a portion of their

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total compensation in the form of a guaranteed base salary that is paid in cash semi-monthly throughout the year. We initially fix base salaries for our executives at a level we believe enables us to hire and retain them in a competitive environment and to reward satisfactory individual performance and a satisfactory level of contribution to our overall business objectives. We typically increase the base salaries of our named executive officers in the beginning of each year in an amount equal to an approximate cost of living adjustment. We do so to recognize annual increases in the cost of living and to ensure that our base salaries remain market competitive. In addition, we may make additional upward adjustments to a particular executive's base salary to compensate an executive for assuming increased roles and responsibilities, to reward an executive for superior individual performance, to retain an executive at risk of recruitment by other companies, and/or to bring an executive's base salary closer to the 50th percentile of companies in our peer group.

The table below shows the base salaries for our named executive officers as of January 1 of each of 2009, 2010 and 2011 and the percentage increases between periods:

	January 1,			Percent Change	January 1,		
	2009	2010	2011		2010	2011	Percent Change
Stephen M. Simes	\$ 417,640	\$ 451,500		8.1%	\$ 451,500	\$ 496,700	10.0%
Phillip B. Donenberg	232,140	258,000		11.1%	258,000	308,000	19.4%
Michael C. Snabes, M.D., Ph.D.	315,000	340,000		7.9%	340,000	376,000	10.6%

Both Mr. Donenberg and Dr. Snabes received promotions to Senior Vice President and related increases in their base salaries effective September 1, 2010. Mr. Donenberg's salary increased 8.5 percent from \$258,000 to \$280,000 and Dr. Snabes's base salary increased 7.4 percent from \$340,000 to \$365,000. The purpose of the September 2010 base salary increases for Mr. Donenberg and Dr. Snabes were to recognize these individuals for their increased responsibilities and, in the case of Mr. Donenberg, to bring his base salary closer to the peer 50th percentile.

In December 2010, the Compensation Committee determined base salaries for 2011. Prior to the base salary increases for 2011, Mr. Simes's base salary of \$451,500 was at the peer 25th percentile, Mr. Donenberg's base salary of \$280,000 was at the peer 25th percentile and Dr. Snabes's base salary of \$365,000 was above the peer 75th percentile. Each of the executives received a 3 percent merit increase to his base salary to reflect a cost of living adjustment and each of Messrs. Simes and Donenberg received an additional 7 percent market adjustment to bring their base salaries closer to the peer 50th percentile. After these increases, both Mr. Simes's and Mr. Donenberg's base salaries are between the peer 25th and 50th percentile and Dr. Snabes's base salary is still above the peer 75th percentile.

In establishing base salaries for 2010 and 2011, the Board of Directors and Compensation Committee considered several factors, including in particular:

- each executive's position within the company and their level of responsibility;
- the ability of the executive to impact key business initiatives;

- the executive's individual experience and qualifications;
- the executive's tenure with the company;
- compensation paid to executives of comparable positions by our peer companies;

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- an assessment of the risk that the executive would leave our company and the harm to our company's business initiatives if the executive left;
- company and individual performance, as compared to specific pre-established objectives in the case of Mr. Simes and Mr. Donenberg, which are described below under the heading "Annual Discretionary Performance Bonus";
- the executive's current and historical compensation levels; and
- our cash position and anticipated ability to raise any necessary additional financing.

Payout of Certain Accrued Vacation Balances. The "Salary" column for 2010 includes \$34,731, \$19,885 and \$26,154 paid to Mr. Simes, Mr. Donenberg and Dr. Snabes, respectively, for unused accrued vacation time. In February 2010, the Board of Directors, upon recommendation of the Compensation Committee, approved a one-time cash payment of certain accrued vacation balances and a corresponding change to our vacation policy that limited the number of vacation days any employee could accrue and carry over from one year to the next year. Under the terms of the payout, each of our employees, including our executives, was paid cash for the number of the employee's accrued vacation balance days as of December 31, 2009 that exceed the equivalent of one year's vacation for such employee (if any) multiplied by the employee's daily base rate of pay at the time of such payment. No employee, however, received payment for more than one year's vacation and each employee's accrued vacation balance was then reduced by the number of days paid out. The purpose of the accrued vacation payout was to reduce the amount of accrued vacation balances on our balance sheet and soften the impact of the change to our vacation policy limiting the number of vacation days any employee could accrue and carry over from one year to the next year.

Annual Discretionary Performance Bonus. As required under the terms of their employment letter or offer letter agreements, we provide Mr. Simes, Mr. Donenberg and Dr. Snabes the opportunity to earn an annual discretionary performance bonus each year. The Board of Directors, upon recommendation of the Compensation Committee, typically determines the amount of the bonus each year for each executive based on, among other things, the achievement of performance objectives of our company and individual goals by the executive. After the completion of each year, the Board of Directors, upon recommendation of the Compensation Committee and excluding the President and Chief Executive Officer who is not present during these discussions, typically determines the amount of annual discretionary performance bonus to be paid to each executive. Such determination is made after first receiving input from our President and Chief Executive Officer as to his views of the amount of bonus each executive, including himself, should receive. In determining the final amount of annual discretionary performance bonus to be paid to each executive, the Board of Directors considers the recommendation of the Compensation Committee, the recommendation of our President and Chief Executive Officer, the recommendation of the Compensation Committee's independent compensation consultant, the Board's own views as to the achievement of company performance and individual executive goals, the general performance of the company and the executives during the year, regardless of any specific objectives, the performance of the company's stock price during the year, competitive compensation data and other relevant factors. The amount of annual cash bonuses paid to our executives is highly discretionary and has been highly variable from year to year. In December 2010, the Board of Directors delegated to the Compensation Committee the authority to determine annual cash bonuses to our executives for 2010 performance. The Board of Directors did this since there was a full discussion of such matters at the regular Board meeting in December and it made sense at the time to delegate the final bonus decision to the Compensation Committee in order to streamline the process.

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Annual discretionary bonuses made to our named executive officers for 2010 were as follows:

Named Executive Officer	2010 Annual Bonus Payment	2010 Annual Bonus As Percent of Base Salary	Final Incentive Percentage
Stephen M. Simes	\$ 270,900	60%	100% of target
Phillip B. Donenberg	112,000	40%	100% of target
Michael C. Snabes, M.D., Ph.D.	109,500	30%	75% of target

The bonus payouts to Mr. Simes and Mr. Donenberg were based primarily on their achievement of certain pre-established goals and objectives. The goals and objectives, percentage bonus opportunity and actual scoring for Mr. Simes were as follows:

Goal/Objective Category	Percentage Bonus Opportunity	Percentage Bonus Awarded	Supporting Detail for Actual Percentage Bonus Awarded
Clinical	Up to 50%	25%	Progress in LibiGel Phase III clinical program and obtained three FDA Orphan drug designations for cancer vaccines and continued to advance cancer vaccine development program at a minimal cost to BioSante
Financial	Up to 40%	40%	Successfully raised additional financing in March 2010 and June 2010 registered direct offerings
Corporate Development	Up to 40%	5%	Entered into transaction for the development of oncolytic virus technology in which BioSante received an up-front payment and the right to receive milestone and royalty payments
Corporate/Corporate Relations	Up to 20%	20%	Successfully recruited additional BioSante personnel, and engaged in significant investor relations and public relations activities

The goals and objectives, percentage bonus opportunity and actual scoring for Mr. Donenberg were as follows:

Goal/Objective Category	Percentage Bonus Opportunity	Percentage Bonus Awarded	Supporting Detail for Actual Percentage Bonus Awarded
Corporate Development	Up to 100%	5%	Entered into transaction for the development of oncolytic virus technology in which BioSante received an up-front payment and the right to receive milestone and royalty payments
Financial	Up to 40%	40%	Successfully raised additional financing in March 2010 and June 2010 registered direct offerings
Corporate/Corporate Relations	Up to 20%	20%	Assumed lead role in Human Resources function; successfully recruited additional BioSante personnel, and engaged in significant investor relations and public relations activities
Management/Accounting and Internal/External Reporting	Up to 5%	5%	Successful negotiation of significant fee waivers and savings, enhanced corporate governance and internal control efforts and no significant accounting issues
Other	Not specified	5%	Successful receipt of qualifying therapeutic discover 48D grant

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With respect to the actual bonus paid to each of Mr. Simes and Mr. Donenberg, the Compensation Committee determined that an at target payout equal to 100 percent of their incentive target percentage of base salary (representing 60% and 40% of their base salaries, respectively) was appropriate in light of not only their achievements compared to the pre-established goals and objectives but also the progress the company made with respect to the LibiGel® clinical development program during 2010.

The bonus payout to Dr. Snabes was neither formulaic nor based on pre-established goals and objectives. It was determined by the Compensation Committee on a purely discretionary, post ad hoc basis based on an objective analysis of his 2010 performance and results. The bonus payout to Dr. Snabes was based, in large part, on his strategic role in connection with the LibiGel® clinical development program and the progress of that program during 2010.

The Board of Directors, upon recommendation of the Compensation Committee, intends to adopt a more formal annual bonus plan for 2011. It is anticipated that the incentive target under the plan for 2011 for each named executive officer will be as set forth in the table below, as well as the threshold, target and maximum annual bonus opportunity.

Named Executive Officer	Incentive Target (Percent of Base Salary)	Annual Bonus Opportunity for Each Executive		
		Threshold (50% of Target)	Target (100% of Target)	Maximum (150% of Target)
Stephen M. Simes	60%	\$ 149,010	\$ 298,020	\$ 447,030
Phillip B. Donenberg	40%	61,600	123,200	184,800
Michael C. Snabes, M.D., Ph.D.	40%	75,200	150,400	225,600

Consistent with our philosophy that executives with greater roles and responsibilities associated with achieving our company's performance objectives should bear a greater proportion of the risk that those objectives are not achieved and should receive a greater proportion of the reward if the objectives are met or surpassed, our President and Chief Executive Officer has the highest incentive target and our two Senior Vice Presidents have the next highest incentive target. The incentive targets of all of our executive officers are at the 50th percentile of comparable positions of companies in our peer group, which is consistent with our philosophy that we target base compensation and total compensation at the 50th percentile of companies in our peer group, except in the case of Dr. Snabes, whose incentive target is at the 75th percentile compared to the incentive targets of executives with comparable positions at companies in our peer group.

Each executive's bonus payment under the 2011 plan will be determined by multiplying the executive's target bonus amount for the year (the executive's incentive target times his base salary) by a payout percentage determined based primarily on the achievement of corporate and, to a lesser extent, individual performance objectives. The maximum payout percentage is 150 percent of target and the minimum threshold payout percentage is 50 percent of target, with no payout for performance below the minimum threshold payout percentage of 50 percent of target.

401(k) Savings Plan. We maintain a 401(k) Savings Plan under which all participant employees, including executive officers, may voluntarily contribute up to 100% of their plan compensation (subject to certain IRS limits) as pre-tax 401(k) deferrals. We may make discretionary matching contributions to this plan and in 2010 we made matching contributions equal to 50% of each participants 401(k) deferrals.

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Perquisites and Personal Benefits. It is generally our policy not to extend perquisites and other benefits to our executive officers that generally are not available to our employees. The only perquisites that we provide to our executives are those that are required under the terms of their employment letter and offer letter agreements. Each of our executives receives a monthly auto allowance. In addition, Mr. Simes and Mr. Donenberg receive reimbursement for supplemental life insurance and excess long-term disability insurance premiums and taxes associated with the premiums. We are required to provide these benefits to our executives under their employment letter and offer letter agreements. We believe the cost of providing such benefits is not material. Our executives also receive benefits, which are received by our other employees, including 401(k) matching contributions, health, dental and life insurance benefits, and reimbursement for certain minimal health club costs (\$50/month) to encourage physical activity and good health. We do not provide supplemental retirement benefits, pension arrangements or post-retirement health coverage for our employees, including our executives. We also do not provide any nonqualified defined contribution or other deferred compensation plans.

Indemnification Agreements. We have entered into agreements with all of our named executive officers under which we are required to indemnify them against expenses, judgments, penalties, fines, settlements and other amounts actually and reasonably incurred, including expenses of a derivative action, in connection with an actual or threatened proceeding if any of them may be made a party because he or she is or was one of our executive officers. We will be obligated to pay these amounts only if the executive officer acted in good faith and in a manner that he or she reasonably believed to be in or not opposed to our best interests. With respect to any criminal proceeding, we will be obligated to pay these amounts only if the executive officer had no reasonable cause to believe his or her conduct was unlawful. The indemnification agreements also set forth procedures that will apply in the event of a claim for indemnification.

Grants of Plan-Based Awards

The table below provides information concerning grants of plan-based awards to each of our named executive officers during the year ended December 31, 2010. Such plan-based awards were granted to our named executive officers under the BioSante Pharmaceuticals, Inc. Amended and Restated 2008 Stock Incentive Plan. The material terms of these awards and the material plan provisions relevant to these awards are described in the notes to the table below or in the narrative following the table below. Options also were granted to our named executive officers subsequent to December 31, 2010 in January 2011. The material terms of these awards are described in the narrative following the table below. During the year ended December 31, 2010, we did not grant any non-equity incentive plan awards, equity incentive plan awards or stock awards, in each case, within the meaning of the SEC rules.

GRANTS OF PLAN-BASED AWARDS - 2010

Name	Grant Date(1)	All Other Option Awards: Number of Securities Underlying Options(2)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date
				Fair Value Stock and Option Awards (3)
Stephen M. Simes	02/02/10	150,000	\$ 1.54	\$ 156,000
Phillip B. Donenberg	02/02/10	100,000	1.54	104,000
Michael C. Snabes, M.D., Ph.D.	02/02/10	25,000	1.54	26,000

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(1) The grant date is the date on which the Board of Directors met to approve the option grant.

(2) Represents an option granted under the BioSante Pharmaceuticals, Inc. Amended and Restated 2008 Stock Incentive Plan, the material terms of which are described in more detail below under the heading BioSante Pharmaceuticals, Inc. Amended and Restated 2008 Stock Incentive Plan. The option has a ten-year term and vests over a three-year period, with one-third of the underlying shares vesting on each of February 2, 2011, February 2, 2012 and February 2, 2013, so long as the individual remains an employee of our company as of such date.

(3) We refer you to note (3) to the Summary Compensation Table for a discussion of the assumptions made in calculating the grant date fair value of the option awards.

BioSante Pharmaceuticals, Inc. Amended and Restated 2008 Stock Incentive Plan. Under the terms of the BioSante Pharmaceuticals, Inc. Amended and Restated 2008 Stock Incentive Plan, our named executive officers, in addition to other employees and individuals, are eligible to receive equity-based incentive awards, such as stock options. Although the 2008 plan is an omnibus plan that permits the grant of equity-based incentive awards besides stock options, such as restricted stock, restricted stock units, stock appreciation rights, performance units and stock bonuses, to date, only incentive and non-statutory stock options have been granted.

The 2008 plan contains both an overall limit on the number of shares of our common stock that may be issued, as well as individual and other grant limits. Under the terms of the 2008 plan, no more than 4,000,000 shares of our common stock may be issued pursuant to the plan or the exercise of incentive options and no more than 1,500,000 shares of our common stock may be issued or issuable in connection with restricted stock grants, stock unit awards, performance awards and stock bonuses, in each case subject to adjustment and certain exceptions. In addition, shares subject to outstanding awards granted under our 1998 plan also become available under the 2008 plan, but only to the extent that such outstanding awards are forfeited, expire or otherwise terminate without the issuance of such shares. In February 2011, the Board of Directors, upon recommendation of the Compensation Committee, approved a new amended and restated 2008 plan that, among other things, increases the number of shares of our common stock available for issuance under the plan to 6,000,000, subject to approval by our stockholders at the Annual Meeting. See Proposal No. 2 Approval of BioSante Pharmaceuticals, Inc. Second Amended and Restated 2008 Stock Incentive Plan.

Incentive stock options must be granted with a per share exercise price equal to at least the fair market value of a share of our common stock on the date of grant. For purposes of the 2008 plan, the fair market value of our common stock is the closing sale price of our common stock, as reported by the NASDAQ Stock Market. We set the per share exercise price of all stock options granted under the plan at an amount equal to the closing sale price of our common stock on the date of grant.

Except in connection with certain specified changes in our corporate structure or shares, the Compensation Committee and the Board of Directors may not, without prior approval of our stockholders, seek to effect any re-pricing of any previously granted, underwater option by amending or modifying the terms of the option to lower the exercise price, canceling the underwater option in exchange for (1) cash; (2) a replacement option having a lower exercise price; or (3) other incentive award, or repurchasing the underwater options and granting new incentive awards under the 2008 plan. For purposes of the 2008 plan, an option is deemed to be underwater at any time when the fair market value of our common stock is less than the exercise price.

Options will become exercisable at such times and in such installments as may be determined by the Compensation Committee or the Board of Directors, as the case may be, provided that options may not be exercisable after 10 years from their date of grant. Historically, we generally provided for the

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vesting of stock options granted to executives in equal annual installments over a three-year period commencing on the one-year anniversary of the date of grant. However, options granted to our executives in January 2011 and options granted to our new employees thereafter will vest in equal annual installments over a four-year period.

Optionees may pay the exercise price of stock options (1) in cash; (2) by using a broker-assisted cashless exercise procedure pursuant to which the optionee, upon exercise of an option, irrevocably instructs a broker or dealer to sell a sufficient number of shares of our common stock or loan a sufficient amount of money to pay all or a portion of the exercise price of the option and/or any related withholding tax obligations and remit such sums to us and directs us to deliver stock certificates to be issued upon such exercise directly to such broker or dealer; or (3) by using a cashless exercise procedure pursuant to which the optionee surrenders to us shares of our common stock either underlying the option or that are otherwise held by the optionee.

Under the terms of the 2008 plan, unless otherwise provided in a separate agreement, if an executive's employment or service with our company terminates for any reason, the unvested portion of the option will immediately terminate and the executive's right to exercise the then vested portion of the option will:

- immediately terminate if the executive's employment or service relationship with our company terminated for cause;
- continue for a period of one year if the executive's employment or service relationship with our company terminated as a result of the executive's death or disability; or
- continue for a period of 90 days if the executive's employment or service relationship with our company terminated for any reason, other than for cause or upon death or disability.

As set forth in the 2008 plan, the term "cause" will be as defined in any employment or other agreement or policy applicable to the executive or, if no such agreement or policy exists, will mean (1) dishonesty, fraud, misrepresentation, embezzlement or deliberate injury or attempted injury, in each case related to us or any subsidiary; (2) any unlawful or criminal activity of a serious nature; (3) any intentional and deliberate breach of a duty or duties that, individually or in the aggregate, are material in relation to the overall duties; or (4) any material breach of any employment, consulting, confidentiality or non-compete agreement entered into with us or any subsidiary.

As described in more detail under the heading "Potential Payments Upon Termination or Change in Control," if there is a change in control of our company, then, under the terms of the 2008 plan, unless otherwise provided by the Compensation Committee or the Board of Directors in its sole discretion either in the agreement evidencing an incentive award at the time of grant or at any time after the grant of an incentive award, all options and stock appreciation rights will become immediately exercisable in full and will remain exercisable for the remainder of their terms, regardless of whether the holder to whom such option and stock appreciation rights have been granted remains in the employ or service of BioSante or any subsidiary, all outstanding restricted stock awards will become immediately fully vested and non-forfeitable; and any conditions to the payment of stock unit awards or restricted stock units, performance awards or units and stock bonuses will lapse.

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As described in more detail under the heading *Proposal No. 2 Approval of the BioSante Pharmaceuticals, Inc. Second Amended and Restated 2008 Stock Incentive Plan*, the Board of Directors has amended the 2008 plan, subject to stockholder approval.

BioSante Pharmaceuticals, Inc. Amended and Restated 1998 Stock Plan. The terms of the BioSante Pharmaceuticals, Inc. Amended and Restated 1998 Stock Plan are substantially similar to the terms of our 2008 plan, except that under the 1998 plan, only stock options, stock awards and stock units could be granted. No future awards may be granted under the 1998 plan.

2010 Plan-Based Awards. In February 2010, the Board of Directors, upon recommendation of the Compensation Committee, granted Mr. Simes, Mr. Donenberg and Dr. Snabes an option to purchase 150,000, 100,000 and 25,000, respectively, shares of our common stock at an exercise price of \$1.54 per share, which represented the fair market value of our common stock, as determined under the 2008 plan, on the date of grant. In determining the number of stock options to grant each of the executives, the Board of Directors took into consideration several factors, including in particular:

- each executive's position within the company and level of responsibility;
- the executive's individual experience and qualifications;
- the executive's tenure with the company;
- the peer group data gathered by BDO Seidman, the Compensation Committee's compensation consultant at the time;
- an assessment of the risk that the executive would leave our company and the harm to our company's business initiatives if the executive left;
- the fact that most of the executives' then currently outstanding options to purchase shares of our common stock were out-of-the-money; and
- the recommendation of BDO Seidman and Mr. Simes.

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2011 Plan-Based Awards. In December 2010 but effective as of the first business day in 2011, the Compensation Committee granted Mr. Simes, Mr. Donenberg and Dr. Snabes an option to purchase 650,000, 270,000 and 120,000, respectively, shares of our common stock at an exercise price of \$1.66 per share, which represented the fair market value of our common stock, as determined under the 2008 plan, on the date of grant (January 3, 2011). In determining the number of stock options to grant each of the executives, the Compensation Committee took into consideration several factors, including in particular:

- each executive's position within the company and the level of responsibility;
- the executive's individual experience and qualifications;
- the executive's tenure with the company;
- the potential retention value and motivational impact that a significant equity grant would have on BioSante's officers at that time;

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- the peer group data gathered by Radford, the Compensation Committee's compensation consultant, which data indicated that the option grants as measured by their long-term incentive value were at the peer 50th percentile for Mr. Simes, the 75th percentile for Mr. Donenberg and between the peer 25th and 50th percentile for Dr. Snabes, and that the option grants as a percent of company were above the peer 75th percentile for each of Messrs. Simes and Donenberg and between the 50th and 75th percentile for Dr. Snabes;
- an assessment of the risk that the executive would leave our company and the harm to our company's business initiatives if the executive left;
- the fact that most of the executives' then currently outstanding options to purchase shares of our common stock were out-of-the-money; and
- the recommendations of Mr. Simes with respect to all executives other than himself and the recommendations of Radford, the Compensation Committee's compensation consultant, with respect to all executives.

With respect to the vesting of the stock options, the Compensation Committee decided to extend the vesting of the annual stock options from over a three-year period to over a four-year period to increase the retention value of the options and to acknowledge the often lengthy clinical development and regulatory approval processes involved in pharmaceutical product development.

Other Information Regarding Plan-Based Awards. Under a provision contained in Mr. Simes's and Mr. Donenberg's employment letter agreements, upon the termination of their employment by us without cause, all stock options then held by them would be accelerated and all such options would become fully vested and immediately exercisable for a period of one year after the termination date, as described in more detail under the heading "Potential Payments Upon Termination or Change in Control." Dr. Snabes does not have a similar provision in his offer letter agreement or change in control and severance agreement.

Outstanding Equity Awards at Fiscal Year End

The table below provides information regarding unexercised stock option awards for each of our named executive officers that remained outstanding at December 31, 2010. We did not have any equity incentive plan awards or stock awards, each within the meaning of the SEC rules, outstanding at December 31, 2010. As mentioned earlier, additional options were granted to our named executive officers in January 2011 which are not reflected in the table.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END - 2010

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Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Option Awards		Option Exercise Price (\$)	Option Expiration Date
		Number of Securities Underlying Unexercised Options (#) Unexercisable(1)			
Stephen M. Simes	71,407			\$ 4.00	04/06/2011
	108,507			3.40	09/26/2012
	126,667			2.10	05/29/2013
	250,000			2.775	01/11/2017
	66,666	33,334(2)		3.995	01/14/2018
	100,000	200,000(3)		1.51	02/01/2019

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Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Option Awards		Option Exercise Price (\$)	Option Expiration Date
		Number of Securities Underlying Options (#)	Number of Securities Underlying Unexercised Options (#) Unexercisable(1)		
			150,000(4)	1.54	02/01/2020
Phillip B. Donenberg	21,547			4.00	04/06/2011
	37,564			3.40	09/26/2012
	79,166			2.10	05/29/2013
	25,000			3.715	07/18/2015
	25,000			3.715	07/18/2015
	62,500			3.87	03/15/2016
	50,000			2.775	01/11/2017
	40,000		20,000(2)	3.995	01/14/2018
	41,666		83,334(3)	1.51	02/01/2019
			100,000(4)	1.54	02/01/2020
Michael C. Snabes, M.D., Ph.D.	50,000			4.43	03/19/2017
	66,666		33,334(5)	4.09	04/13/2018
	16,666		33,334(3)	1.51	02/01/2019
			25,000(4)	1.54	02/01/2020

(1) Upon the occurrence of a change in control, the unvested and unexercisable options described in this table will be accelerated and become fully vested and immediately exercisable as of the date of the change in control. For more information, we refer you to the discussion under the heading Potential Payments Upon Termination or Change in Control. Under a provision contained in Mr. Simes's and Mr. Donenberg's employment letter agreements, upon the termination of their employment by us without cause, all stock options then held by them would be accelerated and all such options would become fully vested and immediately exercisable for a period of one year after the termination date, as described in more detail under the heading Potential Payments Upon Termination or Change in Control.

(2) This option vests over a three-year period, one-third of the underlying shares vesting on each of January 15, 2009, January 15, 2010 and January 15, 2011, so long as the executive remains an employee or consultant of our company as of such date.

(3) This option vests over a three-year period, one-third of the underlying shares vesting on each of February 2, 2010, February 2, 2011 and February 2, 2012, so long as the executive remains an employee or consultant of our company as of such date.

(4) This option vests over a three-year period, one-third of the underlying shares vesting on each of February 2, 2011, February 2, 2012 and February 2, 2013, so long as the executive remains an employee or consultant of our company as of such date.

(5) This option vests over a three-year period, one-third of the underlying shares vesting on each of March 14, 2009, March 14, 2010 and March 14, 2011, so long as the executive remains an employee or consultant of our company as of such date.

Options Exercised and Stock Vested During Fiscal Year

None of our named executive officers exercised stock options during the year ended December 31, 2010. We do not have any outstanding stock awards and thus did not have any stock awards vest during the year ended December 31, 2010.

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Potential Payments Upon Termination or Change in Control

General. We have entered into agreements with each of Mr. Simes, Mr. Donenberg and Dr. Snabes, which may require us to provide certain payments to the executive upon a termination of his employment or change in control of our company. Whether an executive receives a payment and the amount of such payment, if applicable, depends upon the triggering event. For more information regarding these agreements, we refer you the discussion under the headings Summary of Cash and Other Compensation Simes Employment Letter Agreement, Summary of Cash and Other Compensation Donenberg Employment Letter Agreement and Summary of Cash and Other Compensation Snabes Offer Letter and Change of Control and Severance Agreement. In addition, our equity-based compensation plans also provide benefits as a result of a change in control of our company.

Termination by BioSante for Cause. If the employment of any of our executives is terminated by us for cause, the executive would be entitled to be paid his annual base salary, car allowance and any out-of-pocket expenses incurred through the date of his termination and any amounts the executive would be entitled to under any company benefit plan. For purposes of Mr. Simes' s and Mr. Donenberg' s agreements, cause means any of the following: (1) dishonesty or fraud; (2) theft or embezzlement of our assets; (3) a violation of law involving moral turpitude; (4) repeated and willful failure to follow instructions of the Board of Directors provided that the conduct has not ceased or the offense cured within 30 days following written warning from us; and (5) conviction of willfully engaging in illegal conduct constituting a felony or gross misdemeanor under federal or state law which is materially and demonstrably injurious to the company or which impairs the executive' s ability to substantially perform his duties for the company. For purposes of Dr. Snabes' s agreement, cause means any of the following: (1) dishonesty or fraud; (2) theft or embezzlement of our assets; (3) any unlawful or criminal activity of a serious nature; (4) breach of any terms of his employee confidentiality and assignment of inventions agreement; (5) failure to carry out the duties of his position in a competent manner; and (6) failure to comply with our policies and procedures. The agreements also provide that the executive must abide by certain non-competition provisions for one year after termination for cause. Under the terms of our equity-based compensation plans, if an executive' s employment is terminated by us for cause, the executive' s outstanding stock options will immediately terminate and may not then be exercisable.

Termination by BioSante Without Cause. Under the terms of each of Mr. Simes' s and Mr. Donenberg' s employment letter agreements, if Mr. Simes' s or Mr. Donenberg' s employment is terminated by us without cause or if in the case of Mr. Simes, we give notice of our intent not to renew his employment agreement, the executive would be entitled to be paid his annual base salary, car allowance and any out-of-pocket expenses incurred through the date of termination. Additionally, the executives would be entitled to receive:

- a severance payment, which would be paid in one lump sum in the case of Mr. Simes, and in 12 equal monthly installments in the case of Mr. Donenberg, equal to, in the case of Mr. Simes, the sum of his annual base salary, most recent annual bonus and annual car allowance, and in the case of Mr. Donenberg, his annual base salary at the time of termination;
- continued term life and disability insurance at our expense, which, in the case of Mr. Simes, would be for a period of one year from the date of his termination or the remaining term of his agreement, whichever is longer, and in the case of Mr. Donenberg,

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would be for a period of one year from the date of his termination, unless in either case the executive obtains full-time employment;

- continued participation by the executive and his family at our expense in our group health and dental insurance programs, which in the case of Mr. Simes, would be for a period of one year from the date of his termination or the remaining term of his agreement, whichever is longer, and in the case of Mr. Donenberg, would be for a period of one year from the date of his termination, unless in either case the executive becomes eligible to participate in another employer's corresponding group insurance plans;
- in the case of Mr. Simes, provision of outplacement services up to a maximum amount of \$30,000 and use of an office and reasonable secretarial support for one year, unless Mr. Simes becomes otherwise employed within such period; and
- payment for all unused vacation days accrued to the date of termination.

In addition, in the event we terminate Mr. Simes's or Mr. Donenberg's employment without cause, all outstanding stock options then held by the executive at such time will become immediately exercisable and the executive will have one year from the date following his termination of employment to exercise such options.

If Dr. Snabes's employment is terminated by us without cause, Dr. Snabes would be entitled to be paid his annual base salary, car allowance, any out-of-pocket expenses incurred through the date of termination and payment for all unused vacation days accrued to the date of termination. In addition, Dr. Snabes would receive six months of his annual base salary at the time of termination paid in accordance with our normal payroll practices. Under the terms of our equity-based compensation plans, Dr. Snabes would have three months to exercise any options outstanding and vested at the time of termination.

Termination by Executive for Good Reason. Under the terms of each of Mr. Simes's and Mr. Donenberg's employment letter agreements, Mr. Simes or Mr. Donenberg may terminate his agreement upon 30 days written notice to us for good reason. For purposes of the agreements, good reason means (1) assignment of duties inconsistent with his position or a change in responsibilities, title or office; (2) the failure of us to continue, or the taking of action by us that could adversely affect, benefits plans in which the executive is participating (with some exceptions); (3) reduction of salary or car allowance or failure to increase salary as provided in the agreement; and (4) any other breach by us of the agreement. If Mr. Simes or Mr. Donenberg terminates his agreement for good reason, then we must provide him the payments and benefits described above under Termination by BioSante Without Cause. Under the terms of our equity-based compensation plans, all outstanding stock options then held by the executive at such time will remain exercisable to the extent then exercisable for a period of three months. Mr. Snabes does not have the ability under his agreement to terminate his employment for good reason and receive severance benefits.

Termination in the Event of Death or Permanent Disability. Each of Mr. Simes's and Mr. Donenberg's employment letter agreements terminate in the event of the executive's death or permanent disability. In the event of death, the executive's base salary and car allowance will be terminated as of the end of the month in which the executive's death occurs. Upon an executive's disability, we can terminate the executive's employment upon 30 days written notice. For purposes of the agreements, disability means an inability, due to illness, accident or any other physical or mental incapacity, to substantially perform the executive's duties for a period of four consecutive

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months or for a total of six months in any 12 month period. Upon termination of an executive's employment due to disability, the executive will be entitled to receive compensation until the later of (1) the date of termination of employment for disability or (2) the date upon which the executive begins to receive long-term disability insurance benefits. In addition, in the event the executive's employment is terminated as a result of the executive's death or permanent disability, all outstanding stock options then held by the executive at such time will become immediately exercisable and the executive or his estate will have one year from the date of termination of employment to exercise such options.

In the event of the termination of Dr. Snabes's employment as a result of his death or disability, Dr. Snabes (or his estate or heirs) would be entitled to be paid his annual base salary, car allowance, any out-of-pocket expenses incurred through the date of termination and payment for all unused vacation days accrued to the date of termination. Under the terms of our equity-based compensation plans, Dr. Snabes (or his estate or heirs) would have one year to exercise any options outstanding and vested at the time of termination.

Change in Control. Each of Mr. Simes, Mr. Donenberg and Dr. Snabes has received stock options under the BioSante Pharmaceuticals, Inc. Amended and Restated 1998 Stock Plan and the BioSante Pharmaceuticals, Inc. Amended and Restated 2008 Stock Incentive Plan. Under the terms of such plans, such stock options become fully exercisable following a change in control of our company, which is defined under the plans as:

- the sale, lease, exchange or other transfer of all or substantially all of the assets of our company to a corporation that is not controlled by us;
- the approval by our stockholders of any plan or proposal for the liquidation or dissolution of our company;
- certain merger or business combination transactions;
- more than 50 percent of our outstanding voting shares are acquired by any person or group of persons who did not own any shares of common stock on the effective date of the plan; or
- certain changes in the composition of the Board of Directors.

In order for our executives to receive any other payments or benefits as a result of a change in control of our company, there must be a termination event, such as a termination by us for any reason other than for cause or, in the case of Mr. Simes or Mr. Donenberg, a termination by the executive for good reason. Such termination event must occur either within the period beginning on the date of the change in control and ending on the last day of the first full calendar month following the second year anniversary date of the change in control or prior to the change in control if the termination of employment was either a condition of the change in control or was at the request or insistence of a person related to the change in control. For purposes of the change in control provisions, the definition of "good reason" is broader than outside the context of change in control and includes: (1) our failure to obtain from any successor the assent to assume the employment letter agreements; (2) any purported termination by us of the executive's employment that is not properly effected; (3) a requirement that the executive be based at any

office or location that is more than 30 miles further from the office or location thereof immediately preceding the change in control; and (4) any

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termination by the executive of his employment for any reason during the 13th month after the completion of the change in control.

If such a termination event occurs, the executive would be entitled to be paid his annual base salary, car allowance and any out-of-pocket expenses incurred through the date of termination. Additionally, the executive would be entitled to receive:

- a severance payment, which would be paid in one lump sum equal to, in the case of Mr. Simes, the sum of: (1) two times his annual base salary, plus (2) his most recent annual bonus, plus (3) his maximum annual bonus (100 percent of base salary) for the year in which the change in control occurs, in the case of Mr. Donenberg, the sum of: (1) 1½ times his annual base salary, plus (2) his maximum annual bonus (100 percent of base salary) for the year in which the change in control occurs, and in the case of Dr. Snabes, the sum of: (1) ½ of his annual base salary, plus (2) his target annual bonus (30 percent of base salary) for the year in which the change in control occurs.
- in the case of Mr. Simes and Mr. Donenberg, substantially the same health, dental, life and disability insurance benefits the executive received prior to his termination for a period of up to 24 months for Mr. Simes and 18 months in the case of Mr. Donenberg;
- provision of outplacement services up to a maximum amount of \$30,000 in the case of Mr. Simes and Mr. Donenberg and \$15,000 in the case of Dr. Snabes;
- reimbursement for out-of-pocket expenses incurred by the executive on behalf of our company; and
- payment for all unused vacation days accrued to the date of termination.

If any payments to an executive under the agreements or otherwise are considered contingent upon a change in control for purposes of Section 280G of the Internal Revenue Code of 1986, and therefore would constitute a parachute payment under the Internal Revenue Code, then such payments either would be reduced to the largest amount as will result in no portion of such payments being subject to the tax imposed by Section 4999 of the Internal Revenue Code or would require the executive to pay any additional 20 percent excise tax on the amount of any parachute payment received, whichever is more beneficial to the executive.

Potential Payments to Named Executive Officers. The table below describes the potential payments to each of our executives in the event of a termination of his employment on December 31, 2010 or a change in control of our company on December 31, 2010. The table below does not include any accrued and unpaid base salary to which the executives also would be entitled.

Name	Executive Benefits and Payments	Termination For Cause	Termination Upon Death or	Termination Without Cause or for	Change in Control - No	Change in Control - With
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			Disability		Good Reason		Termination Event		Termination Event		
Stephen M. Simes	Severance Payment	\$	0	\$	0	\$	734,400	\$	0	\$	1,444,800
	Unvested and Accelerated Stock Options(1)(2)		0		0	0			41,000		41,000
	Term Life and Disability Insurance(3)		0		0	13,248			0		26,496
	Group Health and Dental Plan		0		0	25,488			0		50,976

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Name	Executive Benefits and Payments	Termination For Cause	Termination Upon Death or Disability	Termination Without Cause or for Good Reason	Change in Control - No Termination Event	Change in Control - With Termination Event
	Benefits(4)					
	Accrued but Unpaid Vacation	135,450	135,450	135,450	0	135,450
	Outplacement Services	0	0	30,000	0	30,000
	Office Space and Administrative Services(5)	0	0	36,000	0	0
	Total:	\$ 135,450	\$ 135,450	\$ 974,586	\$ 41,000	\$ 1,728,722
Phillip B. Donenberg	Severance Payment	\$ 0	\$ 0	\$ 280,000	\$ 0	\$ 700,000
	Unvested and Accelerated Stock Options(1)(2)	0	0	0	20,835	20,835
	Term Life and Disability Insurance(3)	0	0	10,463	0	15,695
	Group Health and Dental Plan Benefits(4)	0	0	25,488	0	38,232
	Accrued but Unpaid Vacation	14,625	14,625	14,625	0	14,625
	Outplacement Services	0	0	0	0	30,000
	Total:	\$ 14,625	\$ 14,625	\$ 330,576	\$ 20,835	\$ 819,387
Michael C. Snabes, M.D., Ph.D.	Severance Payment	\$ 0	\$ 0	\$ 182,500	\$ 0	\$ 292,000
	Unvested and Accelerated Stock Options(1)(2)	0	0	0	6,833	6,833
	Accrued but Unpaid Vacation	0	0	0	0	15,000
	Outplacement Services	0	0	0	0	15,000
	Total:	\$ 0	\$ 0	\$ 182,500	\$ 6,833	\$ 313,833

(1) The value of the automatic acceleration of the vesting of unvested stock options held by an executive is based on the difference between: (a) the market price of the shares of our common stock underlying the unvested stock options held by such officer as of December 31, 2010, which is based on the closing sale price of our common stock on December 31, 2010 (\$1.64), and (b) the exercise price of the options, which range from \$1.51 to \$4.43 per share.

(2) In January 2011, we granted options to purchase 650,000, 270,000 and 120,000 shares of our common stock to Mr. Simes, Mr. Donenberg and Dr. Snabes, respectively, at an exercise price of \$1.66 per share, which options vest in four equal annual installments on the first, second, third and fourth year anniversary of the date of grant. The value of the automatic acceleration of the vesting of these stock options is not included in the above table.

(3) The value of the term life and disability insurance is based on our current group plans and any applicable supplemental insurance provided to such executives at the 2010 rates actually paid.

(4) The value of the group health plan benefits is based on premium rates in effect in December 2010.

(5) The value of office space and administration services is based on current market information for the Chicago, Illinois area received from a third party.

Required Resignations and Releases; Confidentiality and Other Provisions. Mr. Simes and Mr. Donenberg have agreed upon any termination of their employment to resign from any and all director, officer, trustee, agent and any other positions with our company or our affiliates, such as our employee benefit plans. Dr. Snabes must sign a release prior to receiving any change in control or severance benefits. In addition, certain terms of their agreements will survive any termination of their employment, including the assignment of inventions and confidentiality provisions and in the event of certain terminations, portions of the non-competition provisions. Finally, any payments made to Mr. Simes and Mr. Donenberg as a result of a separation of service under the non-qualified deferred

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compensation rules of Section 409A under the Internal Revenue Code will be suspended for six months, if necessary.

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RELATED PERSON RELATIONSHIPS AND TRANSACTIONS

Director and Executive Officer Compensation

Please see [Director Compensation](#) and [Executive Compensation](#) for information regarding the compensation of our directors and executive officers and for information regarding employment, indemnification and other agreements we have entered into with our current and former directors and executive officers.

Policies and Procedures Regarding Related Party Transactions

The Board of Directors has delegated to the Audit and Finance Committee, pursuant to the terms of a written policy, the authority to review, approve and ratify related party transactions. If it is not feasible for the Audit and Finance Committee to take an action with respect to a proposed related party transaction, the Board of Directors or another committee of the Board of Directors, may approve or ratify it. No member of the Board of Directors or any committee may participate in any review, consideration or approval of any related party transaction with respect to which such member or any of his or her immediate family members is the related party.

Our policy defines a related party transaction as a transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) in which we (including any of our subsidiaries) were, are or will be a participant and in which any related party had, has or will have a direct or indirect interest.

Prior to entering into or amending any related party transaction, the party involved must provide notice to our finance department of the facts and circumstances of the proposed transaction, including:

- the related party's relationship to us and his or her interest in the transaction;

- the material facts of the proposed related party transaction, including the proposed aggregate value of such transaction or, in the case of indebtedness, the amount of principal that would be involved;

- the purpose and benefits of the proposed related party transaction with respect to us;

- if applicable, the availability of other sources of comparable products or services; and
- an assessment of whether the proposed related party transaction is on terms that are comparable to the terms available to an unrelated third party or to employees generally.

If our finance department determines the proposed transaction is a related party transaction and the amount involved will or may be expected to exceed \$10,000 in any calendar year, the proposed transaction will be submitted to the Audit and Finance Committee for its prior review and approval or ratification. In determining whether to approve or ratify a proposed related party transaction, the Audit and Finance Committee will consider, among other things, the following:

- the purpose of the transaction;

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- the benefits of the transaction to us;
- the impact on a director's independence in the event the related party is a non-employee director, an immediate family member of a non-employee director or an entity in which a non-employee director is a partner, shareholder or executive officer;
- the availability of other sources for comparable products or services;
- the terms of the transaction; and
- the terms available to unrelated third parties or to employees generally.

Related party transactions that involve \$10,000 or less must be disclosed to the Audit and Finance Committee but are not required to be approved or ratified by the Audit and Finance Committee.

We also produce quarterly reports to the Audit and Finance Committee of any amounts paid or payable to, or received or receivable from, any related party. These reports allow us to identify any related party transactions that were not previously approved or ratified. In that event, the transaction will be promptly submitted to the Audit and Finance Committee for consideration of all the relevant facts and circumstances, including those considered when a transaction is submitted for pre-approval. Under our policy, certain related party transactions as defined under our policy, such as certain transactions not requiring disclosure under the rules of the SEC, will be deemed to be pre-approved by the Audit and Finance Committee and will not be subject to these procedures.

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AUDIT-RELATED MATTERS

Audit and Finance Committee Report

This report is furnished by the Audit and Finance Committee of the Board of Directors with respect to our financial statements for the year ended December 31, 2010.

One of the purposes of the Audit and Finance Committee is to oversee our accounting and financial reporting processes and the audit of our annual financial statements. Our management is responsible for the preparation and presentation of complete and accurate financial statements. Our independent registered public accounting firm, Deloitte & Touche LLP, is responsible for performing an independent audit of our financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and for issuing a report on their audit.

In performing its oversight role, the Audit and Finance Committee has reviewed and discussed our audited financial statements for the year ended December 31, 2010 with our management. Management represented to the Audit and Finance Committee that our financial statements were prepared in accordance with generally accepted accounting principles. The Audit and Finance Committee has discussed with Deloitte & Touche LLP, our independent registered public accounting firm, the matters required to be discussed by Statement on Auditing Standards No. 114, *The Auditor's Communication With Those Charged With Governance* as in effect during the year ended December 31, 2010. The Audit and Finance Committee has received the written disclosures and the letter from Deloitte & Touche LLP required by the Public Company Accounting Oversight Board independence and ethics rule, Rule 3526 (*Communication with Audit Committees Concerning Independence*), as in effect for our year ended December 31, 2010. The Audit and Finance Committee has discussed with Deloitte & Touche LLP its independence and concluded that the independent registered public accounting firm is independent from our company and our management.

Based on the review and discussions of the Audit and Finance Committee described above, in reliance on the unqualified opinion of Deloitte & Touche LLP regarding our audited financial statements, and subject to the limitations on the role and responsibilities of the Audit and Finance Committee described above and in the Audit and Finance Committee's charter, the Audit and Finance Committee recommended to the Board of Directors that our audited financial statements for the year ended December 31, 2010 be included in our annual report on Form 10-K for the year ended December 31, 2010 for filing with the Securities and Exchange Commission.

This report is dated as of March 11, 2011.

Audit and Finance Committee

Fred Holubow, Chair

Ross Mangano

Louis W. Sullivan, M.D.

Table of Contents**Audit, Audit-Related, Tax and Other Fees**

The table below presents fees billed to us for professional services rendered by Deloitte for the years ended December 31, 2010 and December 31, 2009.

		Aggregate Amount Billed by Deloitte		
		2010		2009
Audit Fees(1)	\$	212,000	\$	355,250
Audit-Related Fees(2)		0		83,700
Tax Fees(3)		84,265		31,516
All Other Fees		0		0

(1) These fees consisted of the audit of our annual financial statements, including the audit of internal control over financial reporting, reviews of financial statements included in our quarterly reports on Form 10-Q and services provided in connection with our statutory and regulatory filings. Audit fees also included the review of registration statements and the issuance of consents and in 2009 also included fees in connection with the review of our Form S-4 registration statement in connection with our merger with Cell Genesys, Inc.

(2) For 2009, these fees consisted of assurance and related services including due diligence related to our merger with Cell Genesys, Inc. and other attest services not required by statute or regulation.

(3) These fees consisted of services related to the preparation of Cell Genesys's final tax returns, and for 2010, included tax advisory services regarding the Therapeutic Project Discovery Credit under the Internal Revenue Code Section 48D. The Audit and Finance Committee has considered whether the provision of these services is compatible with maintaining Deloitte's independence and has determined that it is.

Pre-Approval Policies and Procedures

The Audit and Finance Committee has adopted procedures pursuant to which all audit, audit-related and tax services, and all permissible non-audit services provided by Deloitte & Touche LLP to our company, are pre-approved by the Audit and Finance Committee. All services rendered by Deloitte & Touche LLP to our company during 2010 were permissible under applicable laws and regulations, and all such services provided by Deloitte & Touche LLP to our company, other than de minimis non-audit services allowed under applicable law, were approved in advance by the Audit and Finance Committee in accordance with the rules adopted by the Securities and Exchange Commission in order to implement requirements of the Sarbanes-Oxley Act of 2002.

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**PROPOSAL NO. 2 APPROVAL OF BIOSANTE PHARMACEUTICALS, INC.
SECOND AMENDED AND RESTATED 2008 STOCK INCENTIVE PLAN**

Introduction

On February 23, 2011, the Board of Directors, upon recommendation of the Compensation Committee, approved the BioSante Pharmaceuticals, Inc. Second Amended and Restated 2008 Stock Incentive Plan (referred to in this section as the Second Amended and Restated 2008 Plan or the plan), subject to approval by our stockholders at the Annual Meeting.

The Second Amended and Restated 2008 Plan includes the following changes from our currently existing BioSante Pharmaceuticals, Inc. Amended and Restated 2008 Stock Incentive Plan, which are described in more detail under the heading Comparison of Second Amended and Restated 2008 Plan to Current 2008 Plan below, including:

- an increase in the number of shares of common stock available for issuance under the plan from 4,000,000 to 6,000,000 shares plus the number of shares subject to awards outstanding under our prior equity-based compensation plan as of the date of stockholder approval of the Amended and Restated 2008 Plan but only to the extent that such outstanding awards are forfeited, expire or otherwise terminate without the issuance of such shares;
- an increase in the number of shares of common stock that may be issued under the plan pursuant to the exercise of incentive stock options from 4,000,000 to 6,000,000 and an increase in the number of shares of common stock that may be issued or issuable under the plan in connection with the grant of full-value awards from 1,500,000 to 2,000,000; and
- an extension of the plan's term from 2018 to 2020, which is the date 10 years following stockholder approval of the Second Amended and Restated 2008 Plan at the Annual Meeting.

Our stockholders are being asked to approve the Second Amended and Restated 2008 Plan in order to satisfy rules and regulations of the NASDAQ Stock Market relating to equity-based compensation and to qualify stock options for treatment as incentive stock options for purposes of Section 422 of the Code. If our stockholders do not approve the Second Amended and Restated 2008 Plan, the BioSante Pharmaceuticals, Inc. Amended and Restated 2008 Stock Incentive Plan as it currently exists will remain in effect until it expires or is terminated in accordance with its terms.

Reasons Why You Should Vote in Favor of the Approval of the Second Amended and Restated 2008 Plan

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The Board of Directors recommends a vote for the approval of the Second Amended and Restated 2008 Plan because the Board of Directors believes the plan is in the best interests of our company and our stockholders for the following reasons:

- *Aligns directors, employee and stockholder interests.* We currently provide long-term incentives in the form of stock option grants to our non-employee directors, executive officers and other employees. We believe that our equity-based compensation programs

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help align the interests of our directors, executive officers and other employees with our stockholders. We believe that our long-term equity-based incentives help promote long-term retention of our employees and encourage significant ownership of our common stock. If the Second Amended and Restated 2008 Plan is approved, we will be able to maintain our means of aligning the interests of our directors, executive officers and other employees with the interests of our stockholders. If the Second Amended and Restated 2008 Plan is not approved, our ability to maintain our means of aligning the interests of our directors, executive officers and other employees with the interests of our stockholders will be affected negatively.

- *Attracts and retains talent.* Talented, motivated and effective directors, executives and employees are essential to executing our business strategies. Equity-based compensation has been an important component of total compensation at our company for many years because such compensation enables us to effectively recruit executives and other employees while encouraging them to act and think like owners of our company. If the Second Amended and Restated 2008 Plan is approved, we believe we will maintain our ability to offer competitive compensation packages to both retain our best performers and attract new talent. If the Second Amended and Restated 2008 Plan is not approved, our ability to offer competitive compensation packages to both retain our best performers and attract new talent will be affected negatively.

- *Supports our pay-for-performance philosophy.* We believe that equity-based compensation, by its very nature, is performance-based compensation. A significant portion of the total compensation paid to our executives is incentive compensation in the form of both equity-based and cash-based incentives. We use incentive compensation to help reinforce desired financial and other business results to our executives and to motivate them to make decisions to produce those results. Therefore, approval of the Second Amended and Restated 2008 Plan is important to support our pay-for-performance philosophy.

- *Avoids disruption in our compensation programs.* The approval of the Second Amended and Restated 2008 Plan by our stockholders is important because currently there is an insufficient number of shares of our common stock available for issuance under the existing Amended and Restated 2008 Plan to award our directors, executives and employees over the next couple of years. If the Second Amended and Restated 2008 Plan is approved, we will not have to restructure our existing compensation programs for reasons that are not related directly to the achievement of our financial and other business objectives. To remain competitive without equity-based compensation arrangements, it likely will be necessary to replace components of compensation previously awarded in equity with cash or with other instruments that may not necessarily align director, executive officer and employee interests with those of our stockholders as well as equity-based awards do. Additionally, replacing equity with cash will increase cash compensation expense and use cash that would be better utilized toward other strategic purposes, such as continued development of our products, including in particular LibiGel®.

- *Protects stockholder interests and embraces sound equity-based compensation practices.* As described in more detail below under the heading Summary of Sound Governance Features of the Second Amended and Restated 2008 Plan, the Second Amended and

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Restated 2008 Plan includes a number of features that are consistent with the interests of our stockholders and sound corporate governance practices.

Summary of Sound Governance Features of the Second Amended and Restated 2008 Plan

The Board of Directors and Compensation Committee believe that the Second Amended and Restated 2008 Plan contains several features that are consistent with the interests of our stockholders and sound corporate governance practices, including the following:

- *No evergreen provision.* The number of shares of our common stock available for issuance under the Second Amended and Restated 2008 Plan is fixed and will not adjust based upon the number of outstanding shares of our common stock.
- *Will not be excessively dilutive to our stockholders.* Subject to adjustment, the maximum number of shares of our common stock available for issuance under the Second Amended and Restated 2008 Plan is 6,000,000 shares, plus the number of shares subject to awards outstanding under our prior equity-based compensation plan as of the date of stockholder approval of the Second Amended and Restated 2008 Plan but only to the extent that such outstanding awards are forfeited, expire or otherwise terminate without the issuance of such shares. As of April 1, 2011, an aggregate of only 473,500 shares of common stock were available for issuance under the currently existing 2008 plan. We do not have any other equity-based compensation plans under which shares of our common stock are available for issuance but not subject to any outstanding awards. As of April 1, 2011, we had outstanding options to purchase an aggregate of 3,361,691 shares of our common stock with a weighted average exercise price of \$3.78 and a weighted average remaining term of 6.9 years outstanding under our currently existing 2008 plan and our prior 1998 plan and options to purchase an additional 234,429 shares of our common stock with a weighted average exercise price of \$19.73 and a weighted average remaining term of 6.1 years outstanding under Cell Genesys's prior equity-based compensation plans, which options we assumed in connection with our October 2009 merger with Cell Genesys. No new awards will be granted under the 2008 plan between April 1, 2011 and the Annual Meeting.
- *Will be implemented consistent with historical usage rates.* We believe that our historic equity usage has been in line with industry norms on an aggregate basis. We set targets for equity-based compensation based on industry standards and other data provided to our Compensation Committee by a compensation consultant. Based on this information, we believe that our equity usage is consistent with the broader market as well as with the companies we use to benchmark executive compensation. Over the past three years, our annual run rate (stock options granted, as a percentage of shares outstanding) has ranged between approximately 1.1 percent and 3.3 percent. The Compensation Committee does not anticipate that future equity-based incentive grants will significantly exceed our grant practices of the recent past.
- *Limit on number of full value awards.* No more than 2,000,000 of the shares available for issuance under the Second Amended and Restated 2008 Plan may be issued pursuant to full value awards, which are awards other than stock options or stock appreciation rights that are settled by the issuance of shares of our common stock. We have not granted any full value awards in the past and have no current intention to do so in the immediate future.

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- *No recycling of shares from exercised stock options or stock appreciation rights.* Shares withheld to satisfy tax withholding obligations on awards or to pay the exercise price of awards and any shares not issued or delivered as a result of a net exercise of a stock option will not become available for issuance as future award grants under the Second Amended and Restated 2008 Plan.
- *No reload stock options or stock appreciation rights.* Reload stock options and stock appreciation rights are not authorized under the Second Amended and Restated 2008 Plan.
- *Stock option and stock appreciation right exercise prices will not be lower than the fair market value on the grant date.* The Second Amended and Restated 2008 Plan prohibits granting stock options and stock appreciation rights with exercise prices lower than the fair market value of a share of our common stock on the grant date, except in connection with certain mergers, consolidations, acquisitions of property or stock, reorganizations or other similar transactions.
- *No repricing or exchange without stockholder approval.* The Second Amended and Restated 2008 Plan prohibits the repricing of outstanding underwater stock options or stock appreciation rights without stockholder approval, except for any adjustments required in connection with certain corporate transactions. Repricing is broadly defined to include amendments or modifications to the terms of an outstanding stock option or stock appreciation right to lower the exercise or grant price or cancelling an outstanding stock option or stock appreciation right in exchange for cash, other awards or other stock options or stock appreciation rights having a lower exercise price.
- *Stock options, stock appreciation rights and unvested performance awards are not entitled to dividend equivalent rights.* Stock option, stock appreciation right and unvested performance award holders have no rights as stockholders with respect to the shares underlying their awards until their stock options, stock appreciation rights or unvested performance awards are exercised or vested and shares are issued. As a result, stock options and stock appreciation rights and unvested performance awards, the vesting of which is based on the achievement of performance goals, under the Second Amended and Restated 2008 Plan have no dividend equivalent rights associated with them.
- *Stockholder approval is required for material revisions to the plan.* The Second Amended and Restated 2008 Plan requires stockholder approval of material revisions to the plan.
- *Members of the committee administering the plan are non-employee and independent directors.* The Second Amended and Restated 2008 Plan will be administered by the Compensation Committee. All members of the committee administering the plan will be non-employee directors within the meaning of Rule 16b-3 under the Exchange Act and independent directors under the Listing Rules of the NASDAQ Stock Market and any applicable rules and regulations of the SEC.
- *Clawback provisions.* The Second Amended and Restated 2008 Plan contains clawback provisions, which provide that if a participant is determined by the Compensation Committee to have taken action that would constitute cause as such term is defined in the Second Amended and Restated 2008 Plan, during or after the

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termination of the participant's employment or other service, all rights of the participant under the plan and any agreements evidencing an award then held by the participant will terminate and be forfeited and if a participant materially breaches the terms of any employment, consulting, confidentiality or non-compete agreement entered into with us, whether such breach occurs before or after termination of such participant's employment or other service with us, the Compensation Committee may require the participant to surrender and return to us any shares of common stock received, and to disgorge any profits, made or realized by the participant in connection with any awards or any shares issued upon the exercise or vesting of any awards granted under the plan. These clawback provisions are in addition to the clawback provisions that apply by law under the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

Comparison of Second Amended and Restated 2008 Plan to Current 2008 Plan

As mentioned above, if the Second Amended and Restated 2008 Plan is approved by our stockholders, it will replace in its entirety the currently existing 2008 plan. The following are some of the material differences between the Second Amended and Restated 2008 Plan and the currently existing 2008 plan:

- *Number of Shares Available.* The number of shares of our common stock available for issuance under the Second Amended and Restated 2008 Plan will be 6,000,000 shares. The currently existing 2008 plan authorizes 4,000,000 shares of our common stock for issuance plus the number of shares subject to awards outstanding under our prior equity-based compensation plan but only to the extent that such outstanding awards are forfeited, expire or otherwise terminate without the issuance of such shares.
- *Limits on Full Value Awards.* The Amended and Restated 2008 Plan will limit the number of full value awards to 2,000,000; whereas the currently existing 2008 plan limits the number of full value awards to 1,500,000.
- *Term of Plan.* The term of the Second Amended and Restated 2008 Plan will be extended to 10 years from the date of stockholder approval of the Second Amended and Restated 2008 Plan.

Purpose of the Second Amended and Restated 2008 Plan

The purpose of the Second Amended and Restated 2008 Plan is to advance the interests of our company and our stockholders by enabling us to attract and retain qualified individuals through opportunities for equity participation in our company, and to reward those individuals who contribute to the achievement of our economic objectives. Providing stock incentive awards under the plan is an important element in our overall success. In general, the Board of Directors believes that equity-based incentives align the interests of our management and employees with those of our stockholders. In addition, providing incentive awards under the plan is an important strategy for attracting and retaining the type of high-quality executives, employees and advisors the Board of Directors believes is necessary for the achievement of our goals. Given the intense competition for such personnel, the Board of Directors believes that its ability to offer competitive compensation packages, including those with equity-based incentive components, such as stock options, is particularly important in attracting and retaining qualified candidates.

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In the following discussion, we refer to both incentive stock options and non-statutory stock options as options, and to options, stock appreciation rights, restricted stock awards, stock unit awards or restricted stock units, performance awards or performance units and stock bonuses as incentive awards.

Summary of the Second Amended and Restated 2008 Plan

A general description of the material features of the Second Amended and Restated 2008 Plan is outlined below. Unless otherwise indicated, the following summary of the principal provisions of the Second Amended and Restated 2008 Plan assumes the approval of the Second Amended and Restated 2008 Plan by our stockholders at the Annual Meeting. The summary is qualified in its entirety by reference to the full text of the Second Amended and Restated 2008 Plan, a copy of which may be obtained by contacting us. A copy of the Second Amended and Restated 2008 Plan also has been filed electronically with the SEC as an appendix to this proxy statement and is available through the SEC's website at <http://www.sec.gov>.

Eligibility. All employees (including officers and directors who also are employees), non-employee directors, consultants, advisors and independent contractors of BioSante Pharmaceuticals, Inc. or any subsidiary, are eligible to receive incentive awards under the plan. As of April 1, 2011, 51 employees and non-employee directors were eligible to receive awards under the plan. Although not necessarily indicative of future grants under the plan, 51 employees and non-employee directors or 100 percent of the 51 eligible recipients have been granted stock options under the plan. We have not granted any incentive awards other than stock options under the plan.

Shares Available for Issuance. The maximum number of shares of our common stock reserved for issuance under the Second Amended and Restated 2008 Plan is 6,000,000, plus the number of shares of common stock subject to incentive awards outstanding under our prior equity-based compensation plan but only to the extent that such outstanding awards are forfeited, expire or otherwise terminate without the issuance of such shares. The number of shares available for issuance under the plan is subject to increase to the extent that we issue shares or incentive awards under the plan in connection with certain merger and acquisition transactions, or assume any plan in a merger or acquisition transaction. However, any available shares in an assumed plan may only be utilized to the extent permitted under the Listing Rules of the NASDAQ Stock Market.

Shares of our common stock that are issued under the plan or that potentially are issuable pursuant to outstanding incentive awards reduce the number of shares remaining available. All shares so subtracted from the amount available under the plan with respect to an incentive award that lapses, expires, is forfeited or for any reason is terminated, unexercised or unvested and any shares of our common stock that are subject to an incentive award that is settled or paid in cash or any other form other than shares of our common stock will automatically again become available for issuance under the plan. However, any shares not issued due to the exercise of an option by a net exercise or the tender or attestation as to ownership of previously acquired shares (as described below), as well as shares covered by a stock appreciation right, to the extent exercised, and shares withheld by us to satisfy any tax withholding obligations will not again become available for issuance under the plan.

Grant Limits. Under the terms of the Second Amended and Restated 2008 Plan no more than 6,000,000 shares of our common stock may be issued pursuant to the exercise of incentive options and no more than 2,000,000 shares of our common stock may be issued or issuable in connection with restricted stock grants, stock unit awards, performance awards and stock bonuses.

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All of the share limitations in the plan may be adjusted to reflect changes in our corporate structure or shares, as described below. In addition, the limits on the number of shares that may be issued as incentive options will not apply to certain incentive awards granted upon our assumption or substitution of like awards in any merger or acquisition.

Adjustments. In the event of any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering, divestiture or extraordinary dividend (including a spin-off) or any other similar change in our corporate structure or shares, we must adjust:

- the number and kind of securities available for issuance under the plan; and
- in order to prevent dilution or enlargement of the rights of participants, the number, kind and, where applicable, the exercise price of securities subject to outstanding incentive awards.

Administration. The plan will continue to be administered by the Board of Directors or by a committee of the Board. Any such committee will consist of at least two members of the Board, all of whom are non-employee directors within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended, and who are independent directors within the meaning of the Listing Rules of the NASDAQ Stock Market. We expect the Compensation Committee of the Board of Directors will continue to administer the plan. The Board of Directors or the committee administering the plan is referred to as the committee. The committee may delegate its duties, power and authority under the plan to any of our officers to the extent consistent with applicable Delaware corporate law, except with respect to participants subject to Section 16 of the Securities Exchange Act of 1934.

The committee has the authority to determine all provisions of incentive awards consistent with terms of the plan, including, the eligible recipients who will be granted one or more incentive awards under the plan, the nature and extent of the incentive awards to be made to each participant, the time or times when incentive awards will be granted, the duration of each incentive award, and the restrictions and other conditions to which the payment or vesting of incentive awards may be subject. The committee has the authority to pay the economic value of any incentive award in the form of cash, our common stock or any combination of both, and may amend or modify the terms of outstanding incentive awards (except for any prohibited re-pricing of options, discussed below) so long as the amended or modified terms are permitted under the plan and any adversely affected participant has consented to the amendment or modification.

In the event of any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering, extraordinary dividend or divestiture (including a spin off) or any other similar change in corporate structure or shares; any purchase, acquisition, sale, disposition or write-down of a significant amount of assets or a significant business; any change in accounting principles or practices, tax laws or other such laws or provisions affecting reported results; any uninsured catastrophic losses or extraordinary non-recurring items as described in Accounting Principles Board Opinion No. 30 or in management's discussion and analysis of financial performance appearing in our annual report to stockholders for the applicable year; or any other similar change, in each case with respect to our company or any other entity whose performance is relevant to the grant or vesting of an incentive award, the committee (or, if our company is not the surviving corporation in any such transaction, the Board of Directors of the surviving corporation) may, without the consent of any affected participant, amend or modify the

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vesting criteria of any outstanding incentive award that is based in whole or in part on the financial performance of our company (or any subsidiary or division or other subunit thereof) or such other entity so as equitably to reflect such event, with the desired result that the criteria for evaluating such financial performance of our company or such other entity will be substantially the same (in the sole discretion of the committee or the Board of Directors of the surviving corporation) following such event as prior to such event; provided, however, that the amended or modified terms are permitted by the plan as then in effect.

The committee may, in its sole discretion, amend the terms of the plan or incentive awards with respect to participants resident outside of the United States or employed by a non-U.S. subsidiary in order to comply with local legal requirements, to otherwise protect our or subsidiary's interests, or to meet objectives of the plan, and may, where appropriate, establish one or more sub-plans for the purposes of qualifying for preferred tax treatment under foreign tax laws. This authority does not, however, permit the committee to take any action:

- to reserve shares or grant incentive awards in excess of the limitations provided in the plan;
- to effect any re-pricing of options, as discussed below;
- to grant options or stock appreciation rights having an exercise price less than 100 percent of the fair market value (as defined below) of one share of our common stock on the date of grant; or
- for which stockholder approval would then be required pursuant to Section 422 of the Code or the Listing Rules of the NASDAQ Stock Market or other applicable market or exchange.

Except in connection with certain specified changes in our corporate structure or shares, the committee may not, without prior approval of our stockholders, seek to effect any re-pricing of any previously granted, underwater option or stock appreciation right by:

- amending or modifying the terms of the underwater option or stock appreciation right to lower the exercise price;
- canceling the underwater option or stock appreciation right in exchange for cash, replacement options or stock appreciation rights having a lower exercise price or other incentive awards; or
- repurchasing the underwater options and stock appreciation rights and granting new incentive awards under the plan.

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For purposes of the plan, an option or stock appreciation right is deemed to be underwater at any time when the fair market value of the our common stock is less than the exercise price.

Options. The exercise price to be paid by a participant at the time an option is exercised may not be less than 100 percent of the fair market value of one share of our common stock on the date of grant (or 110 percent of the fair market value of one share of our common stock on the date of grant of an incentive option if the participant owns, directly or indirectly, more than 10 percent of the total combined voting power of all classes of stock of BioSante or any parent or subsidiary). However, in

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the event options are granted as a result of our assumption or substitution of options in a merger or acquisition, the exercise price will be the price determined by the committee pursuant to the conversion terms applicable to the transaction. At any time while the our common stock is listed on the NASDAQ Global Market, fair market value under the plan means the closing sale price of a share at the end of the regular trading session on the day of grant as reported by the NASDAQ Global Market as of the date in question (or, if no shares were traded on such date, the next preceding day on which there was such a trade). As of April 5, 2011, the closing sale price of a share of our common stock on the NASDAQ Global Market was \$2.09.

The total purchase price of the shares to be purchased upon exercise of an option will be paid (1) in cash, (2) by using a broker-assisted cashless exercise procedure pursuant to which the optionee, upon exercise of an option, irrevocably instructs a broker or dealer to sell a sufficient number of shares of our common stock or loan a sufficient amount of money to pay all or a portion of the exercise price of the option and/or any related withholding tax obligations and remit such sums to us and directs us to deliver stock certificates to be issued upon such exercise directly to such broker or dealer; or (3) by using a cashless exercise procedure pursuant to which the optionee surrenders to us shares of our common stock either underlying the option or that are otherwise held by the optionee. In the case of a net exercise of an option, we will not require a payment of the exercise price of the option from the participant but will reduce the number of shares of our common stock issued upon the exercise by the largest number of whole shares having a fair market value that does not exceed the aggregate exercise price for the shares exercised. Any shares of our common stock tendered or covered by an attestation will be valued at their fair market value on the exercise date.

Options may be exercised in whole or in installments, as determined by the committee, and the committee may impose conditions or restrictions to the exercisability of an option, including that the participant remain continuously employed by us for a certain period or that the participant or us (or any subsidiary, division or other subunit of our company) satisfy certain specified performance objectives. An option may not become exercisable, nor remain exercisable after 10 years from its date of grant (five years from its date of grant in the case of an incentive option if the participant owns, directly or indirectly, more than 10 percent of the total combined voting power of all classes of stock of our company or any parent or subsidiary).

Stock Appreciation Rights. A stock appreciation right is the right to receive a payment from us, in the form of shares of our common stock, cash or a combination of both, equal to the difference between the fair market value of one or more shares of our common stock and a specified exercise price of such shares. Stock appreciation rights will be subject to such terms and conditions, if any, consistent with the other provisions of the plan, as may be determined by the committee. The committee will have the sole discretion to determine the form in which payment of the economic value of stock appreciation rights will be made to a participant (i.e., cash, our common stock or any combination thereof) or to consent to or disapprove the election by a participant of the form of such payment.

The exercise price of a stock appreciation right will be determined by the committee, in its discretion, at the date of grant but may not be less than 100 percent of the fair market value of one share of our common stock on the date of grant, except as provided below in connection with certain tandem grants (as further defined below). However, in the event that stock appreciation rights are granted as a result of our assumption or substitution of stock appreciation rights in a merger or acquisition, the exercise price will be the price determined by the committee pursuant to the conversion terms applicable to the transaction. A stock appreciation right will become exercisable at such time and in such installments as may be determined by the committee in its sole discretion at the time of grant;

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provided, however, that no stock appreciation right may be exercisable after 10 years from its date of grant.

Stock appreciation rights may be granted alone or in addition to other incentive awards, or in tandem with an option, at the time of grant of the option. A stock appreciation right granted in tandem with an option shall cover the same number of shares of our common stock as covered by the option (or such lesser number as the committee may determine), shall be exercisable at such time or times and only to the extent that the related option is exercisable, have the same term as the option and will have an exercise price equal to the exercise price for the option. Upon the exercise of a stock appreciation right granted in tandem with an option, the option shall be canceled automatically to the extent of the number of shares covered by such exercise; conversely, upon exercise of an option having a related stock appreciation right, the stock appreciation right will be canceled automatically to the extent of the number of shares covered by the option exercise.

Restricted Stock Awards. A restricted stock award is an award of our common stock that vests at such times and in such installments as may be determined by the committee and, until it vests, is subject to restrictions on transferability and/or the possibility of forfeiture. The committee may impose such restrictions or conditions to the vesting of restricted stock awards as it deems appropriate, including that the participant remain continuously employed by us for a certain period or that the participant or us (or any subsidiary, division or other subunit of our company) satisfy specified performance objectives. To enforce the restrictions, the committee may place a legend on the stock certificates referring to such restrictions and may take other steps to enforce the restrictions.

Unless the committee determines otherwise, any dividends (other than regular quarterly cash dividends) or distributions paid with respect to shares of our common stock subject to the unvested portion of a restricted stock award will be subject to the same restrictions as the shares to which such dividends or distributions relate. Additionally, unless the plan provides otherwise, a participant will have all voting, liquidation and other rights with respect to shares of our common stock issued to the participant as a restricted stock award upon the participant becoming the holder of record of such shares as if the participant were a holder of record of shares of our unrestricted common stock.

Stock Unit Award or Restricted Stock Units. A stock unit award or restricted stock unit is a right to receive the fair market value of one or more shares of our common stock, payable in cash, shares of our common stock, or a combination of both, the payment, issuance, retention and/or vesting of which is subject to the satisfaction of specified conditions, which may include achievement of specified performance objectives. Stock unit awards or restricted stock units will be subject to such terms and conditions, if any, consistent with the other provisions of the plan, as may be determined by the committee.

Performance Awards or Units. A participant may be granted one or more performance awards or units under the plan, and such performance awards or units will be subject to such terms and conditions, if any, consistent with the other provisions of the plan, as may be determined by the committee in its sole discretion, including, but not limited to, the achievement of one or more specified performance objectives.

Stock Bonuses. A participant may be granted one or more stock bonuses under the plan, and such stock bonuses will be subject to such terms and conditions, if any, consistent with the other provisions of the plan, as may be determined by the committee in its sole discretion, including, but not limited to, the achievement of one or more specified performance objectives.

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Change in Control. In the event a change in control of our company occurs, then, unless otherwise provided at the time of the grant of the incentive award, all options and stock appreciation rights will become immediately exercisable in full and will remain exercisable for the remainder of their terms, regardless of whether the holder to whom such option and stock appreciation rights have been granted remains in the employ or service of our company or any subsidiary, all outstanding restricted stock awards will become immediately fully vested and non-forfeitable; and any conditions to the payment of stock unit awards or restricted stock units, performance awards or units and stock bonuses will lapse.

In addition, the committee in its sole discretion may determine that some or all participants holding outstanding options will receive cash in an amount equal to the excess of the fair market value of such shares immediately prior to the effective date of such change in control over the exercise price per share of the options (or, in the event that there is no excess, that such options will be terminated), and that some or all participants holding performance awards or units will receive, with respect to some or all of the shares subject to the performance awards or units, cash in an amount equal the fair market value of such shares immediately prior to the effective date of such change in control.

For purposes of the plan, a change in control of our company occurs upon:

- the sale, lease, exchange or other transfer of substantially all of the assets of our company (in one transaction or in a series of related transaction) to a person or entity that is not controlled, directly or indirectly, by our company;
- the approval by our stockholders of any plan or proposal for the liquidation or dissolution of us;
- any person becomes after the effective date of the plan the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of (A) 20 percent or more, but not 50 percent or more, of the combined voting power of our outstanding securities ordinarily having the right to vote at elections of directors, unless the transaction resulting in such ownership has been approved in advance by the continuity directors, or (B) 50 percent or more of the combined voting power of our outstanding securities ordinarily having the right to vote at elections of directors (regardless of any approval by the continuity directors);
- a merger or consolidation to which our company is a party if our stockholders immediately prior to effective date of such merger or consolidation do not have beneficial ownership (as defined in Rule 13d-3 under the Exchange Act) immediately following the effective date of such merger or consolidation of securities of the surviving corporation represent (A) more than 50 percent but less than 80 percent of the combined voting power of the surviving corporation's then outstanding securities ordinarily having the right to vote at elections of directors, unless such merger or consolidation has been approved in advance by the continuity directors, or (B) 50 percent or less of the combined voting power of the surviving corporation's then outstanding securities ordinarily having the right to vote at elections of directors (regardless of any approval by the continuity directors);
- the continuity directors cease for any reason to constitute at least a majority of the Board of Directors; or

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- any other change in control of us of a nature that would be required to be reported pursuant to Section 13 or 15(d) of the Exchange Act, whether or not we are then subject to such reporting requirements.

Effect of Termination of Employment or Other Services. If a participant ceases to be employed by, or perform other services for, us, all incentive awards held by the participant will be treated as set forth below unless provided otherwise in the agreement evidencing the incentive award or modified by the committee in its discretion as set forth below. Upon termination due to death, disability or retirement, all outstanding, exercisable options and stock appreciation rights then held by the participant will remain exercisable for a period of one year thereafter (but in no event after the expiration date of any such option or stock appreciation rights), all unvested restricted stock awards, all outstanding stock unit awards or restricted stock units, performance awards or units and stock bonuses then held by the participant will be terminated and forfeited. Upon termination for a reason, other than death, disability or retirement, which is not also for cause (as defined in the plan), all outstanding options and stock appreciation rights then held by the participant will, to the extent exercisable as of such termination, remain exercisable in full for a period of three months after such termination (but in no event after the expiration date of any such option or stock appreciation right). Also, upon such termination all options and stock appreciation rights that are not exercisable; all unvested restricted stock awards; and all outstanding stock unit awards or restricted stock units, performance awards or units and stock bonuses then held by the participant will be terminated and forfeited.

If a participant is determined by the committee, acting in its sole discretion, to have committed any action which would constitute cause, regardless of whether such action or the committee's determination occurs before or after the termination of the participant's employment with us or any subsidiary, all rights of the participant under the plan and any award agreements evidencing an incentive award then held by the participant shall terminate and be forfeited without notice of any kind. Additionally, as applicable, we may defer exercise, vesting, or payment of any incentive award for a period of up to 45 days in order for the committee to make a determination as to the existence of cause.

The committee may at any time (including on or after the date of grant or following termination), in connection with a participant's termination, cause options or stock appreciation rights held by the participant to terminate, become or continue to become exercisable and/or remain exercisable, and restricted stock awards, stock unit awards or restricted stock units, performance awards or units or stock bonuses then held by the participant to, terminate, vest or become free of restrictions and conditions to payment, as the case may be.

Dividend Rights. Except as discussed above in connection with restricted stock awards, no adjustment will be made in the amount of cash payable or in the number of shares of our common stock issuable under incentive awards denominated in or based on the value of shares of our common stock as a result of cash dividends or distributions paid to stockholders generally at any time prior to the issuance of shares under incentive awards.

Term; Termination; Amendments. Unless terminated earlier, the plan will terminate at midnight on the day before the 10th anniversary of its approval by our stockholders. Incentive awards outstanding at the time the plan is terminated may continue to be exercised, earned or become free of restriction, according to their terms. The Board may suspend or terminate the plan or any portion of the plan at any time. In addition to the committee's authority to amend the plan with respect to participants resident outside of the United States or employed by a non-U.S. subsidiary, the Board may amend the plan from time to time in order that incentive awards under the plan will conform to any change in

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applicable laws or regulations or in any other respect that the Board may deem to be in our best interests; provided, however, that no amendments to the plan will be effective without stockholder approval, if it is required under Section 422 of the Internal Revenue Code or the Listing Rules of the NASDAQ Stock Market, or if the amendment seeks to increase the number of shares reserved for issuance under the plan (other than as a result of a permitted adjustment upon certain corporate events, such as stock splits) or to modify the prohibitions on underwater option re-pricing discussed above. Termination, suspension or amendment of the plan will not adversely affect any outstanding incentive award without the consent of the affected participant, except for adjustments in the event of changes in our capitalization or a change in control of our company.

Transferability. In general, no right or interest in any incentive award may be assigned or transferred by a participant, except by will or the laws of descent and distribution, or subjected to any lien or otherwise encumbered. However, a participant is entitled to designate a beneficiary to receive an incentive award on such participant's death, and in the event of such participant's death, payment of any amounts due under the plan, will be made to, and exercise of any options or stock appreciation rights may be made by, such beneficiary. Additionally, upon a participant's request, the committee may permit a participant to transfer all or a portion of a non-statutory option, other than for value, to certain of the participant's family members or related family trusts, foundations or partnerships. Permitted transferees of non-statutory options will remain subject to all the terms and conditions of the incentive award applicable to the participant.

Federal Income Tax Consequences

The discussion below is a summary of the federal income tax consequences that may result in connection with participant's participation in the plan and is based on current statutes, regulations and interpretations, all of which are subject to change, possibly with retroactive effect. The description does not include foreign, state or local income tax consequences. In addition, the description is not intended to address specific tax consequences applicable to an insider (directors, executive officers or greater than 10 percent stockholders of our company).

Incentive Options. In general, an eligible employee will not recognize federal taxable income upon the grant or the exercise of an incentive option, and we will not be entitled to an income tax deduction upon the grant or the exercise of an incentive option. For purposes of the alternative minimum tax, however, the eligible employee will be required to treat an amount equal to the difference between the fair market value of the common stock on the date of exercise over the exercise price as an item of adjustment in computing the eligible employee's alternative minimum taxable income. If the eligible employee does not dispose of the common stock received pursuant to the exercise of the incentive option within two years after the date of the grant of the incentive option or within one year after the date of exercise of the incentive options, a subsequent disposition of the common stock generally will result in long-term capital gain or loss to such individual with respect to the difference between the amount realized on the disposition and the exercise price of the option. We will not be entitled to any income tax deduction as a result of such disposition.

If the eligible employee disposes of the common stock acquired upon exercise of the incentive option within two years after the date of the grant of the incentive option or within one year after the date of exercise of the incentive options, then in the year of such disposition, the eligible employee generally will recognize ordinary income, and we will be entitled to an income tax deduction in an amount equal to the lesser of: (1) the excess of the fair market value of the common stock on the date of exercise over the exercise price; or (2) the amount realized upon disposition over the exercise price. Any gain in excess of such amount recognized by the eligible employee as ordinary income will be

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taxed to the eligible employee as short-term or long-term capital gain (depending on the period of time the eligible employee held the common stock).

Non-Statutory Options. An eligible employee, non-employee director or consultant will not recognize any federal taxable income upon the grant of a non-statutory option, and we will not be entitled to an income tax deduction at the time of such grant. Upon the exercise of a non-statutory option, the eligible employee, non-employee director or consultant generally will recognize ordinary income and we will be entitled to take an income tax deduction in an amount equal to the excess of the fair market value of the common stock on the date of exercise over the exercise price. Upon a subsequent sale of the common stock by the eligible employee, non-employee director or consultant, he or she will recognize short-term or long-term capital gain or loss (depending on the period of time the eligible employee held the common stock).

Stock Appreciation Rights. An eligible employee, non-employee director or consultant will recognize ordinary income for federal income tax purposes upon the exercise of a stock appreciation right under the plan for cash, common stock or a combination of cash and common stock, and the amount of income that the eligible employee, non-employee director or consultant will recognize will depend on the amount of cash, if any, and the fair market value of the common stock, if any, that he or she receives as a result of such exercise. We generally will be entitled to a federal income tax deduction in an amount equal to the ordinary income recognized by the eligible employee, non-employee director or consultant in the same taxable year in which the eligible employee, non-employee director or consultant recognizes such income.

Restricted Stock Awards. An eligible employee, non-employee director or consultant is not subject to any federal income tax when a restricted stock award is made, nor are we entitled to an income tax deduction at such time, unless the restrictions on the common stock do not present a substantial risk of forfeiture or the stock is transferable, each within the meaning of Section 83 of the Internal Revenue Code. Common stock that is subject to a substantial risk of forfeiture within the meaning of Section 83 of the Internal Revenue Code is transferable within the meaning of that section if the transferee would not be subject to such risk of forfeiture after such transfer. In the year that the restricted stock award is either no longer subject to a substantial risk of forfeiture or is transferable, the eligible employee, non-employee director or consultant will recognize ordinary income in an amount equal to the excess, if any, of the fair market value of the shares of common stock transferred to the eligible employee, non-employee director or consultant, generally determined on the date the restricted stock award is no longer subject to a substantial risk of forfeiture, or is transferable, whichever comes first, over the amount, if any, paid for such shares.

Stock Unit Awards, Performance Awards and Stock Bonuses. Neither the participant nor our company incurs any federal income tax consequences as a result of the grant of a stock unit award, performance award or stock bonus. Upon payment of a stock unit award, performance award or stock bonus in cash, the participant will include the amount paid as ordinary income in the year the payment was received; if payment is made in stock, the participant will include as ordinary income in the year of receipt an amount equal to the fair market value of the shares received. In each case, we will receive a corresponding tax deduction (provided that the award is not otherwise subject to the limitations of Section 162(m) of the Internal Revenue Code), when the amount is included by the participant as ordinary income, or reported as taxable income of the participant by us, pursuant to applicable information reporting requirements. At the time of a subsequent sale or disposition of any shares of our common stock issued in connection with a stock unit award, performance award or stock bonus, any gain or loss will be treated as long-term or short-term capital gain or loss, depending on the holding period from the date the shares were received.

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Excise Tax on Parachute Payments. Parachute payments are payments to employees or independent contractors who also are officers, stockholders or highly compensated individuals that are contingent upon a change in ownership or control of our company. In certain circumstances the grant, vesting, acceleration or exercise of options or other incentive awards could be treated as contingent on a change in ownership or control for purposes of determining the amount of a parachute payment. In general, the amount of a parachute payment would be the cash or the fair market value of the property received (or to be received) less the amount paid for such property. All or a portion of that parachute payment may be considered an excess parachute payment. If an individual were found to have received an excess parachute payment, he or she would be subject to a special 20 percent excise tax on the amount of the excess parachute payments, and we would not be allowed to claim any deduction with respect to such payments.

Section 409A. A grant may be subject to a 20 percent penalty tax, in addition to ordinary income tax, at the time the grant becomes vested, plus interest, if the grant constitutes deferred compensation under Section 409A of the Code and the requirements of Section 409A of the Code are not satisfied.

Incentive Awards Granted Under the Second Amended and Restated 2008 Plan

No information can be provided with respect to the number or types of awards that would have been received by or allocated to certain participants or groups of participants under the Second Amended and Restated 2008 Plan during the last completed fiscal year or that may be granted to such participants under the plan in the future. Such awards are within the discretion of the committee administering the plan and the committee has not determined any future awards or who might receive them. It has been the practice of the committee, however, to grant new non-employee directors and employees stock options and to grant current non-employee directors and employees stock options on an annual basis. Pursuant to written resolutions recently adopted by the Board of Directors, each non-employee director receives effective as of the last business day of each March, options to purchase 25,000 shares of our common stock and our Chairman of the Board receives an additional option to purchase 10,000 shares of our common stock. The number of stock options granted to employees on an annual basis is highly discretionary and depends upon several factors, including peer group data.

The table below summarizes outstanding options under the currently existing 2008 plan as of April 1, 2011 held by the persons or groups listed below.

Name and Position	Number of Shares Underlying Options(1)
Stephen M. Simes	15.
	Business Segment
	1,100,000 Information

The Company's operations are organized and reviewed by management along its product lines or end market that the segment serves and presented in three reportable segments. During the first quarter of 2018, the Company finalized an overall assessment and recalibration of its strategy. As a part of the changes to its strategy, management determined that a realignment of the Company's segments was necessary to better reflect the technologies and solutions we provide, and the end markets we serve. As a result of this realignment, the reportable segments of the Company have been renamed and we reclassified the operating results of certain business units within the Energy

Solutions and Industrial Solutions segments to have their reportable segment more closely align with our strategy.

Energy Solutions Segment

Our Energy Solutions segment, formerly known as the Energy segment, improves air quality and solves fluid handling needs with market leading, highly engineered and customized solutions for the power generation, oil & gas, and petrochemical industries. Our offerings in this space include solutions such as natural gas turbine exhaust systems, selective catalytic reduction (“SCR”) and selective non-catalytic reduction (“SNCR”) systems, acoustical components and silencers, silencer and precipitator applications, the design and manufacture of technologies for flue gas dampers, diverters, expansion joints, gas and liquid

separation and filtration equipment, secondary separators (nuclear plant reactor vessels), and fluid catalytic cracking (“FCC”) unit cyclones for processing in power generation, refining, oil production and petrochemical plants, as well as a variety of other industries.

Industrial Solutions Segment

Our Industrial Solutions segment, formerly known as the Environmental segment, improves air quality with a compelling solution set of air pollution control technologies that enable our customers to reduce their carbon footprint, lower energy consumption, minimize waste and meet compliance targets for toxic emissions, fumes, volatile organic compounds, process and industrial odors. With a powerful suite of products and solutions to address air quality needs in the industrial markets, our offerings include chemical and biological scrubbers, fabric filters and cartridge collectors, thermal and catalytic oxidation systems, cyclones, separators, gas absorbers and industrial ventilation systems. This segment also provides component parts for industrial air systems and provides cost effective alternatives to traditional duct components, as well as custom metal engineered fabrication services. These products and services are applicable to a wide variety of industries.

Fluid Handling Solutions Segment

Our Fluid Handling Solutions segment, formerly known as the Fluid Handling and Filtration segment, provides solutions for mission-critical applications to a wide variety of industries including, but not limited to, chemical, petrochemical, pharmaceutical, wastewater treatment, desalination, aquarium and aquaculture, plating and metal finishing, and food and beverage. To meet the needs of these markets, we design and manufacture high quality pumps and specialty filtration solutions including centrifugal pumps for corrosive, abrasive and high-temperature liquids, filter products for air and liquid filtration, precious metal recovery systems, carbonate precipitators, and technologically advanced air movement and exhaust systems.

Interest income and expense are not included in the measure of segment profit reviewed by management. Income taxes are also not included in the measure of segment operating profit reviewed by management. The operating results of the segments are reviewed through to the “Income (loss) from operations” line on the Condensed Consolidated Statements of Operations.

The financial segment information is presented in the following tables:

(dollars in thousands)	Three Months		Nine Months Ended	
	Ended September 30, 2018	2017	September 30, 2018	2017
Net Sales (less intra-, inter-segment sales)				
Energy Solutions Segment	\$56,552	\$44,279	\$147,661	\$150,487
Industrial Solutions Segment	20,258	21,638	56,379	67,737
Fluid Handling Solutions Segment	11,446	20,105	39,445	54,269
Corporate and Other ⁽¹⁾	—	(1,035)	—	(985)
Net sales	\$88,256	\$84,987	\$243,485	\$271,508

⁽¹⁾Includes adjustment for revenue on intercompany jobs.

	Three Months		Nine Months Ended	
	Ended September 30,		September 30,	

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(dollars in thousands)	2018	2017	2018	2017
(Loss) income from Operations				
Energy Solutions Segment	\$8,156	\$5,921	\$17,682	\$20,280
Industrial Solutions Segment	1,638	1,523	4,279	6,356
Fluid Handling Solutions Segment	1,836	4,299	7,234	11,756
Corporate and Other ⁽²⁾	(21,911)	(5,403)	(24,691)	(20,349)
Eliminations	(160)	(710)	(232)	(1,808)
(Loss) income from operations	\$(10,441)	\$5,630	\$4,272	\$16,235

⁽²⁾Includes loss on divestitures, net of selling costs (see Note 16 – Divestitures), corporate compensation, professional services, information technology, executive transition expenses, acquisition and integration expenses, and other general and administrative corporate expenses. This figure excludes earnout expenses, which are recorded in the segment in which the expense occurs. See Note 7 for the earnout expenses by segment.

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(dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Property and Equipment Additions				
Energy Solutions Segment	\$6	\$74	\$38	\$426
Industrial Solutions Segment	533	63	697	103
Fluid Handling Solutions Segment	767	17	1,051	236
Corporate and Other	—	11	111	41
Property and equipment additions	\$1,306	\$165	\$1,897	\$806

(dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Depreciation and Amortization				
Energy Solutions Segment	\$2,031	\$2,379	\$6,286	\$7,314
Industrial Solutions Segment	225	361	795	1,143
Fluid Handling Solutions Segment	835	1,168	2,683	3,563
Corporate and Other	104	29	333	85
Depreciation and amortization	\$3,195	\$3,937	\$10,097	\$12,105

(dollars in thousands)	September 30, 2018	December 31, 2017
Identifiable Assets		
Energy Solutions Segment	\$ 265,511	\$258,218
Industrial Solutions Segment	55,511	66,723
Fluid Handling Solutions Segment	75,409	100,917
Corporate and Other ⁽³⁾	8,788	12,691
Identifiable assets	\$ 405,219	\$438,549

⁽³⁾Corporate and Other assets consist primarily of cash and income tax related assets.

(dollars in thousands)	September 30, 2018	December 31, 2017
Goodwill		
Energy Solutions Segment	\$ 98,137	\$98,408
Industrial Solutions Segment	22,419	22,419
Fluid Handling Solutions Segment	31,806	46,124
Goodwill	\$ 152,362	\$166,951

Intra-segment and Inter-segment Revenues

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The Company has multiple divisions that sell to each other within segments (intra-segment sales) and between segments (inter-segment sales) as indicated in the following tables:

	Three Months Ended September 30, 2018						Net Sales to Customers Outside
	Total Sales	Intra- Segment Sales	Less Inter-Segment Sales				
(dollars in thousands)			Industrial	Energy	Fluid	Other	
Net Sales							
Energy Solutions Segment	\$58,561	\$(1,453)	\$(556)	\$ —	\$—	\$ —	\$ 56,552
Industrial Solutions Segment	20,800	(574)	—	73	(41)	—	20,258
Fluid Handling Solutions Segment	11,836	(399)	16	(7)	—	—	11,446
Corporate and Other ⁽⁴⁾	—	—	—	—	—	—	—
Net Sales	\$91,197	\$(2,426)	\$(540)	\$ 66	\$(41)	\$ —	\$ 88,256

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Three Months Ended September 30, 2017									
Less Inter-Segment Sales									
	Intra-						Corp	Net Sales to	
	Total	Segment						and	Outside
(dollars in thousands)	Sales	Sales	Industrial	Energy	Fluid	Other	Customers		
Net Sales									
Energy Solutions Segment	\$45,387	\$(1,102)	\$(6)	\$ —	\$ —	\$—	\$ 44,279		
Industrial Solutions Segment	22,041	(396)	—	(1)	(6)	—	21,638		
Fluid Handling Solutions Segment	20,768	(570)	(55)	(38)	—	—	20,105		
Corporate and Other ⁽⁴⁾	—	—	—	—	—	(1,035)	(1,035)		
Net Sales	\$88,196	\$(2,068)	\$(61)	\$(39)	\$(6)	\$(1,035)	\$ 84,987		

Nine Months Ended September 30, 2018									
Less Inter-Segment Sales									
	Intra-						Corp	Net Sales to	
	Total	Segment						and	Outside
(dollars in thousands)	Sales	Sales	Environmental	Energy	FHF	Other	Customers		
Net Sales									
Engineered Equipment Segment	\$155,011	\$(5,851)	\$(1,494)	\$ —	\$(5)	\$ —	\$ 147,661		
Air Quality Segment	59,198	(2,178)	—	(600)	(41)	—	56,379		
Fluid Handling Solutions Segment	41,011	(1,208)	(351)	(7)	—	—	39,445		
Corporate and Other ⁽⁴⁾	—	—	—	—	—	—	—		
Net Sales	\$255,220	\$(9,237)	\$(1,845)	\$(607)	\$(46)	\$ —	\$ 243,485		

Nine Months Ended September 30, 2017									
Less Inter-Segment Sales									
	Intra-						Corp	Net Sales to	
	Total	Segment						and	Outside
(dollars in thousands)	Sales	Sales	Environmental	Energy	FHF	Other	Customers		
Net Sales									
Engineered Equipment Segment	\$156,764	\$(6,249)	\$(28)	\$ —	\$—	\$—	\$ 150,487		
Air Quality Segment	70,598	(2,086)	—	(730)	(45)	—	67,737		
Fluid Handling Solutions Segment	56,620	(1,727)	(477)	(147)	—	—	54,269		
Corporate and Other ⁽⁴⁾	—	—	—	—	—	(985)	(985)		
Net Sales	\$283,982	\$(10,062)	\$(505)	\$(877)	\$(45)	\$(985)	\$ 271,508		

⁽⁴⁾Includes adjustment for revenue on intercompany jobs.

16. Divestitures

Strobic Air Corporation

On March 30, 2018, the Company completed the sale of Strobic Air Corporation (“Strobic”) as part of its strategic decision to exit brands that do not align with the CECO portfolio to increase focus on better serving the energy and industrial solutions and fluid handling markets. The sales price was \$28.5 million, subject to post-closing purchase price adjustments. The disposition resulted in an estimated gain of \$6.9 million recorded in the first quarter of 2018, comprised of \$27.9 million of net proceeds received as consideration after estimated post-closing purchase price adjustments less net assets disposed of \$18.8 million and transaction costs of \$2.2 million. The net assets disposed are primarily comprised of \$13.0 million of goodwill, \$2.3 million of definite-lived intangible assets and \$1.2 million of indefinite-lived intangible assets allocated to the Strobic business. In 2017, Strobic reported \$17.7 million in net sales and \$1.6 million in income from operations. Strobic results through the date of disposition are included within income before income taxes in the Condensed Consolidated Statement of Operations and are reported within the Fluid Handling Solutions segment. The sale of Strobic did not constitute a significant strategic shift that will have a material impact on the Company’s ongoing operations and financial results.

Keystone Filter

On February 28, 2018, the Company completed the sale of the Keystone Filter brand (“Keystone”) as part of its strategic decision to exit brands that do not align with the CECO portfolio to increase focus on better serving energy and industrial solutions and fluid handling markets. The sales price was \$7.5 million, subject to post-closing purchase price adjustments. The disposition resulted in an estimated gain of \$4.3 million recorded in the first quarter of 2018, comprised of \$7.2 million of net proceeds received as consideration after estimated post-closing purchase price adjustments less net assets disposed of \$2.7

million and transaction costs of \$0.2 million. Keystone results are reported within the Fluid Handling Solutions segment through the date of disposition.

Zhongli

During the third quarter of 2018, we began the process of divesting Jiangyin Zhongli Industrial Technology Co. Ltd (“Zhongli”), a business in our Energy Solutions segment operating in China. As of September 30, 2018, we have classified the net assets and liabilities of this business as held-for-sale in our Condensed Consolidated Balance Sheet. In connection with classifying this business as held-for-sale, GAAP required us to assess impairment by comparing the estimated selling price, less cost to sell to our carrying value in Zhongli. Based on this analysis, we have recorded a \$15.1 million estimated loss in the 2018 third quarter. The loss is included in the loss on divestitures net of selling costs on the Condensed Consolidated Statement of Operations. On October 24, 2018, we entered in an agreement to sell Zhongli for \$3.6 million. We expect to close the transaction 90 days from the signing of the sales agreement, subject to buyer closing conditions and regulatory approval. The disposal of this business does not constitute a significant strategic shift that will have a material impact on the Company’s ongoing operations and financial results.

As of September 30, 2018, Assets Held for Sale includes the following for Zhongli:

Table only in thousands)	
Cash and cash equivalents	\$ 1,218
Accounts receivable, net	12,053
Other Assets	11,226
Total Assets	24,497
Accounts payable and other liabilities	(6,073)
Net assets	18,424
Impairment recorded	(15,074)
Net assets classified as assets held for sale	\$ 3,350

17. Significant Accounting Policy Updates

As described in Note 2 – New Financial Accounting Pronouncements, effective January 1, 2018, we adopted ASU 2014-09, which changed the way we recognize revenue for certain contracts. Accounting policies that were significantly affected by the adoption of ASU 2014-09 are discussed below.

Revenue Recognition

Energy Solutions and Industrial Solutions Segments

Within the Energy Solutions and Industrial Solutions segments, a significant portion of our revenue is derived from fixed-price contracts. We account for a contract after it has been approved by all parties to the arrangement, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

For each contract, we assess the goods and services promised to a customer and identify a performance obligation for each promised good or service that is distinct. The typical life of our contracts is generally less than 12 months and each contract generally contains only one performance obligation, to provide goods or services to the customer. We determine the transaction price for each contract based on the consideration we expect to receive for the products or services being provided under the contract.

We recognize revenue as performance obligations are satisfied and the customer obtains control of the products and services. A significant amount of our revenue within the Energy Solutions and Industrial Solutions segments is recognized over a period of time as we perform under the contract because control of the work in process transfers continuously to the customer. For performance obligations to deliver products with continuous transfer of control to the customer, revenue is recognized based on the extent of progress towards completion of the performance obligation. Progress is measured based on the ratio of costs incurred to date to the total estimated costs to complete the performance obligation. For these contracts, the cost-to-cost measure best depicts the continuous transfer of goods or services to the customer.

For contracts where the duration is short, total contract revenue is insignificant, or control does not continuously transfer to the customer, revenues are recognized at the point in time control passes to the customer, which occurs generally upon shipment of product.

Progress payments are generally made over the duration of the contract. Shipping and handling activities after control of the products has transferred to the customer are considered fulfillment activities. Sales taxes are recorded on a net basis.

Fluid Handling Solutions Segments

Within the Fluid Handling Solutions segment, a significant portion of our revenue is primarily derived from sales of inventory product and is recognized at the point in time control passes to the customer, which occurs generally upon shipment of the product.

Payments vary by customer but are typically due within 30 days. Shipping and handling activities after control of the products has transferred to the customer are considered fulfillment activities. Sales taxes are recorded on a net basis.

Point in Time Contract Assets and Contract Liabilities

Contract assets for contracts where revenue is recognized at a point in time are costs incurred on a contract for which revenue has not been recognized. Contract assets are recorded in inventories in the Condensed Consolidated Balance Sheet. Contract liabilities relate to advance payments received from customers for which revenue has not been recognized for contracts where revenue is recognized at a point in time. Contract liabilities are recorded in accounts payable and accrued expenses in the Condensed Consolidated Balance Sheet. Contract liabilities are reduced when the associated revenue from the contract is recognized.

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The Company's Condensed Consolidated Statements of Operations for the three-month and nine-month periods ended September 30, 2018 and 2017 reflect the consolidated operations of the Company and its subsidiaries.

CECO Environmental ("CECO") is a global leader in air quality and fluid handling serving the energy, industrial and other niche markets. Providing innovative technology and application expertise, CECO helps companies grow their business with safe, clean and more efficient solutions that help protect our shared environment. In regions around the world, CECO works to improve air quality, optimize the energy value chain and provide custom engineered solutions for applications including oil and gas, power generation, water and wastewater, battery production, poly silicon fabrication, chemical and petrochemical processing along with a range of others.

Note Regarding Use of Non-GAAP Financial Measures

The Company's unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). These GAAP financial statements include certain charges the Company believes are not indicative of its core ongoing operational performance.

As a result, the Company provides financial information in this Management's Discussion and Analysis that was not prepared in accordance with GAAP and should not be considered as an alternative to the information prepared in accordance with GAAP. The Company provides this supplemental non-GAAP financial information because the Company's management utilizes it to evaluate its ongoing financial performance and the Company believes it provides greater transparency to investors as supplemental information to its GAAP results.

The Company has provided the non-GAAP financial measures of non-GAAP operating income and non-GAAP operating margin as a result of items that the Company believes are not indicative of its ongoing operations. These include transactions associated with the Company's acquisitions, divestitures and the items described below in "Consolidated Results." The Company believes that evaluation of its financial performance compared with prior and future periods can be enhanced by a presentation of results that exclude the impact of these items. The Company has incurred substantial expense and income associated with the acquisition and divestitures. Additionally, the Company has incurred additional charges related to its restructuring program that was initiated in the fourth quarter of 2017. While the Company cannot predict the exact timing or amounts of such charges, it does expect to treat the financial impact of these transactions as special items in its future presentation of non-GAAP results.

Results of Operations

Consolidated Results

Our Condensed Consolidated Statements of Operations for the three-month and nine-month periods ended September 30, 2018 and 2017 are as follows:

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales	\$88.3	\$85.0	\$243.5	\$271.5
Cost of sales	59.6	57.9	161.7	184.0
Gross profit	\$28.7	\$27.1	\$81.8	\$87.5
Percent of sales	32.5 %	31.9 %	33.6 %	32.2 %
Selling and administrative expenses	\$22.2	\$22.0	\$66.1	\$66.7
Percent of sales	25.1 %	25.9 %	27.1 %	24.6 %
Amortization and earnout expenses (income)	\$2.0	\$(0.5)	\$7.4	\$4.6
Percent of sales	2.3 %	(0.6) %	3.0 %	1.7 %
Loss on divestitures, net of selling costs	\$15.1	\$—	\$4.0	\$—
Percent of sales	17.1 %	0.0 %	1.6 %	0.0 %
Restructuring income, net	\$(0.2)	\$—	\$—	\$—
Percent of sales	(0.2) %	0.0 %	0.0 %	0.0 %
Operating (loss) income	\$(10.4)	\$5.6	\$4.3	\$16.2
Operating margin	(11.8) %	6.6 %	1.8 %	6.0 %

To compare operating performance between the three-month and nine-month periods ended September 30, 2018 and 2017, the Company has adjusted GAAP operating income (loss) to exclude (1) loss on divestitures, net of selling costs necessary to complete the divestiture such as legal, accounting and compliance, (2) executive transition expenses, including severance for its former Chief Executive Officer, fees incurred in the search for its current Chief Executive Officer, and expenses associated with hiring its current Chief Financial Officer, (3) amortization and contingent acquisition expenses, including amortization of acquisition related intangibles, retention, severance, and earnout expenses, (4) facility exit expenses associated with the closure of certain leased facilities, (5) restructuring expenses primarily relating to severance, (6) legacy design repair expenses related to costs to rectify issues on products that are no longer in production and (7) plant, property and equipment valuation adjustments related to acquisitions. See “Note Regarding Use of Non-GAAP Financial Measures” above. The following table presents the reconciliation of GAAP operating income (loss) and GAAP operating margin to non-GAAP operating income and non-GAAP operating margin:

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Operating (loss) income as reported in accordance with GAAP	\$(10.4)	\$5.6	\$ 4.3	\$ 16.2
Operating margin in accordance with GAAP	(11.8) %	6.6 %	1.8 %	6.0 %
Legacy design repairs	—	—	—	2.0

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Plant, property and equipment valuation adjustment	—	0.2	—	0.5
Amortization and earnout expenses (income)	2.0	(0.5)	7.4	4.6
Loss on divestitures, net of selling costs	15.1	—	4.0	—
Restructuring income, net	(0.2)	—	—	—
Executive transition expenses	—	—	—	1.3
Facility exit expenses	—	—	—	0.2
Non-GAAP operating income	\$6.5	\$5.3	\$ 15.7	\$ 24.8
Non-GAAP operating margin	7.4 %	6.2 %	6.4 %	9.1 %

Consolidated sales for the third quarter of 2018 increased \$3.3 million, or 3.9%, to \$88.3 million compared with \$85.0 million in the third quarter of 2017. The increase is primarily attributable to improved sales in our Energy Solutions segment. The increase was partially offset by the 2018 first quarter divestitures of Keystone and Strobic which contributed \$6.9 million of sales in the third quarter of 2017 and none in the third quarter of 2018.

Consolidated sales for the first nine months of 2018 decreased \$28.0 million, or 10.3%, to \$243.5 million compared with \$271.5 million in the first nine months of 2017. The decrease is attributable to the divestitures of the Keystone filter brand (“Keystone”) and Strobic Air Corporation (“Strobic”) in the first quarter of 2018, which contributed \$16.7 million of sales in the first nine months of

2017 compared to \$4.8 million in the first nine months of 2018. The decrease is also attributable to a sales volume decline period over period in the Company's Industrial Solutions segment.

Gross profit increased \$1.6 million, or 5.9%, to \$28.7 million in the third quarter of 2018 compared with \$27.1 million in the same period of 2017. The increase in gross profit was primarily attributable to sales volume increases period over period. Gross profit as a percentage of sales increased to 32.5% in the third quarter of 2018 compared with 31.9% in the third quarter of 2017.

Gross profit decreased \$5.7 million, or 6.5%, to \$81.8 million in the first nine months of 2018 compared with \$87.5 million in the same period of 2017. The decrease in gross profit was primarily attributable to a sales volume decline period over period due to the divestitures and other volume declines leading to decreased sales. This decrease was partially offset by \$2.0 million in legacy design repairs occurring in the first nine months of 2017 that did not re-occur in the first nine months of 2018 and a decrease of \$2.2 million in warranty expense period over period. Gross profit as a percentage of sales increased to 33.6% in the first nine months of 2018 compared with 32.2% in the first nine months of 2017.

Orders booked were \$97.5 million during the third quarter of 2018 and \$292.9 million during the first nine months of 2018 as compared with \$71.0 million during the third quarter of 2017 and \$242.2 million during the first nine months of 2017. The increase is primarily attributable to an increase in orders for the Company's refinery related products and NOx air quality emission control systems. The increase is partially offset due to the divestitures of Keystone and Strobic, which combined for orders of \$5.3 million in the third quarter of 2017 compared to zero in the same period of 2018.

Selling and administrative expenses were \$22.2 million for the third quarter of 2018 compared with \$22.0 million for the third quarter of 2017. Selling and administrative expenses decreased as a percentage of sales from 25.9% in the third quarter of 2017 compared with 25.1% in the third quarter of 2018. The decrease in selling and administrative expenses as a percentage of sales is primarily attributable to the increase in sales.

Selling and administrative expenses were \$66.1 million for the first nine months of 2018 compared with \$66.7 million for the first nine months of 2017. Selling and administrative expenses increased as a percentage of sales from 24.6% in the first nine months of 2017 compared to 27.1% in the first nine months of 2018. The increase in selling and administrative expenses as a percentage of sales is primarily attributable to the decrease in sales.

Amortization and earnout expense (income) was expense of \$2.0 million for the third quarter of 2018 compared with income of \$(0.5) million for the third quarter of 2017. The increase in expense is primarily attributable to earnout adjustments resulting in income of \$3.9 million in the third quarter of 2017 for the earnout incurred in connection with the acquisition of Jiangyin Zhongli Industrial Technology Co. Ltd. ("Zhongli") due to lower than expected operational profit in 2017. In the third quarter of 2018, there was an adjustment to the earnout resulting in income of \$0.3 million.

Amortization and earnout expense was \$7.4 million for the first nine months of 2018 compared with \$4.6 million for the first nine months of 2017. The increase in expense was primarily attributable to earnout adjustments resulting in income of \$5.7 million in the first nine months of 2017 for the Zhongli acquisition due to lower than expected earnings in 2017. In the first nine months of 2018, there was an adjustment to the earnout resulting in income of \$0.3 million. The Zhongli earnout has been fully paid as of September 30, 2018.

During the third quarter of 2018, we began the process to divest of Zhongli, a business in our Energy Solutions segment operating in China. As of September 30, 2018, we have classified the assets of this business as held-for-sale and have recorded a \$15.1 million impairment loss. The loss is included in the loss on divestitures net of selling costs on the Condensed Consolidated Statement of Operations. On October 24, 2018, we entered in an agreement to sell Zhongli for \$3.6 million. We expect to close the transaction 90 days from the signing of the sales agreement, subject to buyer closing conditions and regulatory approval.

Operating (loss) income decreased \$16.0 million to a loss of \$(10.4) million in the third quarter of 2018 compared with income \$5.6 million during the same quarter of 2017 as a result of the factors described above.

Operating income decreased \$11.9 million to \$4.3 million in the first nine months of 2018 compared with \$16.2 million during the first nine months of 2017 as a result of the factors described above.

Non-GAAP operating income was \$6.5 million for the third quarter of 2018 compared with \$5.3 million for the third quarter of 2017. The increase in non-GAAP operating income is primarily attributable to higher sales, which led to an increase in gross profit. Non-GAAP operating income as a percentage of sales increased to 7.4% for the third quarter of 2018 from 6.2% for the third quarter of 2017.

Non-GAAP operating income was \$15.7 million for the first nine months of 2018 compared with \$24.8 million for the first nine months of 2017. The decrease in non-GAAP operating income is primarily due to lower sales, including the impact of divestitures, which led to a decrease in gross profit. Non-GAAP operating income as a percentage of sales decreased to 6.4% for the first nine months of 2018 from 9.1% for the first nine months of 2017.

Interest expense increased to \$1.7 million in the third quarter of 2018 and \$5.4 million for the first nine months of 2018 compared with \$1.6 million in the third quarter of 2017 and \$5.0 million in the first nine months of 2017. The increase is due to higher interest rates on our term loan in 2018 in comparison to 2017, which was partially offset by lower outstanding balances in 2018.

Income tax expense was \$1.3 million for the third quarter of 2018 and \$6.8 million for the first nine months of 2018, compared with \$0.9 million for the third quarter of 2017 and \$2.9 million for the first nine months of 2017. The effective income tax rate for the third quarter of 2018 was (11.5)% compared with 22.6% for third quarter of 2017. The effective income tax rate was (524.7)% for the first nine months of 2018, compared with 25.1% for the first nine months of 2017. The U.S. statutory tax rate decreased from 35% in 2017 to 21% in 2018 with the enactment of the Tax Cuts and Jobs Act (the "Tax Act"). There was tax expense for the three months ended September 30, 2018, despite a pre-tax loss, due primarily to the non-deductibility of the impairment charge taken on the Company's investment in Zhongli. The effective tax rate for the nine months ended September 30, 2018 was also significantly impacted by permanent book-tax differences related to the first-quarter divestiture of a business with goodwill recorded for financial reporting purposes. Our effective tax rate is affected by certain other permanent differences, including non-deductible incentive stock-based compensation, foreign return-to-provision adjustments, deferred tax expense recorded on unremitted foreign earnings, and differences in tax rates among the jurisdictions in which we operate.

Business Segments

The Company's operations are organized and reviewed by management along its product lines or end market that the segment serves and are presented in three reportable segments. The results of the segments are reviewed through "Income from operations" on the unaudited Condensed Consolidated Statements of Operations.

(dollars in thousands)	Three Months		Nine Months Ended	
	Ended September 30, 2018	2017	September 30, 2018	2017
Net Sales (less intra-, inter-segment sales)				
Energy Solutions Segment	\$56,552	\$44,279	\$147,661	\$150,487
Industrial Solutions Segment	20,258	21,638	56,379	67,737
Fluid Handling Solutions Segment	11,446	20,105	39,445	54,269
Corporate and Other ⁽¹⁾	—	(1,035)	—	(985)
Net sales	\$88,256	\$84,987	\$243,485	\$271,508

⁽¹⁾ Includes adjustment for revenue on intercompany jobs.

(dollars in thousands)	Three Months		Nine Months Ended	
	Ended September 30, 2018	2017	September 30, 2018	2017
(Loss) income from Operations				

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Energy Solutions Segment	\$8,156	\$5,921	\$17,682	\$20,280
Industrial Solutions Segment	1,638	1,523	4,279	6,356
Fluid Handling Solutions Segment	1,836	4,299	7,234	11,756
Corporate and Other ⁽²⁾	(21,911)	(5,403)	(24,691)	(20,349)
Eliminations	(160)	(710)	(232)	(1,808)
(Loss) income from operations	\$(10,441)	\$5,630	\$4,272	\$16,235

⁽²⁾ Includes loss on divestitures, net of selling costs, corporate compensation, professional services, information technology and other general and administrative corporate expenses. This amount excludes earnout adjustments, which are recorded in the segment in which the adjustment occurs. See Note 7 to the unaudited condensed consolidated financial statements for the earnout expenses by segment.

Energy Solutions Segment

Our Energy Solutions segment, formerly our Energy segment, net sales increased \$12.3 million to \$56.6 million in the third quarter of 2018 compared with \$44.3 million in the same period of 2017. The increase is due primarily to volume increases for the Company's refinery related products and services period over period.

Net sales for the segment decreased \$2.8 million to \$147.7 million in the first nine months of 2018 compared with \$150.5 million in the same period of 2017. The decrease is due primarily to volume declines occurring for the Company's refinery related products and services and natural gas turbine exhaust systems related products and services period over period. The decline was driven by volume decline in the first two quarters of 2018 while there were stronger quarter-over-quarter sales in the third quarter of 2018.

Operating income for the Energy Solutions segment was \$8.2 million in the third quarter of 2018 compared to income of \$5.9 million in the same period of 2017. The change is primarily attributable higher sales and the benefits from our fourth quarter 2017 restructuring program. The third quarter of 2017 included income from a \$3.9 million earnout adjustment related to Zhongli, while there was no similar adjustment in 2018.

Operating income for the Energy Solutions segment was \$17.7 million for the first nine months of 2018 compared with \$20.3 million in operating income in the same period of 2017. Operating income in the first nine months of 2018 and 2017 included \$0.3 million and \$5.7 million of income, respectively, related to earnout adjustments during these periods. The decrease in operating income was also impacted from incurring \$2.3 million in warranty expense and \$2.0 million in legacy design repairs during the first nine months of 2017, compared to warranty expense of \$0.1 million during the first nine months of 2018.

Industrial Solutions Segment

Our Industrial Solutions segment, formerly our Environmental segment, net sales decreased \$1.3 million to \$20.3 million in the third quarter of 2018 compared with \$21.6 million in the third quarter of 2017. The decrease is due primarily to volume decreases for the Company's wet scrubbers and mist eliminators.

Net sales for the segment decreased \$11.3 million to \$56.4 million in the first nine months of 2018 compared with \$67.7 million in the first nine months of 2017. The decrease is due primarily to volume decreases for the Company's wet scrubbers, mist eliminators and for the installation and fabrication of duct work and related equipment period over period.

Operating income for the segment was flat with \$1.6 million in the third quarter of 2018 compared with \$1.5 million in the third quarter of 2017.

Operating income for the segment decreased \$2.1 million to \$4.3 million in the first nine months of 2018 compared with \$6.4 million in the first nine months of 2017. The decrease is primarily attributable to the decrease in sales.

Fluid Handling Solutions Segment

Our Fluid Handling Solutions segment, formerly our Fluid Handling and Filtration segment, net sales decreased \$8.7 million to \$11.4 million in the third quarter of 2018 compared with \$20.1 million in the third quarter of 2017. The decrease is primarily attributable to the divestitures of Keystone and Strobic, which combined for sales of \$6.9 million in the third quarter of 2017 compared to zero in the same period of 2018. Additionally, the decrease is due to a sales volume decline period over period related to lower sales of pumps.

Net sales for the segment decreased \$14.9 million to \$39.4 million in the first nine months of 2018 compared with \$54.3 million in the first nine months of 2017. The decrease is primarily attributable to the divestitures of Keystone and Strobic, which combined for sales of \$16.7 million in the first nine months of 2017 compared to \$4.8 million in the same period of 2018. The decrease was also impacted by a sales volume decline period over period related to sales of pumps.

Operating income for the segment decreased \$2.5 million to \$1.8 million in the third quarter of 2018 compared with \$4.3 million in the third quarter of 2017. The decrease is primarily attributable to the decrease in sales and operating

income of \$1.5 million from the divestitures of Keystone and Strobic.

Operating income for the segment decreased \$4.6 million to \$7.2 million in the first nine months of 2018 compared with \$11.8 million in the first nine months of 2017. The decrease is primarily attributable to the decrease in sales and operating income of \$2.3 million from the divestitures of Keystone and Strobic.

Corporate and Other Segment

Operating expense for the Corporate and Other segment was \$21.9 million in the third quarter of 2018 compared with operating expense of \$5.4 million in the third quarter of 2017. The increase in operating expenses is primarily due to a \$15.1 million impairment loss on the Zhongli business.

Operating expense for the Corporate and Other segment was \$24.7 million in the first nine months of 2018 compared with operating expense of \$20.3 million in the first nine months of 2017. The change is primarily attributable to the \$15.1 million impairment loss on the Zhongli business partially offset by \$11.1 million gain on divestitures, net of selling costs for Keystone and Strobic.

Backlog

Backlog (i.e., unfulfilled or remaining performance obligations) represents the sales we expect to recognize for our products and services for which control has not yet transferred to the customer. Our customers may have the right to cancel a given order, although historically cancellations have been rare. Our backlog as of September 30, 2018 was \$211.4 million compared with \$200 million at June 30, 2018 and \$168.9 million as of December 31, 2017. Our backlog at September 30, 2018, includes \$7.4 million for Zhongli. Backlog is adjusted on a quarterly basis for adjustments in foreign currency exchange rates. The Company removed \$7.7 million of orders from backlog as of the date of the divestitures as a result of the sale of Keystone and Strobic. There have been no other orders removed from backlog that were previously disclosed as backlog in prior quarters in the first nine months of 2018. Backlog is not defined by GAAP and our methodology for calculating backlog may not be consistent with methodologies used by other companies. There can be no assurances that backlog will be replicated, increased or translated into higher revenues in the future. The success of our business depends on a multitude of factors related to our backlog and the orders secured during the subsequent periods. Certain contracts are highly dependent on the work of contractors and other subcontractors participating in a project, over which we have no or limited control, and their performance on such project could have an adverse effect on the profitability of our contracts. Delays resulting from these contractors and subcontractors, changes in the scope of the project, weather, and labor availability also can have an effect on a contract's profitability.

New Accounting Pronouncements

For information regarding recent accounting pronouncements, see Note 2 to the unaudited condensed consolidated financial statements within Item 1 of this Quarterly Report on Form 10-Q.

Liquidity and Capital Resources

Our principal sources of liquidity are cash flow from operations, cash from divestitures, net of selling costs and available borrowings under our Credit Facility (as defined below). Our principal uses of cash are operating costs, payment of principal and interest on our outstanding debt, dividends, working capital and other corporate requirements.

When we undertake large jobs, our working capital objective is to make these projects self-funding. We work to achieve this by obtaining initial down payments, progress billing contracts, utilizing extended payment terms from material suppliers when possible, and paying sub-contractors after payment from our customers, which is an industry practice. Our investment in net working capital is funded by cash flow from operations and by our revolving line of credit.

At September 30, 2018, the Company had working capital of \$59.2 million, compared with \$66.1 million at December 31, 2017. The ratio of current assets to current liabilities was 1.53 to 1 on September 30, 2018, as compared with a ratio of 1.61 to 1 at December 31, 2017.

At September 30, 2018 and December 31, 2017, cash and cash equivalents totaled \$30.7 million and \$29.9 million, respectively. As of September 30, 2018 and December 31, 2017, \$23.3 million and \$19.7 million, respectively, of our cash and cash equivalents were held by certain non-U.S. subsidiaries, as well as being denominated in foreign currencies.

Debt consisted of the following at September 30, 2018 and December 31, 2017:

(Table only in thousands)	September 30, 2018	December 31, 2017
Outstanding borrowings under Credit Facility (defined below).		
Term loan balance due upon maturity in September 2020.		
- Term loan	\$ 81,147	\$ 113,903
- U.S. Dollar revolving loans	—	1,000
- Unamortized debt discount	(1,972)	(2,834)
Total outstanding borrowings under Credit Facility	79,175	112,069
Outstanding borrowings (U.S. dollar equivalent)		
under Aarding Facility	—	2,764
Total outstanding borrowings	79,175	114,833
Less: current portion	—	11,296
Total debt, less current portion	\$ 79,175	\$ 103,537

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Credit Facility

The Company's outstanding borrowings in the United States consist of senior secured term loan, senior secured U.S. dollar revolving loans with sub-facilities for letters of credit and swing-line loans and senior secured multi-currency revolving credit facility for U.S. dollar and specific foreign currency loans (collectively, the "Credit Facility"). As of September 30, 2018 and December 31, 2017, the Company was in compliance with all related financial and other restrictive covenants under the Credit Facility.

See Note 8 to the condensed consolidated financial statements for further information on the Company's debt facilities.

Total unused credit availability under our existing Credit Facility and other non-U.S. credit facilities and agreements is as follows:

(dollars in millions)	September 30, 2018	December 31, 2017
Credit Facility, U.S. Dollar revolving loans	\$ 60.5	\$ 60.5
Additional capacity from letters of credit	20.0	—
Draw down	—	(1.0)
Open letters of credit	(29.5)	(24.4)
Credit Facility, Multi-currency revolving facilities	19.5	19.5
Netherlands facilities (€13.0 million at September 30, 2018 and at December 31, 2017 in U.S. Dollar equivalent)	—	15.6
Draw down	—	(2.8)
Open letters of credit	—	(3.9)
China Facility	—	4.6
Draw down	—	—
Total unused credit availability	\$ 70.5	\$ 68.1
Amount available based on borrowing limitations	\$ 34.1	\$ 18.7

Overview of Cash Flows and Liquidity

(dollars in thousands)	For the Nine Months Ended September 30,	
	2018	2017
Net cash provided by (used in) operating activities	\$3,686	\$(1,089)
Net cash provided by (used in) investing activities	37,478	(439)
Net cash used in financing activities	(37,680)	(21,488)
Effect of exchange rate changes on cash and cash equivalents	(1,433)	881
Net increase (decrease) in cash	\$2,051	\$(22,135)

For the nine months ended September 30, 2018, \$3.7 million of cash was provided by operating activities compared with \$1.1 million used in operating activities in the prior year period. The \$4.8 million increase in cash flow from operating activities was due primarily to favorable net working capital items in the first nine months of 2018 compared with the same period in 2017 as reflected in the changes in those items on the Condensed Consolidated

Statements of Cash Flows.

For the nine months ended September 30, 2018, net cash provided by investing activities was \$37.5 million compared with net cash used in investing activities of \$0.4 million in the prior year period. The primary reason for the change was the cash proceeds from divestitures of \$33.1 million in 2018 as well as \$5.5 million of net proceeds from the sale of our Peerless China facility.

For the nine months ended September 30, 2018, net cash used in financing activities was \$37.7 million due principally to net term loan repayments of \$32.8 million and \$3.8 million in net revolving credit facilities repayments. For the nine months ended September 30, 2017, net cash used in financing activities was \$21.5 million due principally to net term loan repayments of \$9.2 million, net borrowings on revolving credit facilities of \$2.2 million, earnout payments classified as financing activities of \$7.4 million and \$7.8 million in dividends paid to common stockholders, partially offset by \$1.4 million received from the employee stock purchase plan, exercise of stock options and dividend reinvestment plan.

Our dividend policy and the payment of cash dividends are subject to the Board of Directors' determination that the dividend policy and the declaration of dividends are in the best interest of the Company's shareholders. On November 6, 2017, the Board of Directors reviewed the Company's dividend policy and determined that it would be in the best interest of the stockholders to suspend dividend

payments. Future dividends and the dividend policy may be changed at the Company's discretion at any time. Payment of dividends is also subject to the continuing compliance with our financial covenants under our Credit Facility.

Critical Accounting Policies and Estimates

Management's discussion and analysis of the Company's financial condition and results of operations are based upon the Company's condensed consolidated financial statements. The preparation of these financial statements requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities and reported amounts of revenues and expenses. Such estimates include revenue recognition, the valuation of trade receivables, inventories, goodwill, intangible assets, other long-lived assets, legal contingencies, earnout liabilities, guarantee obligations and assumptions used in the calculation of income taxes, assumptions used in business combination accounting and related balances, and pension and post-retirement benefits, among others. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors. Management monitors the economic conditions and other factors and will adjust such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates.

Management believes there have been no changes during the nine-month period ended September 30, 2018, other than disclosed in Note 17 to the condensed consolidated financial statements within Item 1 of this quarterly Report on Form 10-Q, to the items that the Company disclosed as its critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Forward-Looking Statements

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact, including statements regarding industry prospects or future results of operations or financial position made in this Quarterly Report on Form 10-Q are forward-looking. We use words such as "believe," "expect," "anticipate," "intends," "estimate," "forecast," "project," "will," "should" and similar expressions to identify forward-looking statements. Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from any future results, performance or achievements expressed or implied by such statements. Potential risks, among others, that could cause actual results to differ materially are discussed under "Part I – Item 1A. Risk Factors" of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 and include, but are not limited to: our ability to successfully realize the expected benefits of our restructuring program; our ability to successfully integrate acquired businesses and realize the synergies from acquisitions, as well as a number of factors related to our business, including economic and financial market conditions generally and economic conditions in CECO's service areas; dependence on fixed price contracts and the risks associated therewith, including actual costs exceeding estimates; fluctuations in operating results from period to period due to cyclical or seasonality of the business; the effect of growth on CECO's infrastructure, resources, and existing sales; the ability to expand operations in both new and existing markets; the potential for contract delay or cancellation; liabilities arising from faulty services or products that could result in significant professional or product liability, warranty, or other claims; changes in or developments with respect to any litigation or investigation; failure to meet timely completion or performance standards that could result in higher cost and reduced profits or, in some cases, losses on projects; the potential for fluctuations in prices for manufactured components and raw materials, including as a result of tariffs and surcharges; the substantial amount of debt incurred in connection with our acquisitions and our ability to repay or refinance it or incur additional debt in the future; the impact of federal, state or local government regulations; economic and political conditions generally; our ability to

successfully complete the divestiture of non-core assets, including Zhongli; and the effect of competition in the Industrial Solutions segment, Energy Solutions segment and Fluid Handling Solutions segment industries. Many of these risks are beyond management's ability to control or predict. Should one or more of these risks or uncertainties materialize, or should the assumptions prove incorrect, actual results may vary in material aspects from those currently anticipated. Investors are cautioned not to place undue reliance on such forward-looking statements as they speak only to our views as of the date the statement is made. Furthermore, forward-looking statements speak only as of the date they are made. Except as required under the federal securities laws or the rules and regulations of the SEC, we undertake no obligation to update or review any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks, primarily changes in interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices, such as foreign currency exchange and interest rates. For the Company, these exposures are primarily related to changes in interest rates. We do not currently hold any derivatives or other financial instruments purely for trading or speculative purposes. However, we do have an interest rate swap in place as of September 30, 2018 to hedge against a portion of our interest rate exposure related to debt indexed to LIBOR market rates. See Note 8 "Senior Debt" to the condensed consolidated financial statements within Item 1 of this Quarterly Report on Form 10-Q, for further information on this interest rate swap.

The carrying value of the Company's long-term debt and current maturities of long-term debt was \$81.1 million at September 30, 2018. Market risk was estimated as the potential decrease (increase) in future earnings and cash flows resulting from hypothetical 10% increase (decrease) in the Company's estimated weighted average borrowing rate at September 30, 2018. Most of the interest on the Company's debt is indexed to either the LIBOR or EURIBOR market rates. The estimated impact of a hypothetical 10% change in the estimated weighted average borrowing rate, excluding the portion of debt which has an interest rate fixed by the interest rate swap described above, at September 30, 2018 is \$0.2 million on an annual basis.

The Company has wholly-owned subsidiaries located in the Netherlands, Canada, the People's Republic of China, Mexico, United Kingdom, Singapore, and Chile. In the past, we have not hedged our foreign currency exposure, and fluctuations in exchange rates have not materially affected our operating results. Future changes in exchange rates may positively or negatively impact our revenues, operating expenses and earnings.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) that are designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of September 30, 2018. Management believes that the condensed consolidated financial statements included in this report fairly present in all material respects the Company's financial condition, results of operations and cash flows for each of the periods presented in this report.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the fiscal quarter ended September 30, 2018, that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations on the Effectiveness of Controls

Control systems, no matter how well conceived and operated, are designed to provide a reasonable, but not an absolute, level of assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. The Company conducts periodic evaluations of its internal controls to enhance, where necessary, its procedures and controls.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information with respect to legal proceedings can be found in Note 14 “Commitments and Contingencies – Legal Matters” to the Condensed Consolidated Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

There have been no material changes in the Company’s risk factors that we disclosed in “Part I – Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2017.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- 10.2 Amendment No. 4 to Amended and Restated Credit Agreement

- 31.1 Rule 13(a)/15d-14(a) Certification by Chief Executive Officer
- 31.2 Rule 13(a)/15d-14(a) Certification by Chief Financial Officer
- 32.1 Certification of Chief Executive Officer (18 U.S. Section 1350)
- 32.2 Certification of Chief Financial Officer (18 U.S. Section 1350)

- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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.

CECO Environmental
Corp.

By: /s/ Matthew Eckl
Matthew Eckl
Chief Financial Officer

Date: November 7, 2018