BIOSANTE PHARMACEUTICALS INC
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May 03, 2002

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As filed with the Securities and Exchange Commission on May 3, 2002

Registration No. 333-64218

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

POST-EFFECTIVE AMENDMENT NO. 1
TO
FORM SB-2/A

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

BIOSANTE PHARMACEUTICALS, INC.

(Name of Small Business Issuer in its Charter)

Delaware	**2836**	**58-2301143**
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

111 Barclay Boulevard
Lincolnshire, Illinois 60069
Telephone No.: (847) 478-0500

Phillip B. Donenberg
Chief Financial Officer, Treasurer and Secretary
BioSante Pharmaceuticals, Inc.
111 Barclay Boulevard
Lincolnshire, Illinois 60069
Telephone No.: (847) 478-0500

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copy to:
Amy E. Culbert, Esq.
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45 South Seventh Street, Suite 3300
Minneapolis, Minnesota 55402
(612) 607-7287

Approximate date of commencement of proposed sale to the public:
From time to time after this registration statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or reinvestment plans, check the following box: ý

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

Subject to Completion, dated May 3, 2002

The information in this prospectus is not complete and may be changed. We may not sell these securities until the Securities and Exchange Commission declares our registration statement effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS

25,437,500 Shares

Common Stock

Selling stockholders of BioSante Pharmaceuticals, Inc. are offering 25,437,500 shares of common stock. BioSante will not receive any proceeds from the sale of shares offered by the selling stockholders.

The shares of common stock offered will be sold as described under the heading "Plan of Distribution," beginning on page 21.

Our common stock is quoted on the Over-the-Counter Bulletin Board under the symbol "BTPH." On May 1, 2002, the last reported sale price of our common stock on the OTC Bulletin Board was $0.52 per share.

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

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2002

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In this prospectus, references to "BioSante," "the company," "we," and "our," unless the context otherwise requires, refer to BioSante Pharmaceuticals, Inc.

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

You should rely only on the information contained in this prospectus. We have not authorized any other person to provide you with different information. This prospectus may only be used where it is legal to sell these securities. The information in this prospectus is accurate as of the date on the front cover. You should not assume that the information contained in this prospectus is accurate as of any other date.

SUMMARY

The items in the following summary are described in more detail later in this prospectus. This summary provides an overview of selected information and does not contain all the information you should consider. Therefore, you should also read the more detailed information contained in this prospectus, including the financial statements.

Our Company

We are a development stage biopharmaceutical company that is developing a pipeline of hormone replacement products to treat hormone deficiencies in men and women. We also are engaged in the development of our proprietary calcium phosphate, nanoparticulate-based platform technology, or CAP, for vaccine adjuvants, proprietary novel vaccines, drug delivery systems and to purify the milk of transgenic animals.

To enhance the value of our current pharmaceutical portfolio, we are pursuing the following corporate growth strategies:

- accelerate the development of our hormone replacement products;

continue to develop our nanoparticle-based platform technology, or CAP, and seek assistance in such development through corporate partner sub-licenses;

license or otherwise acquire other drugs that will add value to our current product portfolio; and

implement business collaborations or joint ventures with other pharmaceutical and biotechnology companies.

Our primary focus is to build a pipeline of hormone replacement products for the treatment of human hormone deficiencies. Symptoms of hormone deficiency in men include impotence, lack of sex drive, muscle weakness and osteoporosis, and in women, menopausal symptoms, such as hot flashes, vaginal atrophy, decreased libido and osteoporosis.

Our proposed hormone replacement products, which we license on an exclusive basis from Antares Pharma Inc., are gel formulations of testosterone, estradiol, a combination of estradiol and testosterone and a combination of estradiol and a progestogen. The gels are designed to be absorbed quickly through the skin after application on the arms, shoulders, abdomen or thighs, delivering the hormone to the bloodstream evenly and in a non-invasive, painless manner. Human clinical trials have begun on four of our hormone replacement products, a necessary step in the process of obtaining United States Food and Drug Administration, or FDA, approval to market the products.

The following is a list of our hormone replacement gel products in development:

LibiGel a transdermal testosterone gel in Phase II clinical development for treatment of female sexual dysfunction.

Bio-T-Gel a transdermal testosterone gel in development for testosterone deficiency in men.

Bio-E-Gel a transdermal gel containing estradiol in development for estrogen deficiency in women, including menopausal symptoms.

Bio-E/P-Gel a transdermal gel containing estrogen and progestogen in development for estrogen deficiency.

LibiGel-E/T a transdermal gel containing estrogen and testosterone in development for treatment of female sexual dysfunction.

Our CAP technology, which we license on an exclusive basis from the University of California, is based on the use of extremely small, solid, uniform particles, which we call "nanoparticles," as immune

system boosters, for drug delivery and to purify the milk of transgenic animals. We have identified four potential initial applications for our CAP technology:

the creation of improved versions of current vaccines by the "adjuvant" activity of our proprietary nanoparticles that enhance the ability of a vaccine to stimulate an immune response;

the development of new, unique vaccines against diseases for which there currently are few or no effective methods of prevention (*e.g.*, genital herpes);

the creation of inhaled and oral forms of drugs that currently must be given by injection (*e.g.*, insulin); and

the purification of the milk of transgenic animals, in which protein pharmaceuticals are grown by selectively isolating biologically active therapeutic proteins from the transgenic milk.

The following is a list of our CAP products in development:

Bio-Vant CAP adjuvant technology new proprietary CAP technology in development for improved versions of current vaccines and new vaccines against cancer, viral and bacterial infections and autoimmune diseases.

Bio-Air advanced proprietary technology using CAP as a delivery system for inhalable versions of therapies that currently must be injected.

CAP-Oral an advanced delivery system using proprietary CAP technology for oral administration of therapies that currently must be injected.

CAP biotechnology production use of CAP technology in a new patented process for extracting therapeutic proteins from transgenic milk.

Our company, which was initially formed as a corporation organized under the laws of the Province of Ontario on August 29, 1996, was continued as a corporation under the laws of the State of Wyoming on December 19, 1996 and was reincorporated under the laws of the State of Delaware on June 26, 2001.

Our principal executive offices are located at 111 Barclay Boulevard, Suite 280, Lincolnshire, Illinois 60069, and our telephone number is (847) 478-0500. Our web site is located at *www.biosantepharma.com*. Our web site, and the information contained on that site, or connected to that site, are not intended to be part of this prospectus.

Summary Consolidated Financial Data

The selected statement of operations data shown below for the years ended December 31, 1999, 2000 and 2001 and the balance sheet data as of December 31, 2000 and 2001 are derived from our audited financial statements included elsewhere in this prospectus. The selected statement of operations data shown below for the period from August 29, 1996 (date of incorporation) to December 31, 1996 and for the years ended December 31, 1997 and 1998 and the balance sheet data as of December 31, 1997, 1998 and 1999 are derived from our audited financial statements not included elsewhere in this prospectus. When you read this selected consolidated financial data, it is important that you also read the historical financial statements and related notes included in this prospectus, as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations." Historical results are not necessarily indicative of future results.

	Period from August 29, 1996 (date of incorporation) to December 31, 1996	Year Ended December 31,				
		1997	1998	1999	2000	2001
	(in thousands, except per share and share data)					
Statement of Operations Data:						
Licensing income	$	$	$	$	$	$ 1,747
Interest income	53	144	123	199	228	174
Total income	53	144	123	199	228	1,921
Expenses:						

	Period from August 29, 1996 (date of incorporation) to December 31, 1996					
Research and development		336	1,400	661	1,888	2,142
General and administration	547	1,618	1,112	853	1,679	2,299
Depreciation and amortization	1	52	140	91	98	93
Loss on disposal of capital assets		28	130			
Total expenses	548	2,034	2,782	1,605	3,665	4,533
Loss before other expenses	(495)	(1,890)	(2,659)	(1,406)	(3,437)	(2,611)
Cost of acquisition of Structured Biologicals, Inc.	375					
Purchased in-process research and development	5,377					
Total other expenses	5,752					
Net loss	$ (6,247)	$ (1,890)	$ (2,659)	$ (1,406)	$ (3,437)	$ (2,611)
Basic and diluted net loss per share	$ (0.26)	$ (0.05)	$ (0.08)	$ (0.03)	$ (0.06)	$ (0.04)
Weighted average number of shares outstanding	24,366	35,962	34,858	49,424	57,537	64,853

	As of December 31,				
	1997	1998	1999	2000	2001
	(in thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$ 1,750	$ 2,841	$ 5,275	$ 2,612	$ 4,502
Working capital	356	2,099	5,004	1,735	3,666
Total assets	2,450	3,449	5,780	3,067	4,979
Convertible debenture current				500	
Stockholders' equity	1,034	2,631	5,451	2,126	4,051

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RISK FACTORS

This offering involves a high degree of risk. You should carefully consider the risks and uncertainties described below in addition to the other information contained in this prospectus, including the section entitled "Cautionary Statement Concerning Forward-Looking Statements" before deciding whether to invest in shares of our common stock. If any of the following risks actually occur, our business, financial condition or operating results could be harmed. In that case, the trading price of our common stock could decline, and you may lose part or all of your investment. These risks and uncertainties described below are not the only ones facing BioSante. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also impair our business operations and adversely affect the market price of our common stock.

Risks Relating to Our Company

We have a history of operating losses, expect continuing losses and may never achieve profitability.

We have incurred losses in each year since our amalgamation in 1996 and expect to incur substantial and continuing losses for the foreseeable future. We incurred a net loss of $2,611,361 for the year ended December 31, 2001, and as of December 31, 2001, our accumulated deficit was $18,251,033.

All of our revenue to date has been derived from interest earned on invested funds and license fees. We have not commercially introduced any products. We expect to incur substantial and continuing losses for the foreseeable future as our own product development programs expand and various preclinical and clinical trials commence. The amount of these losses may vary significantly from year-to-year and quarter-to-quarter and will depend on, among other factors:

the timing and cost of product development;

the progress and cost of preclinical and clinical development programs;

the costs of licensure or acquisition of new products;

the timing and cost of obtaining necessary regulatory approvals; and

the timing and cost of obtaining third party reimbursement.

In order to generate revenues, we must successfully develop and commercialize our own proposed products or products in the late-stage human clinical development phase or already on the market that we may in-license or otherwise acquire, or enter into collaborative agreements with others who can successfully develop and commercialize them. Even if our proposed products and the products we may license or otherwise acquire are commercially introduced, they may never achieve market acceptance and we may never generate revenues or achieve profitability.

We will need to raise substantial additional capital in the future to fund our operations and we may be unable to raise such funds when needed and on acceptable terms.

We currently do not have sufficient resources to complete the commercialization of any of our proposed products. Therefore, we may need to raise substantial additional capital to fund our operations sometime in the future. We cannot be certain that any financing will be available when needed. If we fail to raise additional financing as we need it, we may have to delay or terminate our own product development programs or pass on opportunities to in-license or otherwise acquire new products that we believe may be beneficial to our business.

Our cash on hand as of December 31, 2001 was $4,502,387. We believe this cash will be sufficient to fund our operations through December 2002. We have based this estimate on assumptions that may prove to be wrong. As a result, we may need to obtain additional financing prior to that time. In

addition, we may need to raise additional capital at an earlier time to fund our ongoing research and development activities, acquire new products or take advantage of other unanticipated opportunities. Any additional equity financings may be dilutive to our existing shareholders, and debt financing, if available, may involve restrictive covenants on our business. In addition, insufficient funds may require us to delay, scale back or eliminate some or all of our programs designed to facilitate the commercial introduction of our proposed products, prevent commercial introduction of our products altogether or restrict us from acquiring new products that we believe may be beneficial to our business.

We are a development stage company with a short operating history, making it difficult for you to evaluate our business and your investment.

We are in the development stage and our operations and the development of our proposed products are subject to all of the risks inherent in the establishment of a new business enterprise, including:

the absence of an operating history;

the lack of commercialized products;

insufficient capital;

expected substantial and continual losses for the foreseeable future;

limited experience in dealing with regulatory issues;

the lack of manufacturing experience and limited marketing experience;

an expected reliance on third parties for the development and commercialization of some of our proposed products;

a competitive environment characterized by numerous, well-established and well-capitalized competitors; and

reliance on key personnel.

Because we are subject to these risks, you may have a difficult time evaluating our business and your investment in our company.

Our proposed products are in the research and development stages and will likely not be commercially introduced for several years, if at all.

Our proposed products are in the research and development stages and will require further research and development, preclinical and clinical testing and investment prior to commercialization in the United States and abroad. We cannot assure you that any of our proposed products will:

be successfully developed;

prove to be safe and efficacious in clinical trials;

meet applicable regulatory standards;

demonstrate substantial protective or therapeutic benefits in the prevention or treatment of any disease;

be capable of being produced in commercial quantities at reasonable costs; or

be successfully marketed.

We do not anticipate that any of our proposed products will receive the requisite regulatory approvals for commercialization in the United States or abroad until approximately late 2003, or later,

if at all, and we cannot assure you that any of our proposed products, if approved and marketed, will generate significant product revenue and provide an acceptable return on our investment.

Our strategy to acquire products in the late-stage development phase or products already on the market is risky and the market for acquiring these products is competitive.

We may acquire, through outright purchase, license, joint venture or other methods, products in the late-stage development phase and assist in the final development and commercialization of those products or products already on the market. There are a number of companies that have similar strategies to ours, many of whom have substantially greater resources than us. It is difficult to determine the value of a product that has not been fully developed or commercialized, and the possibility of significant competition for these products may tend to increase the cost to us of these products beyond the point at which we will experience an acceptable return on our investment. We cannot assure you that we will be able to acquire any products on commercially acceptable terms or at all, that any product we may acquire will be approved by the FDA or if approved, will be marketable, or that even if marketed, that we will be able to obtain an acceptable return on our investment.

If we purchase any products, we could issue common or preferred stock that would dilute our existing stockholders' percentage ownership, incur substantial debt or assume contingent liabilities by paying cash for such products. For example, we paid a $1.0 million upfront license fee for our hormone replacement products in June 2000. In September 2000, we sublicensed some of these products to a Canadian company and in connection with this transaction and subject to our achieving certain milestones we agreed to sell shares of our common stock to this licensee in the future at a premium of the then market value of our common stock. Purchases of new products also involve numerous other risks, including:

problems assimilating the purchased products;

unanticipated costs associated with the purchase;

incorrect estimates made in the accounting for acquisitions; and

risks associated with entering markets in which we have no or limited prior experience.

If we fail to obtain regulatory approval to commercially manufacture or sell any of our future products, or if approval is delayed, we will be unable to generate revenue from the sale of our products.

We must obtain regulatory approval to sell any of our products in the United States and abroad. In the United States, we must obtain the approval of the FDA for each product or drug that we intend to commercialize. The FDA approval process is typically lengthy and expensive, and approval is never certain. Products to be commercialized abroad are subject to similar foreign government regulation.

Generally, only a very small percentage of newly discovered pharmaceutical products that enter preclinical development are approved for sale. Because of the risks and uncertainties in biopharmaceutical development, our proposed products could take a significantly longer time to gain regulatory approval than we expect or may never gain approval. If regulatory approval is delayed or never obtained, our management's credibility, the value of our company and our operating results and liquidity would be adversely affected.

To obtain regulatory approval to market our products, costly and lengthy preclinical studies and clinical trials may be required, and the results of the studies and trials are highly uncertain.

As part of the FDA approval process, we must conduct preclinical studies on animals and clinical trials on humans on each of our proposed products. We expect the number of preclinical studies and clinical trials that the FDA will require will vary depending on the product, the disease or condition the

product is being developed to address and regulations applicable to the particular product. We may need to perform multiple preclinical studies using various doses and formulations before we can begin clinical trials, which could result in delays in our ability to obtain any regulatory approvals or to market any of our products. Furthermore, even if we obtain favorable results in preclinical studies on animals, the results in humans may be different.

After we have conducted preclinical studies in animals, we must demonstrate that our products are safe and effective for use on human patients in order to receive regulatory approval for commercial sale. The data obtained from preclinical and clinical testing are subject to varying

interpretations that could delay, limit or prevent regulatory approval. Adverse or inconclusive clinical results would prevent us from filing for regulatory approval of our products. Additional factors that could cause delay or termination of our clinical trials include:

slow patient enrollment;

longer treatment time required to demonstrate efficacy;

adverse medical events or side effects in treated patients; and

lack of effectiveness of the product being tested.

If we fail to obtain an adequate level of reimbursement for our products by third party payors, there may be no commercially viable markets for our products.

Our ability to commercialize our products successfully will depend in part upon the price we may be able to charge for our products and on the extent to which reimbursement for the cost of our products and related treatment will be available from government health administration authorities, private health insurers and other third party payors. We currently have limited expertise obtaining reimbursement. We will need to seek additional reimbursement expertise unless we enter into collaborations with other companies with the necessary expertise. Even if we are able to obtain reimbursement from third party payors, we cannot be certain that reimbursement rates will be high enough to allow us to profit from sales of our products and realize an acceptable return on our investment in product development.

We license the technology underlying our hormone replacement products and our CAP technology from third parties and may lose the rights to license them.

We license the technology underlying our proposed hormone replacement products from Antares Pharma, Inc. and our CAP technology from the University of California. We may lose our right to license these technologies if we breach our obligations under the license agreements. Although we intend to use our reasonable best efforts to meet these obligations, if we violate or fail to perform any term or covenant of the license agreements or with respect to the University of California's license agreement within 60 days after written notice from the University of California, the other party to these agreements may terminate these agreements or certain projects contained in these agreements. The termination of these agreements, however, will not relieve us of our obligation to pay any royalty or license fees owing at the time of termination. Our failure to retain the right to license the technology underlying our proposed hormone replacement products or CAP technology could harm our business and future operating results. For example, if we were to enter into an outlicense agreement with a third party under which we agree to outlicense our hormone replacement technology or CAP technology for a license fee, the termination of the main license agreement with Antares Pharma, Inc. or the University of California could either, depending upon the terms of the outlicense agreement, cause us to breach our obligations under the outlicense agreement or give the other party a right to terminate that agreement, thereby causing us to lose future revenue generated by the outlicense fees.

We do not have any facilities appropriate for clinical testing, we lack significant manufacturing experience and we have very limited sales and marketing personnel. We may, therefore, be dependent upon others for our clinical testing, manufacturing, sales and marketing.

Our current facilities do not include accommodation for the testing of our proposed products in animals or in humans for the clinical testing required by the FDA. We do not have a manufacturing facility that can be used for full-scale production of our products. In addition, at this time, we have very limited sales and marketing personnel. In the course of our development program, we will therefore be required to enter into arrangements with other companies or universities for our animal testing, human clinical testing, manufacturing, and sales and marketing activities. If we are unable to retain third parties for these purposes on acceptable terms, we may be unable to successfully develop, manufacture and market our proposed products. In addition, any failures by third parties to adequately perform their responsibilities may delay the submission of our proposed products for regulatory approval, impair our ability to deliver our products on a timely basis or otherwise impair our competitive position. Our dependence on third parties for the development, manufacture, sale and marketing of our products also may adversely affect our profit margins.

If we are unable to protect our proprietary technology, we may not be able to compete as effectively.

The pharmaceutical industry places considerable importance on obtaining patent and trade secret protection for new technologies, products and processes. Our success will depend, in part, upon our ability to obtain, enjoy and enforce protection for any products we develop or acquire under United States and foreign patent laws and other intellectual property laws, preserve the confidentiality of our trade secrets and operate without infringing the proprietary rights of third parties.

Where appropriate, we seek patent protection for certain aspects of our technology. In February 2000, we filed a patent application relating to our CAP technology. However, our owned and licensed patents and patent applications may not ensure the protection of our intellectual property for a number of other reasons:

We do not know whether our patent applications will result in actual patents. For example, we may not have developed a method for treating a disease or manufacturing a product before others have developed similar methods.

Competitors may interfere with our patent process in a variety of ways. Competitors may claim that they invented the claimed invention before us or may claim that we are infringing on their patents and therefore we cannot use our technology as claimed under our patent. Competitors may also contest our patents by showing the patent examiner that the invention was not original or novel or was obvious.

We are in the research and development stage and are in the process of developing proposed products. Even if we receive a patent, it may not provide much practical protection. If we receive a patent with a narrow scope, then it will be easier for competitors to design products that do not infringe on our patent. Even if the development of our proposed products is successful and approval for sale is obtained, there can be no assurance that applicable patent coverage, if any, will not have expired or will not expire shortly after this approval. Any expiration of the applicable patent could have a material adverse effect on the sales and profitability of our proposed product.

Enforcing patents is expensive and may require significant time by our management. In litigation, a competitor could claim that our issued patents are not valid for a number of reasons. If the court agrees, we would lose those patents.

We also may support and collaborate in research conducted by government organizations or universities. We cannot guarantee that we will be able to acquire any exclusive rights to

technology or products derived from these collaborations. If we do not obtain required licenses or rights, we could encounter delays in product development while we attempt to design around other patents or we may be prohibited from developing, manufacturing or selling products requiring these licenses. There is also a risk that disputes may arise as to the rights to technology or products developed in collaboration with other parties.

It also is unclear whether our trade secrets will provide useful protection. While we use reasonable efforts to protect our trade secrets, our employees or consultants may unintentionally or willfully disclose our proprietary information to competitors. Enforcing a claim that someone else illegally obtained and is using our trade secrets, like patent litigation, is expensive and time consuming, and the outcome is unpredictable. In addition, courts outside the United States are sometimes less willing to protect trade secrets. Finally, our competitors may independently develop equivalent knowledge, methods and know-how.

Claims by others that our products infringe their patents or other intellectual property rights could adversely affect our financial condition.

The pharmaceutical industry has been characterized by frequent litigation regarding patent and other intellectual property rights. Patent applications are maintained in secrecy in the United States until the patents are issued and also are maintained in secrecy for a period of time outside the United States. Accordingly, we can conduct only limited searches to determine whether our technology infringes any patents or patent applications of others. Any claims of patent infringement would be time-consuming and could likely:

result in costly litigation;

divert the time and attention of our technical personnel and management;

cause product development delays;

require us to develop non-infringing technology; or

require us to enter into royalty or licensing agreements.

Although patent and intellectual property disputes in the pharmaceutical industry often have been settled through licensing or similar arrangements, costs associated with these arrangements may be substantial and often require the payment of ongoing royalties, which could hurt our gross margins. In addition, we cannot be sure that the necessary licenses would be available to us on satisfactory terms, or that we could redesign our products or processes to avoid infringement, if necessary. Accordingly, an adverse determination in a judicial or administrative proceeding, or the failure to obtain necessary licenses, could prevent us from developing, manufacturing and selling some of our products, which could harm our business, financial condition and operating results.

Because we are developing new products, we may fail to gain market acceptance for our products and our business could suffer.

None of the products we propose to develop or are developing have yet been approved for marketing by regulatory authorities in the United States or elsewhere. Even if our proposed products ultimately are approved for sale, there can be no assurance that they will be commercially successful.

Risks Relating to Our Industry

Because our industry is very competitive and many of our competitors have substantially greater capital resources and more experience in research and development, manufacturing and marketing than us, we may not succeed in developing our proposed products and bringing them to market.

Competition in the pharmaceutical industry is intense. Potential competitors in the United States are numerous and include pharmaceutical, chemical and biotechnology companies, most of which have substantially greater capital resources and more experience in research and development, manufacturing and marketing than us. Academic institutions, hospitals, governmental agencies and other public and private research organizations also are conducting research and seeking patent protection and may develop and commercially introduce competing products or technologies on their own or through joint ventures. We cannot assure you that our competitors will not succeed in developing similar technologies and products more rapidly than we do or that these competing technologies and products will not be more effective than any of those that we currently are developing or will develop.

We are dependent upon key personnel, many of whom would be difficult to replace.

Our success will be largely dependent upon the efforts of Stephen M. Simes, our Vice Chairman, President and Chief Executive Officer, and other key employees. We are not the stated beneficiary of key person life insurance on any of our key personnel. Our future success also will depend in large part upon our ability to identify, attract and retain other highly qualified managerial, technical and sales and marketing personnel. Competition for these individuals is intense. The loss of the services of any of our key personnel, the inability to identify, attract or retain qualified personnel in the future or delays in hiring qualified personnel, could make it more difficult for us to manage our business and meet key objectives, such as the timely introduction of our proposed products, which would harm our business, financial condition and operating results.

Risks Relating to Our Common Stock

Because our common stock is traded on the OTC Bulletin Board, your ability to sell your shares in the secondary trading market may be limited.

Our common stock currently is traded on the over-the-counter market on the OTC Bulletin Board. Consequently, the liquidity of our common stock is impaired, not only in the number of shares that are bought and sold, but also through delays in the timing of transactions, and

coverage by security analysts and the news media, if any, of our company. As a result, prices for shares of our common stock may be lower than might otherwise prevail if our common stock was quoted on the Nasdaq Stock Market or traded on a national securities exchange, like The New York Stock Exchange or American Stock Exchange.

Because our shares are "penny stocks," you may have difficulty selling them in the secondary trading market.

Federal regulations under the Securities Exchange Act of 1934 regulate the trading of so-called "penny stocks," which are generally defined as any security not listed on a national securities exchange or Nasdaq, priced at less than $5.00 per share and offered by an issuer with limited net tangible assets and revenues. Since our common stock currently trades on the OTC Bulletin Board at less than $5.00 per share, our common stock is a "penny stock" and may not be traded unless a disclosure schedule explaining the penny stock market and the risks associated therewith is delivered to a potential purchaser prior to any trade.

In addition, because our common stock is not listed on Nasdaq or any national securities exchange and currently trades at less than $5.00 per share, trading in our common stock is subject to Rule 15g-9

under the Exchange Act. Under this rule, broker-dealers must take certain steps prior to selling a "penny stock," which steps include:

obtaining financial and investment information from the investor;

obtaining a written suitability questionnaire and purchase agreement signed by the investor; and

providing the investor a written identification of the shares being offered and the quantity of the shares.

If these penny stock rules are not followed by the broker-dealer, the investor has no obligation to purchase the shares. The application of these comprehensive rules will make it more difficult for broker-dealers to sell our common stock and our stockholders, therefore, may have difficulty in selling their shares in the secondary trading market.

Sales of a substantial number of shares of our common stock in the public market, including the shares offered under this prospectus and under other registration statements, could lower our stock price and impair our ability to raise funds in new stock offerings.

Future sales of a substantial number of shares of our common stock in the public market, including the shares offered under this prospectus and and under other registration statements, or the perception that such sales could occur, could adversely affect the prevailing market price of our common stock and could make it more difficult for us to raise additional capital through the sale of equity securities. We filed this registration statement pursuant to subscription agreements with the holders of the common stock and warrants purchased in our April 2001 private placement. We are required under these subscription agreements to use our reasonable best efforts to cause this registration statement to remain effective until the earlier of (1) the sale of all the shares of our common stock covered by this registration statement; or (2) such time as the selling stockholders named in this registration statement become eligible to resell the shares of BioSante common stock and the shares of BioSante common stock issuable upon exercise of warrants pursuant to Rule 144(k) under the Securities Act.

Our stock price may be volatile and your investment in our common stock could suffer a decline in value.

Our common stock has been listed on the OTC Bulletin Board since May 2000. The market price of our common stock may fluctuate significantly in response to a number of factors, some of which are beyond our control. These factors include:

progress of our products through the regulatory process;

results of preclinical studies and clinical trials;

announcements of technological innovations or new products by us or our competitors;

government regulatory action affecting our products or our competitors' products in both the United States and foreign countries;

developments or disputes concerning patent or proprietary rights;

actual or anticipated fluctuations in our operating results;

changes in our financial estimates by securities analysts;

general market conditions for emerging growth and pharmaceutical companies;

broad market fluctuations; and

economic conditions in the United States or abroad.

We may incur significant costs from class action litigation due to our expected stock volatility.

In the past, following periods of large price declines in the public market price of a company's stock, holders of that stock occasionally have instituted securities class action litigation against the company that issued the stock. If any of our stockholders were to bring this type of lawsuit against us, even if the lawsuit is without merit, we could incur substantial costs defending the lawsuit. The lawsuit also could divert the time and attention of our management, which would hurt our business. Any adverse determination in litigation could also subject us to significant liabilities.

Provisions in our charter documents and Delaware law could discourage or prevent a takeover, even if an acquisition would be beneficial to our stockholders.

Provisions of our certificate of incorporation and bylaws, as well as provisions of Delaware law, could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. These provisions include:

authorizing the issuance of "blank check" preferred that could be issued by our Board of Directors to increase the number of outstanding shares and thwart a takeover attempt; and

prohibiting cumulative voting in the election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates.

We refer you to "Description of Securities Undesignated Preferred Stock; Anti-Takeover Provisions of Delaware Law" for more information on the specific provisions of our certificate of incorporation, our bylaws and Delaware law that could discourage, delay or prevent a change of control of our company.

Our directors and executive officers own a sufficient number of shares of our capital stock to control our company, which could discourage or prevent a takeover, even if an acquisition would be beneficial to our stockholders.

Our directors and executive officers own or control approximately 50.5% of our outstanding voting power. Accordingly, these stockholders, individually and as a group, may be able to influence the outcome of stockholder votes, involving votes concerning the election of directors, the adoption or amendment of provisions in our certificate of incorporation and bylaws and the approval of certain mergers or other similar transactions, such as a sale of substantially all of our assets. Such control by existing stockholders could have the effect of delaying,

deferring or preventing a change in control of our company.

Exercise of outstanding options and warrants will dilute existing stockholders and could decrease the market price of our common stock.

As of April 1, 2002, we had issued and outstanding 63,218,798 shares of common stock, 4,666,024 shares of our Class C stock and outstanding options and warrants to purchase 24,210,157 additional shares of common stock. The existence of the outstanding options and warrants may adversely affect the market price of our common stock and the terms under which we could obtain additional equity capital.

We do not intend to pay any cash dividends in the foreseeable future and, therefore, any return on your investment in our common stock must come from increases in the fair market value and trading price of our common stock.

We do not intend to pay any cash dividends in the foreseeable future and, therefore, any return on your investment in our common stock must come from increases in the fair market value and trading price of our common stock.

We likely will issue additional equity securities which will dilute your share ownership.

We likely will issue additional equity securities to raise capital and through the exercise of options and warrants that are outstanding or may be outstanding. These additional issuances will dilute your share ownership.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements concerning our financial condition, results of operations and business, including, without limitation, statements pertaining to:

- our substantial and continuing losses;
- our raising of additional capital through future equity financings;
- our spending capital on research and development programs, pre-clinical studies and clinical trials, regulatory processes, establishment of marketing capabilities and licensure or acquisition of new products; and
- our existing cash and whether and how long these funds will be sufficient to fund our operations.

These and other forward-looking statements are primarily in the sections entitled "Risk Factors," "Management's Discussion and Analysis of Financial Conditions and Results of Operations" and "Business." Generally, you can identify these statements because they use phrases like "anticipates," "believes," "expects," "future," "intends," "plans," and similar terms. These statements are only predictions. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy, and actual results may differ materially from those we anticipated due to a number of uncertainties, many of which are unforeseen. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including, among others, the risks we face as described in the section entitled "Risk Factors" and elsewhere in this prospectus.

We believe it is important to communicate our expectations to our investors. There may be events in the future, however, that we are unable to predict accurately or over which we have no control. The risk factors listed in the section entitled "Risk Factors," as well as any cautionary language in this prospectus, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Before you invest in our common stock, you should be aware that the occurrence of the events described in the section entitled "Risk Factors" and elsewhere in this prospectus could negatively impact our business, operating results, financial condition and stock price.

We are not obligated to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as otherwise required by law. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in

this prospectus and other statements made from time to time from us or our representatives, might not occur. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

USE OF PROCEEDS

BioSante will not receive any of the proceeds from the sale of shares offered under this prospectus by the selling stockholders. This offering is intended to satisfy our obligations to register, under the Securities Act of 1933, the resale of the shares of our common stock, including shares of our common stock that will be issued to the selling stockholders upon the exercise of warrants held by them, that we issued to the selling stockholders in April 2001 and other registration rights obligations we owe to previous investors in BioSante. The net proceeds from our sale of these shares to the selling stockholders in May 1999 and in April 2001 has been and will be used for general corporate purposes, including working capital.

DIVIDEND POLICY

We never have declared or paid cash dividends on our common stock or our class C special stock. We currently intend to retain all future earnings for the operation and expansion of our business. We do not anticipate declaring or paying cash dividends on our common stock or class C special stock in the foreseeable future. Any payment of cash dividends on our common stock or class C special stock will be at the discretion of our Board of Directors and will depend upon our results of operations, earnings, capital requirements, contractual restrictions and other factors deemed relevant by our Board of Directors.

SELLING STOCKHOLDERS

All of the selling stockholders named below acquired or have the right to acquire upon the exercise of warrants the shares of our common stock being offered under this prospectus directly from us in a private transaction in May 1999 or in April 2001. The following table sets forth information known to BioSante with respect to the beneficial ownership of BioSante common stock as of April 1, 2002 as provided by the selling stockholders. In accordance with the rules of the SEC, beneficial ownership includes the shares issuable pursuant to warrants and options that are exercisable within 60 days of April 1, 2002. Shares issuable pursuant to warrants and options are considered outstanding for computing the percentage of the person holding the warrants and options but are not considered outstanding for computing the percentage of any other person.

The percentage of beneficial ownership for the following table is based on 63,218,798 shares of common stock outstanding as of April 1, 2002. To our knowledge, except as indicated in the footnotes to this table, each person named in the table has sole voting and investment power with respect to all shares of common stock shown in the table to be beneficially owned by such person.

Except as set forth below, none of the selling stockholders has had any position, office or other material relationship with BioSante within the past three years. The table assumes that the selling stockholders will sell all of the shares offered by them in this offering. However, BioSante is unable to determine the exact number of shares that will actually be sold or when or if these sales will occur. BioSante will not receive any of the proceeds from the sale of the shares offered under this prospectus.

	Shares Beneficially Owned Prior to the Offering				Shares Beneficially Owned After Completion of the Offering	
Selling Stockholder	Shares Subject to Options, Warrants, and Class C Special Stock	Total Shares Beneficially Owned	Percentage	Number of Shares Being Offered	Number	Percentage
Edward S. Loeb Revocable Trust	187,500	562,500	*	312,500	250,000	*
Sherwin and Sheri Zuckerman	500,000	1,500,000	2.4%	750,000	750,000	1.2%
	151,250	453,750	*	203,750	250,000	*

	Shares Beneficially Owned Prior to the Offering				Shares Beneficially Owned After Completion of the Offering	
The Levenstein & Resnick Profit Sharing Plan & Trust by Gary I. Levenstein						
James S. Levy	31,250	93,750	*	93,750		
James S. Levy Trust	125,000	375,000	*	125,000	250,000	*
Stephen M. Simes(1)	3,031,771	3,945,630	6.0%	125,000	3,820,630	5.8%
Stephen M. Simes Revocable Trust	62,500	187,500	*	187,500		
Irving B. Harris Trust	583,334	1,750,001	2.8%	1,000,001	750,000	1.2%
Virginia H. Polsky Trust	291,666	874,999	1.4%	499,999	375,000	*
Roxanne H. Frank Trust	388,889	1,166,666	1.9%	666,666	500,000	*
Couderay Partners	388,889	1,166,666	1.9%	666,666	500,000	*
Jerome Kahn, Jr. Revocable Trust	97,223	291,668	*	166,668	125,000	*
Fred Holubow(2)	287,500	662,500	1.0%	312,500	350,000	*
Mitchell I. Dolins Revocable Trust	225,000	675,000	1.1%	300,000	375,000	*
Sheldon M. Bulwa	125,000	375,000	*	250,000	250,000	*
Morningstar Trust(3)	325,000	1,125,000	1.8%	475,000	650,000	1.0%

Faye Morgenstern(3)	100,000	300,000	*	300,000		
Victor Morgenstern(3)	1,050,000	2,950,000	4.6%	1,350,000	1,600,000	2.5%
Sibylla M. Mueller	312,500	937,500	1.5%	937,500		
Hermann S. Graf Zu Munster	312,500	937,500	1.5%	937,500		
Adolf Leuze	62,500	187,500	*	187,500		
Boyd B. Massagee, Jr.	78,125	234,375	*	234,375		
Anne Marie Nicholson Trust	18,750	56,250	*	56,250		
Roscoe F. Nicholson III Trust	18,750	56,250	*	56,250		
Shirley M. Nicholson	31,250	93,750	*	93,750		
Roscoe F. Nicholson II	137,500	412,500	*	412,500		
Eberhard Thyssen	125,000	375,000	*	375,000		
Florence A. Browning	12,500	37,500	*	37,500		
John E. Urheim	31,250	93,750	*	93,750		
Egandale Associates	31,250	93,750	*	93,750		
Rotter Family Partnership	125,000	375,000	*	375,000		
Nancy Butler	62,500	187,500	*	187,500		
John E. Lee	206,250	218,750	*	18,750	200,000	*
Phillip B. Donenberg(4)	939,948	998,665	1.6%	18,750	979,915	1.5%
Steven J. Bell(5)	268,542	282,292	*	5,625	276,667	*
Ann Lehman(6)	50,000	150,000	*	150,000		
Leah M. Lehman(6)	374,000	749,000	1.2%	562,500	186,500	*
James J. Pelts	25,000	75,000	*	75,000		
Bradley S. Glaser & Amy E. Glaser as Tenants by the Entirety	31,250	93,750	*	93,750		
Lawrence B. Dolins	18,750	56,250	*	56,250		
James G. Hart	62,500	187,500	*	187,500		
Robert Leder, DDS	31,250	93,750	*	93,750		
James G. Johnson Trust	125,000	375,000	*	375,000		
Robert Q. Calloway Trust	62,500	187,500	*	187,500		
Patricia L. Calloway Trust	62,500	187,500	*	187,500		
GOC Irr Tr U/A J.C. Warriner(7)	166,666	499,999	*	499,999		
GOC Irr Tr U/A J.O. Cunningham(7)	166,667	500,002	*	500,002		
John S. Warriner(7)	500,000	1,500,000	2.4%	1,500,000		
GOC Irr Tr U/A A.C. McClure(7)	166,666	499,999	*	499,999		
C. Frederick Cunningham II Revocable Trust(7)	125,000	375,000	*	375,000		
Goldstein Asset Management	62,500	187,500	*	62,500	125,000	*
Lawrence Goldstein	62,500	187,500	*	62,500	125,000	*
John and Joanna Ruder	125,000	375,000	*	125,000	250,000	*
Ronald Nash	125,000	375,000	*	125,000	250,000	*
Stanley Ho(8)	750,000	2,250,000	3.6%	750,000	1,500,000	2.4%
King Cho Fung	1,375,000	4,325,000	6.8%	750,000	3,575,000	5.7%
Marcus Jebsen	750,000	2,250,000	3.6%	250,000	2,000,000	3.2%
Hans Michael Jebsen	1,750,000	5,250,000	8.2%	750,000	4,500,000	7.1%
Howard Schraub	125,000	125,000	*	125,000		

Anita Nagler	750,000	2,250,000	3.6%	750,000	1,500,000	2.4%
Jarvis H. Friduss	62,500	187,500	*	62,500	125,000	*
Gary N. Wilner	125,000	375,000	*	125,000	250,000	*
Steven J. Reid	250,000	750,000	1.2%	250,000	500,000	*
Resolute Partners(3)	250,000	750,000	1.2%	250,000	500,000	*
JO & Co.(7)	3,750,000	11,250,000	17.1%	3,750,000	7,500,000	12.1%

*
Less than one percent (1%)

(1)
Mr. Simes is the Vice Chairman, President and Chief Executive Officer of BioSante.

(2)
Mr. Holubow is a director of BioSante.

(3)
Mr. Morgenstern beneficially owns a total of 5,050,000 shares of BioSante common stock. Of these shares, 300,000 shares are owned by Faye Morgenstern, Mr. Morgenstern's wife, and 825,000 shares held by Mr. Morgenstern's wife as trustee of

the Morgenstern Trust, as to which Mr. Morgenstern disclaims control, direction or beneficial ownership. Mr. Morgenstern is a director of BioSante. Mr. Morgenstern is the managing director of Resolute Partners L.P.

(4)
Mr. Donenberg is the Chief Financial Officer, Treasurer and Secretary of BioSante.

(5)
Dr. Bell is the Vice President, Research and Pre-Clinical Development of BioSante.

(6)
Dr. Lehman is the Vice President, Clinical Development of BioSante. Ann Lehman is Dr. Lehman's mother and Dr. Lehman disclaims beneficial ownership of Ann Lehman's shares.

(7)
Ross Mangano, a director of BioSante, acted as an advisor and trustee for these selling stockholders in connection with the stockholder's acquisition from us of the shares offered by these selling stockholders under this prospectus. Mr. Mangano is an investment advisor registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940. These selling stockholders are advisory clients of Mr. Mangano, and the shares offered by these selling stockholders under this prospectus are held in discretionary client accounts managed by Mr. Mangano. Mr. Mangano is President of JO & Co.

(8)
Mr. Ho is the father of Angela Ho, a director of BioSante. Ms. Ho disclaims beneficial ownership of Stanley Ho's shares.

PLAN OF DISTRIBUTION

The selling stockholders acquired their shares of BioSante common stock and warrants to purchase BioSante common stock directly from us in a private transaction in either May 1999 or April 2001. To our knowledge, none of the selling stockholders has entered into any agreement, arrangement or understanding with any particular broker or market maker with respect to the shares offered under this prospectus, nor do we know the identity of any broker or market maker that will participate in the offering. The shares of common stock may be offered and sold from time to time by the selling stockholders or by their respective pledgees, donees, transferees and other successors in interest.

The selling stockholders will act independently of us in making decisions with respect to the timing, manner and size of each sale. Sales may be made over the OTC Bulletin Board, in the over-the-counter market, in privately negotiated transactions or otherwise, at then prevailing market prices, at prices related to prevailing market prices or at negotiated prices. Sales may be made directly or through agents designated from time to time or through dealers or underwriters to be designated or in negotiated transactions. The shares may be sold by one or more of, or a combination of, the following methods:

a block trade in which the broker-dealer engaged by a selling stockholder will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

purchases by the broker-dealer as principal and resale by the broker or dealer for its account pursuant to this prospectus;

ordinary brokerage transactions and transactions in which the broker solicits purchasers; and

privately negotiated transactions.

BioSante has been advised by the selling stockholders that they have not, as of the date of this prospectus, entered into any arrangement with a broker-dealer for the sale of shares through a block trade, special offering, or secondary distribution of a purchase by a broker-dealer. In effecting sales, broker-dealers engaged by the selling stockholders may arrange for other broker-dealers to participate. Broker-dealers will receive commissions or discounts from the selling stockholders in amounts to be negotiated immediately prior to the sale.

In connection with distributions of the shares or otherwise, the selling stockholders may, if permitted by law, also enter into hedging transactions. For example, the selling stockholders may:

enter into transactions involving short sales of the shares of common stock by broker-dealers;

sell shares of common stock short and redeliver these shares to close out the short position;

enter into option or other types of transactions that require the selling stockholders to deliver shares of common stock to a broker-dealer, who will then resell or transfer the shares of common stock under this prospectus; or

loan or pledge shares of common stock to a broker dealer, who may sell the loaned shares or, in the event of default, sell the pledged shares.

Broker-dealers or agents may receive compensation in the form of commissions, discounts or concessions from the selling stockholders or the purchasers of the common stock in amounts to be negotiated in connection with the sale. Broker-dealers and any other participating broker-dealers may be deemed to be underwriters within the meaning of the Securities Act of 1933 in connection with the sales, and any commission, discount or concession may be deemed to be underwriting discounts or commissions under the Securities Act. In addition, any securities covered by this prospectus which qualify for sale under Rule 144 of the Securities Act may be sold under Rule 144 rather than under this prospectus. No period of time has been fixed within which the shares covered by this prospectus may be offered and sold.

We have advised the selling stockholders that the anti-manipulation rules under the Exchange Act of 1934 may apply to sales of shares in the market and to the activities of the selling stockholders and their affiliates.

This offering will terminate on the earlier to occur of:

the date on which all shares offered have been sold by the selling stockholders; or

the date on which all shares held by a selling shareholder may be sold by such selling stockholder in compliance with Rule 144 under the Securities Act within any three-month period.

We will pay the expenses of registering the shares under the Securities Act, including registration and filing fees, printing expenses, fees and disbursements of our counsel and accountants, all of our internal expenses, and all legal fees and disbursements and other expenses of

complying with state securities or blue sky laws of any jurisdictions in which the securities to be offered are to be registered or qualified. The selling stockholders will bear all discounts, commissions or other amounts payable to underwriters, dealers or agents.

To the extent required, this prospectus may be amended or supplemented from time to time to describe a specific plan of distribution or a corporate development. At the time a particular offer of shares is made, if required, a prospectus supplement will be distributed that will set forth the number of shares being offered and the terms of the offering, including the name of any underwriter, dealer or agent, the purchase price paid by any underwriter, any discount, commission and other item constituting compensation, any discount, commission or concession allowed or reallowed or paid to any dealer, and the proposed selling price to the public.

PRICE RANGE OF COMMON STOCK

Our common stock has traded in the United States in the over-the-counter market on the OTC Bulletin Board, under the symbol "BTPH," since May 5, 2000. Our common stock traded in Canada on the Canadian Venture Exchange, formerly known as the Alberta Stock Exchange, under the symbol "BAI," from December 20, 1996 to July 20, 2001. From September 10, 1999 to May 4, 2000, our common stock was traded in the United States on the National Quotation Bureau, commonly referred to as the "Pink Sheets," under the symbol "BTPH."

The following table sets forth, in U.S. dollars and in dollars and cents (in lieu of fractions), the high and low sales prices for each of the calendar quarters indicated, as reported by the OTC Bulletin Board and the Pink Sheets. The prices in the table may not represent actual transactions. These quotations reflect inter-dealer prices, without retail mark up, mark down or commissions and may not represent actual transactions.

OTC Bulletin Board

	High	Low
2002		
First Quarter	$ 0.79	$ 0.51

	High	Low
2001		
First Quarter	$ 0.75	$ 0.38
Second Quarter	$ 1.07	$ 0.39
Third Quarter	$ 1.00	$ 0.46
Fourth Quarter	$ 1.05	$ 0.48

	High	Low
2000		
Second Quarter	$ 1.25	$ 0.47
Third Quarter	$ 1.03	$ 0.80
Fourth Quarter	$ 0.92	$ 0.52

National Quotation Bureau ("Pink Sheets")

	High	Low
2000		
First Quarter	$ 1.50	$ 0.28

The following table sets forth, in U.S. dollars and in dollars and cents (in lieu of fractions), the high and low sales prices for each of the calendar quarters indicated, as reported by the Canadian Venture Exchange.

Canadian Venture Exchange

	High	Low
2001		
First Quarter	$ 0.72	$ 0.46
Second Quarter	$ 1.07	$ 0.35

	High	Low
2000		
First Quarter	$ 1.38	$ 0.22
Second Quarter	$ 1.07	$ 0.46
Third Quarter	$ 1.01	$ 0.71
Fourth Quarter	$ 0.95	$ 0.49

As of April 1, 2002, there were 1,622 record holders of our common stock and 10 record holders of our class C stock.

SELECTED CONSOLIDATED FINANCIAL DATA

The selected statement of operations data shown below for the years ended December 31, 1999, 2000 and 2001 and the balance sheet data as of December 31, 2000 and 2001 are derived from our audited financial statements included elsewhere in this prospectus. The selected statement of operations data shown below for the period from August 29, 1996 (date of incorporation) to December 31, 1996 and for the years ended December 31, 1997 and 1998 and the balance sheet data as of December 31, 1996, 1997, 1998 and 1999 are derived from our audited financial statements not included elsewhere in this prospectus. When you read this selected consolidated financial data, it is important that you also read the historical financial statements and related notes included in this prospectus, as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations." Historical results are not necessarily indicative of future results.

	Period from August 29, 1996 (date of incorporation) to December 31, 1996	Year Ended December 31,				
		1997	1998	1999	2000	2001
	(in thousands, except per share and share data)					
Statement of Operations Data:						
Licensing income	$	$	$	$	$	$ 1,747
Interest income	53	144	123	199	228	174
Total income	53	144	123	199	228	1,921
Expenses:						
Research and development		336	1,400	661	1,888	2,142
General and administration	547	1,618	1,112	853	1,679	2,299

	Period from August 29, 1996 (date of incorporation) to December 31, 1996	Year Ended December 31,				
Depreciation and amortization	1	52	140	91	98	93
Loss on disposal of capital assets		28	130			
Total expenses	548	2,034	2,782	1,605	3,665	4,533
Loss before other expenses	(495)	(1,890)	(2,659)	(1,406)	(3,437)	(2,611)
Cost of acquisition of Structured Biologicals, Inc.	375					
Purchased in-process research and development	5,377					
Total other expenses	5,752					
Net loss	$ (6,247)	$ (1,890)	$ (2,659)	$ (1,406)	$ (3,437)	$ (2,611)
Basic and diluted net loss per share	$ (0.26)	$ (0.05)	$ (0.08)	$ (0.03)	$ (0.06)	$ (0.04)
Weighted average number of shares outstanding	24,366	35,962	34,858	49,424	57,537	64,853

	As of December 31,				
	1997	1998	1999	2000	2001
	(in thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$ 1,750	$ 2,841	$ 5,275	$ 2,612	$ 4,502
Working capital	356	2,099	5,004	1,735	3,666
Total assets	2,450	3,449	5,780	3,067	4,979
Convertible debenture current				500	
Stockholders' equity	1,034	2,631	5,451	2,126	4,051

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of BioSante's financial condition and results of operations should be read in conjunction with BioSante's financial statements and related notes included elsewhere in this registration statement and the cautionary statements concerning forward-looking statements presented in the sections entitled "Risk Factors" and "Cautionary Statement Concerning Forward-Looking Statements."

General

We are a development stage biopharmaceutical company engaged in the development and commercialization of hormone replacement products to treat hormone deficiencies in men and women. We also are engaged in the development and commercialization of vaccine adjuvants or immune system boosters, proprietary novel vaccines, drug delivery systems and the purification of the milk of transgenic animals, all applications using calcium phosphate nanoparticles, or CAP.

Our hormone replacement products, which we license on an exclusive basis from Antares Pharma, Inc., address a variety of hormone deficiencies that affect both men and women.

The following is a list of our hormone replacement gel products in development:

LibiGel a transdermal testosterone gel in Phase II clinical development for treatment of female sexual dysfunction.

Bio-T-Gel a transdermal testosterone gel in development for testosterone deficiency in men.

Bio-E-Gel a transdermal gel containing estradiol in development for estrogen deficiency in women, including menopausal symptoms.

Bio-E/P-Gel a transdermal gel containing estrogen and progestogen in development for estrogen deficiency.

LibiGel-E/T a transdermal gel containing estrogen and testosterone in development for treatment of female sexual dysfunction.

These gel products are designed to be quickly absorbed through the skin after application on the arms, abdomen or thighs, delivering the required hormone to the bloodstream evenly and in a non-invasive, painless manner. The gels are formulated to be applied once per day and to be absorbed into the skin without a trace of residue.

Under the terms of our license agreement with Antares, we acquired exclusive development and marketing rights, with the right to grant sub-licenses, to the single active ingredient testosterone and estradiol products for all therapeutic indications in the U.S., Canada, Mexico, Israel, Indonesia, New Zealand, China and South Africa. We acquired exclusive development and marketing rights, with the right to grant sub-licenses, for the combination estradiol and progestogen product in the U.S. and Canada. In partial consideration for the license of the hormone replacement products, we paid Antares an upfront license fee of $1.0 million. In addition, under the terms of the license agreement, we agreed to fund the development of the proposed products, make milestone payments and, after all necessary regulatory approvals are received, pay royalties to Antares on sales of the products.

In a series of amendments executed during 2001 between BioSante and Antares, BioSante returned to Antares the license rights to one of the four previously licensed hormone products, namely the estradiol patch, in all countries of the licensed territory. Additionally, BioSante returned to Antares the license rights to the single entity estrogen and testosterone gel products in Malaysia and Australia. In exchange for the return to Antares of the estradiol patch in all the countries and the single entity estradiol and testosterone gel products in Malaysia and Australia, Antares granted BioSante a credit for

approximately $600,000 of manufacturing and formulation services and a license for a transdermal hormone replacement gel combination of estradiol and testosterone.

In September 2000, we sub-licensed the marketing rights to our portfolio of female hormone replacement products in Canada to Paladin Labs Inc. In exchange for the sub-license, Paladin agreed to make an initial investment in our company, make future milestone payments and pay royalties on sales of the products in Canada. The milestone payments will be in the form of a series of equity investments by Paladin in BioSante common stock at a 10 percent premium to the market price of our stock at the time the equity investment is made. Upon execution of the sub-license agreement, Paladin made an initial investment of $500,000 in our company in the form of a convertible debenture, convertible into our common stock at $1.05 per share. On August 13, 2001, BioSante exercised its right and declared the debenture converted in full. Accordingly, 476,190 shares of BioSante common stock were issued to Paladin on August 23, 2001. During the third quarter 2001, Paladin made a series of equity investments in BioSante as a result of certain sub-licensing transactions and BioSante reaching certain milestones. These equity investments resulted in BioSante issuing an additional 189,394 shares of its common stock to Paladin.

On August 7, 2001, we entered into a sub-license agreement with Solvay Pharmaceuticals, B.V. covering the U.S. and Canadian rights to the estrogen/progestogen combination transdermal hormone replacement gel product licensed from Antares in June 2000. Under the terms of the

agreement, Solvay paid us an initial payment of $2.5 million ($1.7 million net of the related payments due to Antares and Paladin) and has agreed to make future milestone payments and pay escalating sales-based royalties. Solvay is responsible for all costs of development and marketing of the estrogen/progestogen combination transdermal hormone replacement gel product. We have retained co-promotion rights to the product and will be compensated for sales we generate over and above those attributable to Solvay's marketing efforts. The Canadian rights to this product had previously been sub-licensed to Paladin as part of that sub-license arrangement and were repurchased by us prior to the Solvay transaction in exchange for $125,000, paid by the issuance of 173,611 shares of BioSante common stock with a market value of $125,000 at the date of the transaction.

Our strategy with respect to our hormone replacement product portfolio is to conduct human clinical trials of our proposed hormone replacement products, which are required to obtain approval from the U.S. Food and Drug Administration, or FDA, to market the products in the United States.

Our strategy with respect to our CAP technology over the next 12 months is to continue development and actively seek collaborators and licensees to accelerate the development and commercialization of products incorporating this technology. We received clearance in August 2000 from the FDA to initiate a Phase I clinical trial of our CAP as a vaccine adjuvant and delivery system based on an Investigational New Drug Application that we filed in July 2000. The Phase I trial was a double-blind, placebo-controlled trial in 18 subjects to determine the safety of CAP as a vaccine adjuvant. The trial was completed in October 2000. The results showed that there was no apparent difference in side effect profile between CAP and placebo.

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

Our goal is to develop and commercialize our portfolio of hormone replacement products and CAP technology into a wide range of pharmaceutical products and to expand this product portfolio as appropriate. Our strategy to obtain this goal is to:

- Accelerate the development of our hormone replacement products.
- Continue to develop our nanoparticle-based CAP platform technology and seek assistance in the development through corporate partner sub-licenses.
- Implement business collaborations or joint ventures with other pharmaceutical and biotechnology companies.
- License or otherwise acquire other drugs that will add value to our current product portfolio.

We currently expect that we will add employees as we continue to develop and commercialize our hormone replacement products and products incorporating our CAP technology or in-license or otherwise acquire products in late-stage human clinical development.

All of our revenue to date has been derived from interest earned on invested funds and license payments earned on sub-licensing transactions. We have not commercially introduced any products. Since our inception, we have experienced significant operating losses. We incurred a net loss of $2,611,361 for the year ended December 31, 2001, resulting in an accumulated deficit of $18,251,033. We expect that we will incur substantial and continuing losses for the foreseeable future as our product development programs expand and various preclinical and clinical trials commence. The amount of these losses may vary significantly from year-to-year and quarter-to-quarter and will depend upon, among other factors:

- the timing and cost of product development;

the progress and cost of preclinical and clinical development programs;

the costs of licensure or acquisition of new products,

the timing and cost of obtaining necessary regulatory approvals; and

the timing and cost of obtaining third party reimbursement.

In order to generate revenues, we must successfully develop and commercialize our proposed products in pre-clinical development, in late-stage human clinical development, or already on the market that we may in-license or otherwise acquire or enter into collaborative agreements with others who can successfully develop and commercialize them. Even if our proposed products and the products we may license or otherwise acquire are commercially introduced, they may never achieve market acceptance and we may never generate revenues or achieve profitability.

Results of Operations

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

General and administrative expenses increased from $1,678,581 during the year ended December 31, 2000 to $2,298,659 during the year ended December 31, 2001. This increase of approximately 37% is due primarily to expenses related to personnel-related expenses and the higher legal expenses related to the increase in our patent, collaboration and licensing activities.

Research and development expenses increased from $1,887,832 during the year ended December 31, 2000 to December 31$2,141,944 during the year ended December 31, 2001. This overall increase is the result of increased expenses during the year ended December 31, 2001 associated with the clinical development of our hormone replacement product portfolio and payment to Antares for certain manufacturing and formulation services, offset by a $1.0 million upfront license fee paid to Antares during the year ended December 31, 2000. 2001 also included recognition of a $250,000 credit

from Antares, which represented the portion of the initial $1.0 million upfront license fee paid in 2000 which was creditable against future payments. As a result of our hormone replacement product in-license agreement with Antares, we expect to continue to incur significant expenses, primarily relating to our research and development activities. Management estimates that it is currently expending approximately $200,000 to $250,000 per month on research and development activities and approximately $350,000 to $400,000 per month in total expenses, including research and development activities. We are required under the terms of our license agreement with the University of California to have available certain amounts of funds dedicated to research and development activities. The amount of BioSante's actual research and development expenditures, however, may fluctuate from quarter-to-quarter and year-to-year depending on: (1) the resources available; (2) our development schedule; (3) results of studies, clinical trials and regulatory decisions; and (4) competitive developments.

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

Interest income decreased from $227,718 during the year ended December 31, 2000 to $174,416 during the year ended December 31, 2001 as a result of lower average cash balances in 2001 and as a result of lower interest rates on invested cash balances in 2001. We expect interest income to decline in future periods as we use our cash balances for operations.

BioSante incurred a net loss of $2,611,361 for the year ended December 31, 2001, compared to a net loss of $3,437,195 for the year ended December 31, 2000. The overall decrease in the net loss is the result of a $1.0 million upfront license fee paid to Antares during the year ended December 31, 2000, offset by the combination of $1.7 million, net, in revenue from a sub-license upfront payment received by BioSante and increased expenses during the year ended December 31, 2001 associated with (1) personnel-related expenses, (2) legal expenses related to increased patent, collaboration and licensing activities, and (3) increased expenses associated with the clinical development of our hormone replacement product portfolio and payment to Antares for certain manufacturing and formulation services. We anticipate that our operating losses will continue for the foreseeable future.

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

General and administrative expenses increased from $853,389 during the year ended December 31, 1999 to $1,678,581 during the year ended December 31, 2000. This increase of approximately 97% is due primarily to expenses related to personnel-related expenses and the higher legal expenses related to the increase in our patent, collaboration and licensing activities.

Research and development expenses increased from $660,588 during the year ended December 31, 1999 to $1,887,832 during the year ended December 31, 2000. This overall increase is the result of a $1.0 million upfront license fee paid to Antares during the year ended December 31, 2000 and increased expenses related to the clinical development of our hormone replacement product portfolio.

Interest income increased from $198,683 during the year ended December 31, 1999 to $227,718 during the year ended December 31, 2000 as a result of higher average cash balances in 2000.

BioSante incurred a net loss of $3,437,195 for the year ended December 31, 2000, compared to a net loss of $1,406,259 for the year ended December 31, 1999. The overall increase in the net loss is the result of a $1.0 million upfront license fee paid to Antares during the year ended December 31, 2000, in addition to increases in (1) personnel-related expenses, (2) legal expenses related to increased patent, collaboration and licensing activities, and (3) expenses associated with the clinical development of our hormone replacement product portfolio.

Liquidity and Capital Resources

To date, we have raised equity financing and received licensing income to fund our operations, and we expect to continue this practice to fund our ongoing operations. Since inception, we have raised net proceeds of approximately $12.9 million from private equity financings, class A and class C stock conversions, warrant exercises and in the third quarter 2000, the issuance of a $500,000 convertible debenture, which was converted into 476,190 shares of common stock in the third quarter of 2001. In addition, as a result of licensing upfront payments and milestones, we have received an additional $2.1 million.

Our cash and cash equivalents were $4,502,387 and $2,611,755 at December 31, 2001 and 2000, respectively. The increase in our cash balance is due to our $3.7 million private placement that closed in April 2001, and the $2.5 million upfront payment received from Solvay in 2001 from the sub-license of one of our proposed hormone replacement transdermal gel products, offset by continued expenditures related to the clinical development of our hormone replacement products.

We used cash in operating activities of $1,823,820 for the year ended December 31, 2001 versus cash used in operating activities of $3,149,604 for the year ended December 31, 2000. This decrease reflects the combination of the upfront payment received from Solvay in 2001, offset by cash expenditures associated with: (1) increased general and administrative and research and development personnel-related expenses, (2) legal fees associated with the increase in patent, licensing and collaboration activities; and (3) increased expenses related to the clinical development of our hormone replacement product portfolio and expenses related to manufacturing and formulation services provided by Antares. Offsetting these increased expenses for the year ended December 31, 2001 is the recognition of $1.7 million of licensing revenues pursuant to the Solvay sub-license agreement versus the year ended December 31, 2000 and the $1.0 million upfront license fee payment to Antares paid in June 2000. Net cash used in investing activities was $86,735 for the year ended December 31, 2001 versus $43,238 for the year ended December 31, 2000. The significant uses of cash in investing activities for the year ended December 31, 2001 and 2000 included capital expenditures for computer equipment. Additionally, during the year ended December 31, 2001, we relocated our business office thus incurring the capital expenditures of used office equipment and furniture. Net cash provided by financing activities was $3,801,187 for the year ended December 31, 2001 compared to $530,045 for the year ended December 31, 2000. Net cash provided during 2001 was primarily the result of $3.7 million cash proceeds pursuant to our private placement of common stock and warrants which closed in April 2001 and licensing milestone payments received while net cash provided during 2000 was primarily the result of a $500,000 convertible debenture issued to Paladin Labs Inc. pursuant to a sub-license agreement related to our proposed female hormone replacement products.

We used cash in operating activities of $3,149,604 for the year ended December 31, 2000 versus cash used in operating activities of $1,787,822 for the year ended December 31, 1999. This change was driven by the increase in research and development expenses, including the hormone product portfolio in-license upfront payment of $1.0 million to Antares Pharma, Inc. during 2000. Net cash used in investing activities was $43,238 for the year ended December 31, 2000 versus $4,219 for the year ended

December 31, 1999. The significant uses of cash in investing activities for the year ended December 31, 2000 were capital expenditures for the purchase of office furniture and computer equipment. The significant uses of cash in investing activities for the year ended December 31, 1999 included capital expenditures for office furniture and a computer. Net cash provided by financing activities was $530,045 for the year ended December 31, 2000 compared to $4,225,343 for the year ended December 31, 1999. Net cash provided during 2000 was primarily the result of a $500,000 convertible debenture issued to Paladin Labs Inc. pursuant to a sub-license agreement related to our proposed female hormone replacement products. Net cash provided in 1999 was primarily the result of our private placement in May 1999.

We currently do not have sufficient resources to complete the commercialization of any of our proposed products. Therefore, we will likely need to raise substantial additional capital to fund our operations. We cannot be certain that any financing will be available when needed. If we fail to raise additional financing as we need it, we may have to delay or terminate our own product development programs or pass on opportunities to in-license or otherwise acquire new products that we believe may be beneficial to our business. We expect to continue to spend capital on:

- research and development programs;
- pre-clinical studies and clinical trials;
- regulatory processes;
- establishment of our own marketing capabilities or a search for third party manufacturers and marketing partners to manufacture and market our products for us; and
- the licensure or acquisition of new products.

The amount of capital we may need will depend on many factors, including the:

- progress, timing and scope of our research and development programs;
- progress, timing and scope of our pre-clinical studies and clinical trials;
- time and cost necessary to obtain regulatory approvals;
- time and cost necessary to seek third party manufacturers to manufacture our products for us;
- time and cost necessary to establish our own sales and marketing capabilities or to seek marketing partners to market our products for us;
- time and cost necessary to respond to technological and market developments;

changes made or new developments in our existing collaborative, licensing and. During 2001 and 2000, $4.2 million and $5.5 million, respectively, in principal and $2.0 million and $2.4 million, respectively, in interest was repaid on this debt. The Company has a promissory note of approximately $8.6 million relating to the increase of its equity interest in the double-hull product and chemical carriers from 50.8% to 75.75%. The note bears interest at 8.5%. Semi-annual interest and principal payments are due through December 2003. In January 2001, the Company purchased the remaining 24.25% equity interest. The purchase was funded by $0.5 million in cash and a note payable in the amount of $10.5 million at an interest rate of 8.5%. The promissory notes are collateralized by securities of certain subsidiaries. Quarterly principal and interest payments are due through January 2006 (see Note 17). The outstanding balance of the note(s) was $14.8 million and $7.6 million as of December 31, 2001 and 2000, respectively. The Company has various promissory notes relating to the acquisitions of various vessels. The promissory notes are collateralized by mortgages on certain vessels and bear interest at rates ranging from 8.1% to 8.5%. The debt is due in monthly installments of principal and interest through November 2011. The outstanding balance of the notes was $13.1 million and $14.5 million as of December 31, 2001 and 2000, respectively. F-16 The Company has a Credit Facility ("the Credit Facility"), consisting of $200.0 million of term loans and a $25.0 million revolving line of credit, and issued Senior Notes (see below). The term loans consist of three facilities of $75.0 million, $30.0 million, and $95.0 million maturing over 5, 6, and 7 years, respectively. The revolving line of credit is subject to a commitment fee of 0.5% on the unused portion. The revolving line of credit matures on December 15, 2004. The $75.0 million term loan and the revolving line of credit accrue interest at the Eurodollar Rate, as defined, of 1.93% plus 3.25% (5.18% at December 31, 2001). The $30.0 million and $95.0 million term loans accrue interest at the Eurodollar Rate plus 3.75% (5.68% at December 31, 2001) and Eurodollar Rate plus 4.25% (6.18% at December 31, 2001), respectively. At December 31, 2001, the Company had letters of credit outstanding in the amount of approximately $1.9 million, which expire on various dates through December 2002. This amount is collateralized against the maximum amount available under the revolving line of credit. The amount available to the Company under the revolving line of credit, without prior approval of the bank group, was decreased from $25.0 million to $17.5 million as part of the first amendment to the credit agreement. At December 31, 2001, the unused portion of the revolver was $6.6 million. With the bank's approval, the Company can borrow an additional $7.5 million on the revolver. However, there can be no assurance that the bank will approve additional borrowings under the revolver. Covenants under the Credit Facility, among other things, (i) require the Company to meet certain financial tests, including tests requiring the maintenance of minimum leverage ratios, debt service coverage ratios, and indebtedness to tangible worth ratios; (ii) limit the creation or incurrence of certain liens; (iii) limit the incurrence of additional indebtedness; (iv) limit the Company from making certain investments; (v) limit sales of assets; (vi) require maintenance of certain appraised market collateral values; (vii) limit transactions with affiliates and changes in business; and (viii) limit mergers and consolidations. An amendment to the credit agreement was executed in April 2000, which required the Company to prepay an aggregate of $60.0 million in principal under the term loans in 2000. The Company paid a fee of $4.5 million to the lending banks in connection with the amendment in the form of a promissory note, accruing interest at 15.0% compounded quarterly, due the earlier of (i) April 2002 or (ii) the date on which the ratio of funded indebtedness to EBITDA for any quarter is less then four to one. The $4.5 million loan fee was capitalized to deferred financing costs and is being amortized over the remaining term of the Credit Facility using the interest method. Subsequent amendments throughout 2000 reduced the prepayment requirements and then abolished them altogether. During November 2001, the fifth amendment to the Credit Facility was executed, which reduced financial requirements of certain debt covenants for December 31, 2001. Additionally, the agreement requires that the $4.5 million promissory note will be repaid in monthly installments of $1.0 million beginning in December 2001. The note matures in April 2002 at which time the remaining unpaid principal and accrued interest is due in a balloon payment of approximately $1.9 million. The amendment did not affect any provisions relating to interest on the promissory note. Additionally, on March 15, 2002, a sixth amendment to the credit facility was executed. The amendment reduced the working capital ratio for 2002 and for the life of the term loans and reduced the fixed charge ratio in 2002, with a gradual increase over the remaining life of the term loans. On August 9, 2002, the Company executed the seventh amendment to the credit facility which waived the Company's non-compliance with its working capital covenants at December 31, 2001, which occurred as a result of the restatement discussed in Note 2. F-17 SENIOR NOTES On December 15, 1999, the Company issued $95.0 million face amount of 12.5% senior secured lien notes, Series A (the "Senior Notes") with 536,193 detachable common stock purchase warrants and an original issue discount of $9.5 million. As determined by the Company's management, the fair value of the warrants was approximately $8.9 million and was recorded as an additional discount on the Senior Notes. The Senior Notes were recorded at approximately $76.6 million, net of discounts and offering costs of approximately $18.4 million. The discount is being amortized through the maturity date using the effective interest method (amortization of $1.5 million and $1.4 million in 2001 and 2000, respectively). Unamortized discount was $15.3 million and $16.8 million at December 31, 2001 and 2000, respectively. Interest on the Senior Notes is payable quarterly in arrears. The Senior Notes mature in June 2007 and are redeemable, in whole or in part, at the Company's option at the redemption amount, as defined, plus accrued and unpaid interest. In addition, upon a change in control, as defined, the Company must redeem the Senior Notes at 101.0% of the stated principal amount, plus accrued and unpaid interest. During the period from April 2000 through December 2001, the Company had not yet received a necessary rating from the rating agencies required under the indenture; thus the interest rate was increased from 12.5% to 13.5% effective December 15, 1999. The additional interest is paid on a quarterly basis, in arrears, through the issuance of additional Senior Notes. The total amount of additional Senior Notes issued amounted to $963,533 and $992,752 for the years ended December 31, 2001 and 2000, respectively. The Company is currently seeking the appropriate ratings, which would return the interest rate to 12.5%. In August 2000, the Company consummated an

exchange offer pursuant to which the holders of the Senior Notes had the right to exchange them for Series B Senior Notes that are registered under the Securities Act in like principal amount and with identical terms. The Senior Notes are collateralized by substantially all the assets of the Company (see Note 18). Covenants require the Company to (1) limit the incurrence of additional indebtedness; (2) limit the creation or incurrence of certain liens; (3) restrict certain payments and investments; and (4) restrict certain asset sales and affiliate transactions. At December 31, 2001, the Company is in compliance with the covenants. The aggregate annual future payments due on the long-term debt and Senior Notes as of December 31, 2001 are as follows (in thousands): Years Ending December 31: ---------- 2002..... $ 38,367 2003..... 34,213 2004..... 35,518 2005..... 36,140 2006..... 84,779 Thereafter..... 306,280 --------- 535,297 Less: discount on Senior Notes..... (15,321) --------- $ 519,976 F-18 6. CAPITAL LEASES The Company operates certain vessels and other equipment under leases that are classified as capital leases. The following is a schedule of future minimum lease payments under capital leases, including obligations under sale-leaseback transactions, together with the present value of the net minimum lease payments as of December 31, 2001 (in thousands): Years Ending December 31: ---------- 2002 ..... $ 5,269 2003 ..... 5,128 2004 ..... 4,897 2005 ..... 4,876 2006 ..... 3,919 Thereafter ..... 24,207 -------- Total minimum lease payments ..... 48,296 Less: amount representing interest ..... (13,556) -------- Present value of minimum lease payments (including current portion of $2,972) $ 34,740 ======== 7. COMMITMENTS AND CONTINGENCIES LEASE COMMITMENTS The Company leases its office facilities and certain vessels under operating lease agreements, which expire at various dates through 2013. Rent expense was approximately $4.9 million, $4.4 million and $5.6 million for the years ended December 31, 2001, 2000 and 1999, respectively. Aggregate annual future payments due under non-cancelable operating leases with remaining terms in excess of one year are as follows (in thousands): Years Ending December 31: ---------- 2002 ..... $ 4,574 2003 ..... 3,800 2004 ..... 3,720 2005 ..... 3,616 2006 ..... 2,993 Thereafter ..... 5,261 ------- $23,964 ======= BAREBOAT CHARTER AND SUBLEASE During 2001, the Company entered into a ten-year non-cancelable bareboat charter agreement for a double-hull tanker with a third party (the "charterer"). Beginning in January 2002 (commencement of contract), the charterer has exclusive possession and control of the vessel. As a result, the charter party will incur and pay all operating costs during the charter period. The Company receives a fixed amount per day for the charter of the vessel. Also, the Company subleases certain office space in Houston, Texas. The sublease is expected to terminate in January 2004. There are no renewal or escalation clauses relating to the bareboat charter or sublease. F-19 Future minimum lease receipts under the bareboat charter and sublease as of December 31, 2001 (in thousands) are as follows: Years Ending December 31: ---------- 2002..... $ 6,444 2003..... 7,033 2004..... 6,943 2005..... 6,935 2006..... 6,935 Thereafter..... 35,264 -------- $ 69,554 ======== CONTINGENCIES Under United States law, "United States persons" are prohibited from business activities and contracts in certain countries, including Sudan and Iran. The Company has filed two reports with and submitted documents to the Office of Foreign Asset Control of the U.S. Department of Treasury. One of the reports was also filed with the Bureau of Export Administration of the U.S. Department of Commerce. The reports and documents related to certain limited charters with third parties involving three of the Company's vessels which called in the Sudan for several months in 1999 and January 2000, and charters with third parties involving several of the Company's vessels which called in Iran in 1998. Should either of the agencies determine that these activities constituted violations of the laws or regulations administered by them, civil penalties, including fines, could be assessed against the Company and/or certain individuals who knowingly participated in such activities. The Company cannot predict whether any such penalties will be imposed or the nature or extent of such penalties; however, management does not believe the outcome of these matters will have a material impact on its financial position or results of operations. The Company was sued by Maritime Transportation Development Corporation in January 2002 alleging broker commissions due from charters on two of its vessels, the MAGNACHEM and SEABULK CHALLENGER, since 1998. The Company is vigorously defending such charges, believes it has good defenses, but cannot predict the ultimate outcome. The Company is sometimes named as a defendant in litigation, usually relating to claims for bodily injuries or property damage. The Company maintains insurance coverage against such claims to the extent deemed prudent by management and applicable deductible amounts are accrued at the time of the incident. The Company believes that there are no existing claims of a potentially material adverse nature for which it has not already provided appropriate accruals. At December 31, 2001, approximately 16.0% of the Company's employees were members of national maritime labor unions, or are subject to collective bargaining agreements. Management considers relations with employees to be satisfactory; however, the deterioration of these relations could have an adverse effect on the Company's operating results. F-20 8. VESSELS AND EQUIPMENT Vessels and equipment are summarized below (in thousands): Year Ended December 31, --------- --------- 2001 2000 --------- --------- Vessels and improvements ..... $ 681,599 $ 691,006 Furniture and equipment ..... 11,729 12,516 --------- --------- 693,328 703,522 Less: accumulated depreciation and amortization (103,957) (63,626) --------- --------- Vessels and equipment, net ..... $ 589,371 $ 639,896 ========= ========= In 2001, the Company acquired one vessel for approximately $2.5 million for cash. In 2000, the Company acquired two vessels: one under a cash purchase agreement and the other under a capital lease agreement, for total consideration of approximately $7.6 million. In 2001, the Company sold 25 vessels for proceeds of $6.6 million. In 2000, the Company sold 39 vessels and scrapped one tanker pursuant to its OPA

90-mandated retirement date for proceeds of approximately $25.7 million. The proceeds from vessel sales were used primarily to repay a portion of the Company's term loans. 9. STOCK OPTION PLANS On the Effective Date, all rights and awards granted under the Equity Ownership Plan and Stock Option Plan for Directors were canceled. The holders of options to purchase common stock issuable under these plans received a pro rata share of the 125,000 Class A warrants issued by the Successor Company (see Note 12). On the Effective Date, the Successor Company adopted the Hvide Marine Incorporated Stock Option Plan (the "1999 Plan"), a new stock option plan which provided certain key employees of the Successor Company the right to acquire shares of common stock. Pursuant to the plan, 500,000 shares of the Successor Company's common stock were reserved for issuance to the participants in the form of nonqualified stock options. The options expire no later than 10 years from the date of the grant. Pursuant to the 1999 Plan, options to purchase 200,000 shares of the Successor Company's common stock were granted to certain senior employees on the Effective Date. One-half of these options vested automatically immediately, and the remaining options vested 91 days thereafter. On June 15, 2000, the Company adopted the Amended and Restated Equity Ownership Plan (the "Plan"). The Plan amends and restates in its entirety the 1999 Plan. Pursuant to the Plan, 800,000 shares of the Company's stock were reserved for issuance to participants in the form of nonqualified or incentive stock options, restricted stock grants and other stock related instruments, subject to reflect stock dividends, recapitalizations, reorganizations and other changes in the capital structure. In December 2001, the Compensation Committee agreed to amend the Plan by authorizing and reserving for issuance of an additional 500,000 shares to be eligible for grants under the Plan, bringing the total under the Plan to 1,300,000 shares. The Committee's action is subject to shareholder approval at the Company's Annual Meeting of Shareholders to be held on May 14, 2002, pursuant to the Notice of Meeting and Proxy. The vesting and certain other terms of the stock options granted under the Plan will be determined by the Compensation Committee. The Plan requires that the option price may not be less than 100% of the fair F-21 market value on the date of grant. The options expire no later than 10 years from the date of grant. Options granted under this Plan totaled 283,000 and 415,000 during 2001 and 2000, respectively. On June 15, 2000, the Company also adopted the Stock Option Plan for Directors (the "Directors Plan"). Pursuant to the Directors Plan, an aggregate of 175,000 shares of common stock are authorized and reserved for issuance, subject to adjustments to reflect stock dividends, recapitalizations, reorganizations, and other changes in the capital structure of the Company. Eligible directors as of the effective date of the Plan were granted options to purchase 10,000 shares of common stock on the first option date, and the Chairman of the Board received 20,000 options, for a total granted of 80,000. Eligible directors will receive 4,000 and the Chairman will receive 8,000 options to purchase shares of common stock annually, effective as of each Annual Meeting of Shareholders of the Company commencing May 17, 2001. Under the Plan, the option price for each option granted is required to be 100% of the fair market value of common stock on the date of grant. Options granted under the Director's Plan totaled 32,000 and 80,000 during 2001 and 2000, respectively. The following table of data is presented in connection with the stock option plans: Predecessor Successor Company Company ---------- ---------- Period From Period From Year Ended December 31, December 16, January 1 ---------- to December 31, to December 15, 2001 2000 1999 1999 ---------- ---------- ---------- ---------- Weighted Weighted Weighted Weighted Number Average Number Average Number Average Number Average of Exercise of Exercise of Exercise of Exercise Options Price Options Price Options Price Options Price ------- ------- ------- --------- ------- -------- ---------- -------- Options outstanding at beginning of period ..... 604,000 $ 8.27 200,000 $12.47 -- $ -- 987,675 $12.60 Granted ..... 315,000 5.61 495,000 7.16 200,000 12.47 379,441 6.06 Exercised ..... -- -- -- -- -- -- -- -- Canceled ..... (97,000) 10.80 (91,000) 11.33 -- -- (1,367,116) 10.78 ------- ------- ------ -------- ------ ---------- ----- Options outstanding at end of period ..... 822,000 $6.91 604,000 $ 8.27 200,000 $ 12.47 -- $ -- ======= ===== ======= ====== ======== ======= ========== ===== Options exercisable at end of period ..... 333,837 $8.38 207,000 $ 12.11 100,000 -- -- -- Options available for future grants at end of period ..... 153,000 -- 371,000 -- 300,000 -- -- -- Summarized information about stock options outstanding as of December 31, 2001 is as follows: Weighted Weighted Number of Remaining Average Number of Average Options Life Exercise Options Exercise Exercise Price Range Outstanding (In Years) Price Exercisable Price ---------- ---------- --------- ---------- --------- Under $6.25 174,000 9.92 $ 3.95 -- $ 3.95 $6.25 to $6.31 387,000 8.71 $ 6.26 219,837 $ 6.26 $6.32 to $7.30 32,000 1.50 $ 7.30 -- $ 7.30 $7.31 to $7.75 109,000 9.24 $ 7.75 -- $ 7.75 Over $7.76 120,000 5.18 $ 12.46 114,000 $ 12.47 F-22 The weighted average fair value of options granted under the Successor Company's stock option plans during 2001 and 2000 was $5.54 and $6.65, respectively. The weighted average fair value of options granted under the Predecessor Company's stock option plans during the period from January 1, 1999 through December 15, 1999 was $5.72. These values are based on the Black-Scholes option valuation model. Had compensation expense for the stock option grants been determined based on the fair value at the grant date for awards consistent with the methods of SFAS No. 123, the Company's net loss would have increased to the pro forma amounts presented below for 2001 and 2000, the period from January 1, 1999 to December 15, 1999 (in thousands, except per share amounts): January 1 to 2001 2000 December 15, 1999 ---------- ---------- ---------- (as restated) Net loss: As reported ..... $ (11,961) $ (28,952) $ (248,355) Pro forma ..... (13,705) (31,823) (250,863) Net loss per common share--assuming dilution: As reported ..... $ (1.16) $ (2.89) $ (16.02) Pro forma ..... (1.33) (3.17) (16.18) The fair value of each option is estimated on the date of the grant using the Black-Scholes option-pricing model with the following assumptions applied to grants in 2001, 2000 and the period from January 1, 1999 to December 15, 1999: January 1 to 2001 2000 December 15, 1999 ---- ---- ---------- Dividend yield ..... 0.0% 0.0% 0.0% Expected volatility factor ..... 3.21 1.21 1.39 Approximate risk-free interest rate 5.0% 5.0% 6.5% Expected life (in years) ..... 10 10 6 The Black-Scholes options valuation model was developed for use in estimating the fair value of traded options that have no

vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models, in management's opinion, do not necessarily provide a reliable single measure of the fair value of the Company's stock options. 10. EMPLOYEE BENEFIT AND STOCK PLANS The Company sponsors a retirement plan and trust (the "Plan") established pursuant to Section 401(k) of the Internal Revenue Code, which covers substantially all administrative and non-union employees. Subject to certain dollar limitations, employees may contribute a percentage of their salaries to this Plan, and the Company will match a portion of the employees' contributions. Profit sharing contributions by the Company to the Plan are discretionary. Additionally, the Company contributed to various union-sponsored, collectively bargained pension plans for certain crew members in the marine transportation and towing segments. The plans are not administered by the Company, and contributions F-23 are determined in accordance with provisions of negotiated labor contracts. The expense resulting from Company contributions to the Plan and various union sponsored plans amounted to approximately $2.9 million, $2.0 million and $1.9 million for the years ended December 31, 2001, 2000 and 1999, respectively. On the Effective Date, all rights and awards granted under the 1996 Stock Purchase Plan, the Key Employee Stock Compensation Plan and the Board of Directors Stock Compensation Plan were canceled. The holders of common stock issuable under these plans received a pro rata share of 125,000 Class A warrants issued by the Successor Company (see Note 12). 11. INCOME TAXES The United States and foreign components of income (loss) before income taxes and extraordinary item are as follows (in thousands): Predecessor Successor Company Company ---------- ---------- Period From Period From Year Ended December 31, December 16 to January 1 to ---------- December 31, December 15, 2001 2000 1999 1999 --------- ---------- --------- ---------- (as restated) United States..... $ (3,849) $ (1,502) $ (855) $ (314,447) Foreign..... (2,902) (22,578) (710) (232,555) --------- ---------- --------- ---------- Total..... $ (6,751) $ (24,080) $ (1,565) $ (547,002) ========= ========== ========= ========== The components of the provision for income tax expense (benefit) are as follows (in thousands): Predecessor Successor Company Company ---------- ---------- Period From Period From Year Ended December 31, December 16 to January 1 to ---------- December 31, December 15, 2001 2000 1999 1999 -------- -------- ---------- ---------- (as restated) Current: Federal ..... $ -- $ -- $ (2,234) Foreign ..... 5,210 4,872 -- 2,234 -------- -------- ---------- -------- Total current ..... 5,210 4,872 -- -- -------- -------- ---------- -------- Deferred ..... -- -- -- (32,004) -------- -------- ---------- -------- Total income tax expense (benefit) $ 5,210 $ 4,872 $ -- $(32,004) ======== ======== ========== ======== F-24 A reconciliation of income tax attributable to continuing operations computed at the U.S. federal statutory tax rates to income tax expense is: Predecessor Successor Company Company ---------- ---------- Period From Period From December 16 to January 1 to Year Ended December 31, December 31, December 15, ---------- ---------- ---------- 2001 2000 1999 1999 -------- -------- ---------- ---------- (as restated) Income tax expense computed at the federal statutory rate..... (35)% (35)% (35)% (35)% State income taxes, net of Federal benefit..... (1) (1) (1) (1) Foreign taxes in excess of credits recognized.... (77) 20 -- -- Reduction of tax attributes..... -- -- -- 20 Change in valuation allowance..... 35 35 36 8 Permanent, non deductible items..... 1 1 -- 2 ---------- ---------- ---------- ---------- 77% 20% 0% (6)% ========== ========== ========== ========== The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows (in thousands): Year Ended December 31, ---------- 2001 2000 -------- -------- (as restated) Deferred income tax assets: Allowances for doubtful accounts ..... $ 828 $ 2,347 Goodwill ..... 17,882 19,560 Accrued compensation ..... 733 -- Foreign tax credit carryforwards ..... 16,548 11,338 Net operating loss carryforwards ..... 61,509 53,068 Other ..... 1,351 2,939 -------- -------- Total deferred income tax assets .... 98,851 89,252 Less: valuation allowance ..... (65,263) (57,396) -------- -------- Net deferred income tax assets ..... 33,588 31,856 Deferred income tax liabilities: Property differences ..... 28,885 25,445 Deferred drydocking costs ..... 3,768 5,284 Other ..... 935 1,127 -------- -------- Total deferred income tax liabilities 33,588 31,856 -------- -------- Net deferred income tax assets ..... $ -- $ -- ======== ======== SFAS No. 109 requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. After consideration of all the evidence, both positive and negative, management determined that a valuation allowance of approximately $65.3 million and $57.4 million was necessary at December 31, 2001, and 2000, respectively, to reduce the deferred tax assets to the amount that will more likely than not be realized. After application of the valuation allowance, the Company's net deferred tax assets and liabilities are zero at December 31, 2001 and 2000. The net change in the total valuation F-25 allowance was an increase of approximately $7.9 million and $14.1 million in 2001 and 2000, respectively. Subsequently, recognized tax benefits relating to the valuation allowance for deferred tax assets as of December 31, 2001 will be allocated as follows (in thousands): Income tax benefit that would be reported in the consolidated statement of operations..... $ 7,867 Additional paid-in capital..... 57,396 ---------- Total..... $ 65,263 ========== At December 31, 2001, the Company has a net operating loss carryforward of approximately $172.1 million, which is available to offset future federal taxable income through 2021. The Company also has foreign tax credit carryforwards, expiring in years 2002 through 2005, of approximately $16.5 million, which are available to reduce future federal income tax liabilities. In 1999, the Company reported a gain of $266.6 million resulting from the extinguishment of indebtedness that occurred from the bankruptcy discharge on the Effective Date. Pursuant to Section 108 of the Internal Revenue Code, this gain was excluded from income

taxation and certain tax attributes of the Company were eliminated or reduced, up to the amount of such income excluded from taxation. The Company has a tax basis in its assets in excess of its basis for financial reporting purposes that will generate tax deductions in future periods. As a result of a "change in ownership" under the Internal Revenue Code Section 382, the Company's ability to utilize depreciation, amortization and other tax attributes will be limited to approximately $9.5 million per year through 2004. This limitation is applied to all net built-in losses, which existed on the "change of ownership" date (the Effective Date), including all items giving rise to a deferred tax asset. 12. STOCKHOLDERS' EQUITY Pursuant to the Plan, prior to the effective date, shares of the Predecessor Company's Class B common stock were converted to Class A common stock. On the Effective Date, holders of Predecessor Company Class A common stock and holders of certain rights to obtain common stock under the Predecessor Company's compensation plans were issued 125,000 Class A warrants to purchase common stock of the Successor Company on a pro rata basis. The warrants have a four-year term and an exercise price of $38.49 per share. On the Effective Date, all classes of the Predecessor Company's equity securities were canceled. Pursuant to the articles of incorporation of the Successor Company, there are 20 million shares of common stock authorized for issuance, of which 10 million were granted at the Effective Date in exchange for Predecessor Company liabilities, as discussed in Note 4. At the Effective Date, holders of the Predecessor Company's Preferred Securities received 200,000 shares of Successor Company common stock and 125,000 Class A warrants. The warrants have a four-year term and an exercise price of $38.49 per share. There was no Class A warrant exercises during 2001 and 2000. The remaining weighted average contractual life is 2 years at December 31, 2001. At the Effective Date, the holders of the Predecessor Company's Senior Notes, discussed in Note 4, received 9.8 million shares of Successor Company common stock. As discussed in Note 5, the holders of Senior Notes received 536,193 common stock purchase warrants ("the Noteholder Warrants"). The F-26 warrants have a six and one-half year term and an exercise price of $0.01 per warrant. As determined by the Company's management, the fair value of the warrants was approximately $8.9 million and was recorded as a component of additional paid-in capital of the Successor. Also in connection with the issuance of the Senior Notes, the Successor Company issued an additional 187,668 Noteholder Warrants to an investment advisor. They have a six and one-half year term and an exercise price of $0.01 per warrant. As determined by the Company's management, the fair value of these warrants was estimated to be approximately $3.5 million and was recorded as deferred financing costs. During the years ended December 31, 2001 and 2000, 314,000 and 89,000 Noteholder Warrants were exercised, respectively. The amount of outstanding Noteholder Warrants amounted to approximately 322,000 at December 31, 2001. The weighted average contractual life is 4.5 years at December 31, 2001. All of the Successor Company's outstanding warrants contain customary anti-dilution provisions for issuances of common stock, splits, combinations and certain other events, as defined. In addition, the outstanding warrants have certain registration rights, as defined. The Successor Company is authorized to issue 5 million shares of preferred stock, no par value per share. The Company has no present plans to issue such shares. At December 31, 2001, 1,547,000 shares of Common Stock were reserved for issuance under the Successor Company's Amended and Restated Equity Ownership Plan, the Stock Option Plan for Directors and outstanding warrants. In December 2001, the Company granted 75,000 shares of restricted common stock to an officer. One-third of the shares vested on the grant date. The remaining two-thirds of the shares will vest evenly over the next two years. Compensation expense for this award amounted to $99,000 and was recorded in salaries and benefits in 2001. The unvested portion of the award is recorded in unearned compensation in the accompanying consolidated balance sheets. During 2000, the Company granted 28,200 shares of restricted common stock to certain key employees. Compensation expense for this award was recorded in salaries and benefits for approximately $174,000. F-27 13. NET LOSS PER SHARE The following table sets forth the computation of basic and diluted net loss per share before extraordinary items (in thousands, except per share amounts): Predecessor Successor Company Company ---------- Period From Period From December 16 to January 1 to Year Ended December 31, December 31, December 15, ---------- 2001 2000 1999 1999 -------- -------- -------- (as restated) Numerator: Numerator for basic and diluted loss per share--net loss before extraordinary item available to common shareholders..... $ (11,961) $ (28,952) $ (1,565) $ (514,998) ========== ========== ========== Denominator: Denominator for basic and diluted loss per share--weighted average shares 10,277 10,034 10,000 15,503 ========= ========= ========= Net loss per common share before extraordinary item..... $ (1.16) $ (2.89) $ (0.16) $ (33.22) ========= ========= ========= Net loss per common share before extraordinary item--assuming Dilution..... $ (1.16) $ (2.89) $ (0.16) $ (33.22) ========= ========= ========= The weighted average diluted common shares outstanding for fiscal 2001, 2000 and 1999 excludes 822,000, 604,000 and 200,000 stock options, respectively. Additionally, 572,000, 885,000 and 974,000 warrants in 2001, 2000 and 1999, respectively, are excluded from the weighted average diluted common shares outstanding. These common stock equivalents are antidilutive because the Company incurred net losses for 2001, 2000 and 1999. F-28 14. SEGMENT AND GEOGRAPHIC DATA The Company organizes its business principally into three segments. The accounting policies of the reportable segments are the same as those described in Note 3. The Company does not have significant intersegment transactions. These segments and their respective operations are as follows: OFFSHORE ENERGY SUPPORT - Offshore energy support includes vessels operating in U.S. and foreign locations used primarily to transport materials, supplies, equipment and personnel to drilling rigs and to support the construction, positioning and ongoing operations of oil and gas productions platforms. MARINE TRANSPORTATION SERVICES - Marine transportation services includes oceangoing and inland-waterway vessels used to transport chemicals, fuel and other petroleum products, primarily from chemical manufacturing plants, refineries and storage facilities along the U.S. Gulf of Mexico coast to industrial users and distribution facilities in and around the Gulf of Mexico, Atlantic and Pacific coast ports and inland rivers. Marine transportation services

also include work performed in the Company's shipyard facilities at Green Cove Springs, Florida. TOWING - Harbor and offshore towing services are provided by tugs to vessels utilizing the ports in which the tugs operate, and to vessels at sea to the extent required by environmental regulations, casualty or other emergency. The Company evaluates performance by operating segment. Also, within the offshore energy support segment, the Company performs additional performance evaluation of vessels marketed in U.S. and foreign locations. Resources are allocated based on segment profit or loss from operations, before interest and taxes. Revenue by segment and geographic area consists only of services provided to external customers, as reported in the Statements of Operations. Income from operations by geographic area represents net revenue less applicable costs and expenses related to that revenue. Unallocated expenses are primarily comprised of general and administrative expenses of a corporate nature. Identifiable assets represent those assets used in the operations of each segment or geographic area, and unallocated assets include corporate assets. F-29 The following schedule presents information about the Company's operations in these segments (in thousands): Predecessor Successor Company Company ---------- ---------- Period From Period From December 16 to January 1 to Year Ended December 31, December 31, December 15, ---------- ---------- ---------- 2001 2000 1999 1999 -------- -------- -------- -------- (as restated) REVENUE Offshore energy support ..... $191,178 $151,395 $ 5,610 $144,702 Marine transportation services 122,059 135,982 6,341 142,618 Towing ..... 33,493* 33,106* 1,528* 41,431* -------- -------- -------- -------- TOTAL ..... $346,730 $320,483 $ 13,479 $328,751 ======== ======== ======== ======== ======== OPERATING EXPENSES Offshore energy support ..... $ 98,549 $ 94,331 $ 4,168 $ 95,811 Marine transportation services 76,555* 91,104* 3,134* 96,993* Towing ..... 20,130 19,791 745 19,949 General corporate ..... 4,093 -- -- -- -------- -------- -------- -------- TOTAL ..... $199,327 $205,226 $ 8,047 $212,753 ======== ======== ======== ======== ======== DEPRECIATION, AMORTIZATION, DRYDOCKING AND WRITE-DOWN OF ASSETS HELD FOR SALE Offshore energy support ..... $ 37,550 $ 31,478 $ 1,236 $ 49,893 Marine transportation services 19,311 14,417 623 22,855 Towing ..... 2,910 2,919 150 4,991 General corporate ..... 1,542 1,457 60 1,670 --------- --------- -------- --------- TOTAL ..... $ 61,313 $ 50,271 $ 2,069 $ 79,409 ========= ========= ======== ========= ========= INCOME (LOSS) FROM OPERATIONS Offshore energy support ..... $ 39,151 $ 10,389 $ (429) $ (20,686) Marine transportation services 20,952 23,893 2,385 15,354 Towing ..... 6,169 5,096 394 11,106 General corporate ..... (17,184) (14,022) (630) (17,000) --------- --------- -------- --------- TOTAL ..... $ 49,088 $ 25,356 $ 1,720 $ (11,226) ========= ========= ======== ========= ========= NET INCOME (LOSS) Offshore energy support ..... $ 5,566 $ (30,920) $ (619) $(337,253) Marine transportation services (278) 7,200 1,307 (79,585) Towing ..... 396 2,906 394 (21,709) General corporate ..... (17,645) (8,138) (2,647) 190,192 --------- --------- -------- --------- TOTAL ..... $ (11,961) $ (28,952) $ (1,565) $(248,355) ========= ========= ======== ========= ========= * Net of elimination of intersegment towing revenue and intersegment marine transportation operating expenses of $2.1 million, $2.6 million, $0.1 million and $2.2 million for the years ended December 31, 2001 and 2000 and the periods for December 16 to December 31, 1999 and January 1 to December 15, 1999, respectively. F-30 Consolidated Balance Sheet Information as of December 31, ---------- 2001 2000 --------- --------- IDENTIFIABLE ASSETS Offshore energy support ..... $ 326,608 $ 334,614 Marine transportation services .. 334,272 347,466 Towing ..... 64,931 68,446 Unallocated ..... 18,954 24,950 --------- --------- TOTAL ..... $ 744,765 $ 775,476 ========= ========= VESSELS AND EQUIPMENT Offshore energy support ..... $ 281,933 $ 284,652 Marine transportation services .. 341,087 345,005 Towing ..... 61,317 61,100 --------- --------- Total ..... 684,337 690,757 Construction in progress ..... 837 249 General corporate ..... 8,154 12,516 --------- --------- Gross vessels and equipment ..... 693,328 703,522 Less accumulated depreciation (103,957) (63,626) --------- --------- TOTAL ..... $ 589,371 $ 639,896 ========= ========= CAPITAL EXPENDITURES AND DRYDOCKING Offshore energy support ..... $ 30,959 $ 17,596 Marine transportation services .. 6,597 8,341 Towing ..... 951 5,530 Unallocated ..... 224 26 --------- --------- TOTAL ..... $ 38,731 $ 31,493 ========= ========= The Company is engaged in providing marine support and transportation services in the United States and foreign locations. The Company's foreign operations are conducted on a worldwide basis, primarily in West Africa, the Arabian Gulf, Southeast Asia and Mexico, with assets that are highly mobile. These operations are subject to risks inherent in operating in such locations. The vessels generating revenue from offshore and marine transportation services move regularly and routinely from one country to another, sometimes in different continents depending on the charter party. Because of this asset mobility, revenue and long-lived assets attributable to the Company's foreign operations in any one country are not material, as defined in SFAS No. 131. One customer, CITGO Petroleum, accounted for 11.0% and 12.0% of the Company's total revenue for the years ended December 31, 2001 and 2000. The revenue received from CITGO was approximately $38.0 million and $38.6 million in 2001 and 2000, respectively, which related to the marine transportation services segment. There were no customers from which the Company derived more than 10% of its total revenue for the year ended December 31, 1999. F-31 The following table presents selected financial information pertaining to the Company's geographic operations for 2001, 2000 and 1999 (in thousands): Predecessor Successor Company Company ---------- ---------- Period From Period From December 16 to January 1 to Year Ended December 31, December 31, December 15, ---------- ---------- ---------- 2001 2000 1999 1999 -------- -------- -------- -------- REVENUE Domestic ..... $239,238 $223,579 $ 10,039 $232,067 Foreign West Africa ... 69,305 48,268 1,658 45,295 Middle East ... 22,450 34,242 1,524 38,811 Southeast Asia 15,737 14,394 258 12,578 -------- -------- -------- -------- CONSOLIDATED REVENUE $346,730 $320,483 $ 13,479 $328,751 ======== ======== ======== ======== ======== Consolidated Balance Sheet Information as of December 31, ---------- 2001 2000 --------- --------- IDENTIFIABLE ASSETS Domestic ..... $ 551,915 $ 566,862 Foreign West Africa .....

117,725 102,926 Middle East ..... 40,955 50,728 Southeast Asia ..... 15,216 30,009 Other ..... 18,954 24,951 --------- --------- TOTAL ..... $ 744,765 $ 775,476 ========= ========= VESSELS AND EQUIPMENT Domestic ..... $ 545,613 $ 544,631 Foreign West Africa ..... 94,285 85,942 Middle East ..... 27,887 34,903 Southeast Asia ..... 16,771 25,530 --------- --------- 684,556 691,006 General corporate ..... 8,772 12,516 --------- --------- 693,328 703,522 Less: accumulated depreciation (103,957) (63,626) --------- --------- TOTAL ..... $ 589,371 $ 639,896 ========= ========= 15. FAIR VALUE OF FINANCIAL INSTRUMENTS The following methods and assumptions were used to estimate the fair value of financial instruments included in the following categories: CASH, CASH EQUIVALENTS, RESTRICTED CASH, ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE AND ACCRUED LIABILITIES. The carrying amounts reported in the balance sheet approximate fair value due to the short-term nature of such instruments. SENIOR NOTES, TERM LOAN, AND TITLE XI. The Senior Notes, Term Loan and Title XI obligations provide for interest and principal payments at various rates and dates as discussed in Note 5. The F-32 Company estimates the fair value of such obligations using a discounted cash flow analysis at estimated market rates. The following table presents the carrying value and fair value of the financial instruments at December 31, 2001 and 2000 (in millions): December 31, ---------- 2001 2000 ---------- ---------- Issue Carrying Value Fair Value Carrying Value Fair Value ----- ---------- ---------- ---------- ---------- Senior notes $ 81.6 $ 97.0 $ 79.1 $ 99.9 Term loans . 155.0 155.0 168.9 168.9 Title XI ... 241.6 246.5 249.9 262.8 REVOLVING LINE OF CREDIT. Amounts outstanding under the revolving line of credit provide for interest at variable rates that are periodically adjusted to reflect changes in overall market rates and therefore approximate fair value. NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS. The carrying amounts reported in the balance sheet approximate fair value determined using a discounted cash flow analysis at estimated market rates. 16. EXTRAORDINARY ITEMS In 1999, the Predecessor Company was relieved of approximately $421.6 million of outstanding debt and related accrued interest in exchange for approximately $155.0 million in equity interests in the Successor Company in connection with the Plan. As a result, the Predecessor Company recorded a gain on the early extinguishment of debt of approximately $266.6 million. 17. ACQUISITION OF MINORITY INTEREST On January 15, 2001, the Company acquired the remaining 24.25% interest in its five double-hull petroleum and chemical tankers. The purchase price was approximately $11.0 million, of which $523,544 was paid in cash and the remaining balance was paid by a promissory note in the principal amount of $10.5 million. The note is guaranteed by certain securities of certain subsidiaries of the Company. The note accrues interest at 8.5% per annum and is paid quarterly. Principal and interest is due in quarterly payments through January 2006. This transaction resulted in the elimination of minority interest and an increase to vessels and equipment of $3.1 million, representing the fair value of assets acquired over the carrying value of the minority interest. The increase in vessels and equipment is being depreciated over the remaining useful lives of the tankers. 18. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION The Senior Notes described in Note 5 are fully and unconditionally guaranteed on a joint and several basis by certain of the Company's consolidated subsidiaries. A substantial portion of the Company's cash flows are generated by its subsidiaries. As a result, the funds necessary to meet the Company's obligations are provided in substantial part by distributions or advances from its subsidiaries. Under certain circumstances, contractual or legal restrictions, as well as the financial and operating requirements of the Company's subsidiaries, could limit the Company's ability to obtain cash from its subsidiaries for the purpose of meeting its obligations, including the payments of principal and interest on the Senior Notes. The following is summarized condensed consolidating financial information for the Company, segregating the Parent, the domestic and foreign guarantor subsidiaries, the combined non-guarantor subsidiaries and eliminations. F-33 CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (in thousands) Year Ended December 31, 2001 (As Restated) ---------- Domestic Foreign Non- Condensed Guarantor Guarantor Guarantor Consolidated Parent Subsidiaries Subsidiaries Subsidiaries Eliminations Total --------- ---------- ---------- ---------- ---------- --------- Revenue ..... $ 9,198 $ 175,244 $ 107,493 $ 59,921 $ (5,126) $ 346,730 Operating expenses ..... 5,125 110,738 58,181 30,142 (4,859) 199,327 Overhead expenses ..... 12,486 11,490 11,526 1,791 (291) 37,002 Depreciation, amortization, drydocking and other ..... 6,890 20,539 22,621 11,263 -- 61,313 --------- --------- --------- --------- --------- --------- (Loss) income from operations ..... (15,303) 32,477 15,165 16,725 24 49,088 Other income (expense), net ..... 3,342 22,123 (18,195) (19,947) (43,162) (55,839) --------- --------- --------- --------- --------- --------- (Loss) income before income taxes ..... (11,961) 54,600 (3,030) (3,222) (43,138) (6,751) Provision for income taxes ..... -- -- 5,210 -- -- 5,210 --------- --------- --------- --------- --------- --------- Net (loss) income ..... $ (11,961) $ 54,600 $ (8,240) $ (3,222) $ (43,138) $ (11,961) ========= ========= ========= ========= ========= ========= CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (in thousands) Year Ended December 31, 2001 (As Restated) ---------- Domestic Foreign Non- Condensed Guarantor Guarantor Guarantor Consolidated Parent Subsidiaries Subsidiaries Subsidiaries Eliminations Total --------- ---------- ---------- ---------- ---------- ---------- Net cash provided by operating activities ..... $ 21,759 $ 19,821 $ 12,357 $ 4,961 $ 7,942 $ 66,840 INVESTING ACTIVITIES: Purchases of vessels and equipment ..... (278) (4,942) (3,198) (864) -- (9,282) Expenditures for drydocking ..... (4,299) (8,638) (15,171) (1,341) -- (29,449) Redemption of restricted investments ..... -- -- -- 2,542 -- 2,542 Proceeds from disposals of vessels and equipment ... -- 1,738 4,837 -- -- 6,575 Purchases of restricted investments ..... -- -- -- (1,677) -- (1,677) Purchase of minority interest ..... 8,354 -- -- (936) (7,942) (524) -------- -------- -------- -------- -------- -------- Net cash provided by (used in) investing activities 3,777 (11,842) (13,532) (2,276) (7,942) (31,815) FINANCING ACTIVITIES: Repayments of revolving credit facility, net ..... (5,250) -- -- -- -- (5,250) Repayment of long-term borrowings ..... (18,189) (1,315) -- -- -- (19,504) Repayment of

Title XI bonds ..... (3,583) (646) -- (4,083) -- (8,312) Increase in restricted cash ..... 331 -- (1,337) -- -- (1,006) Payments of obligations under capital leases ..... -- (3,558) -- -- -- (3,558) Proceeds from exercise of warrants ..... 3 -- -- -- -- 3 -------- -------- -------- -------- -------- -------- Net cash used in financing activities ..... (26,688) (5,519) (1,337) (4,083) -- (37,627) -------- -------- -------- -------- -------- -------- Change in cash and cash equivalents ..... (1,152) 2,460 (2,512) (1,398) -- (2,602) Cash and cash equivalents at beginning of year ..... 1,402 (2,190) 6,400 8,621 -- 14,233 -------- -------- -------- -------- -------- -------- Cash and cash equivalents at end of year ..... $ 250 $ 270 $ 3,888 $ 7,223 $ -- $ 11,631 ======== ======== ======== ======== ======== ======== F-34 CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (in thousands) Year Ended December 31, 2000 ---------- Domestic Foreign Non- Condensed Guarantor Guarantor Guarantor Consolidated Parent Subsidiaries Subsidiaries Subsidiaries Eliminations Total --------- ---------- ---------- ---------- ---------- ---------- Revenue ..... $ 13,834 $ 156,395 $ 96,904 $ 59,337 $ (5,987) $ 320,483 Operating expenses ..... 3,948 111,801 61,557 33,650 (5,730) 205,226 Overhead expenses ..... 14,120 12,387 11,472 1,932 (281) 39,630 Depreciation, amortization and drydocking 3,667 16,002 19,817 10,785 -- 50,271 --------- --------- --------- --------- --------- --------- (Loss) income from operations ..... (7,901) 16,205 4,058 12,970 24 25,356 Other (expense) income, net ..... (16,179) (19,903) (31,507) (24,475) 42,628 (49,436) --------- --------- --------- --------- --------- --------- (Loss) income before income taxes ..... (24,080) (3,698) (27,449) (11,505) 42,652 (24,080) Provision for income taxes ..... 4,872 -- -- -- 4,872 --------- --------- --------- --------- --------- --------- Net (loss) income ..... $ (28,952) $ (3,698) $ (27,449) $ (11,505) $ 42,652 $ (28,952) ========= ========= ========= ========= ========= ========= CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (in thousands) Year Ended December 31, 2000 ---------- Domestic Foreign Non- Condensed Guarantor Guarantor Guarantor Consolidated Parent Subsidiaries Subsidiaries Subsidiaries Eliminations Total --------- ---------- ---------- ---------- ---------- ---------- Net cash provided by (used in) operating activities ..... $ 46,864 $ 18,743 $ (55,367) $ 16,036 $ -- $ 26,276 INVESTING ACTIVITIES: Purchases of vessels and equipment ..... (29,323) (34,559) 54,174 (2,339) -- (12,047) Expenditures for drydocking ..... (2,251) (6,110) (4,788) (1,217) -- (14,366) Redemption of restricted investments ..... -- -- -- 2,931 -- 2,931 Proceeds from disposals of assets ..... -- 21,146 4,564 -- -- 25,710 -------- -------- -------- -------- -------- -------- Net cash (used in) provided by investing activities ..... (31,574) (19,523) 53,950 (625) -- 2,228 FINANCING ACTIVITIES: Repayments of short-term borrowings ..... 14,250 -- -- -- -- 14,250 Repayment of long-term borrowings ..... (32,390) -- -- (1,000) -- (33,390) Repayment of Title XI bonds ..... -- -- -- (9,282) -- (9,282) Payments of financing costs ..... -- (596) -- -- -- (596) Proceeds from sale/leaseback of vessels .... -- -- -- -- -- -- Payments of obligations under capital leases (579) (3,721) -- -- -- (4,300) Proceeds from issuance of common stock ..... 1 -- -- -- -- 1 -------- -------- -------- -------- -------- -------- Net cash used in financing activities .... (18,718) (4,317) -- (10,282) -- (33,317) -------- -------- -------- -------- -------- -------- Change in cash and cash equivalents ..... (3,428) (5,097) (1,417) 5,129 -- (4,813) Cash and cash equivalents at beginning of year ..... 4,830 2,907 7,817 3,492 -- 19,046 -------- -------- -------- -------- -------- -------- Cash and cash equivalents at end of year ... $ 1,402 $ (2,190) $ 6,400 $ 8,621 $ -- $ 14,233 ======== ======== ======== ======== ======== ======== F-35 CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (in thousands) For the Period from December 16, 1999 to December 31, 1999 ---------- Domestic Foreign Non- Condensed Guarantor Guarantor Guarantor Consolidated Parent Subsidiaries Subsidiaries Subsidiaries Eliminations Total --------- ---------- ---------- ---------- ---------- ---------- Revenue ..... $ 871 $ 6,657 $ 3,439 $ 2,700 $ (188) $ 13,479 Operating expenses ..... 138 4,879 2,717 490 (177) 8,047 Overhead expenses ..... 625 396 440 194 (12) 1,643 Depreciation, amortization and drydocking 222 663 782 402 -- 2,069 -------- -------- -------- -------- -------- -------- Income (loss) from operations ..... (114) 719 (500) 1,614 1 1,720 Other expense, net ..... (1,451) 2,735 (1,277) (90) (3,202) (3,285) -------- -------- -------- -------- -------- -------- Net income (loss) ..... $ (1,565) $ 3,454 $ (1,777) $ 1,524 $ (3,201) $ (1,565) ======== ======== ======== ======== ======== ======== CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (in thousands) For the Period from December 16, 1999 to December 31, 1999 ---------- Domestic Foreign Non- Condensed Guarantor Guarantor Guarantor Consolidated Parent Subsidiaries Subsidiaries Subsidiaries Eliminations Total --------- ---------- ---------- ---------- ---------- ---------- Net cash provided by (used in) operating activities ..... $ 21,151 $ (538) $ 1,971 $ 1,084 $(21,107) $ 2,561 INVESTING ACTIVITIES: Purchases of vessels and equipment ..... -- 42 (500) (139) -- (597) Acquisitions of businesses ..... (1,000) -- -- -- -- (1,000) Expenditures for drydocking ..... 65 (833) (656) -- -- (1,424) -------- -------- -------- -------- -------- -------- Net cash used in investing activities ..... (935) (791) (1,156) (139) -- (3,021) FINANCING ACTIVITIES: Proceeds from long-term borrowings ..... -- (80) -- -- -- (80) Repayment of Title XI bonds ..... (1,252) -- -- -- -- (1,252) Payments of obligations under capital leases (36) (123) -- -- -- (159) Capital contribution (to) from consolidated affiliates ..... (21,707) 279 -- 321 21,107 -- -------- -------- -------- -------- -------- -------- Net cash (used in) provided by financing activities ..... (22,995) 76 -- 321 21,107 (1,491) -------- -------- -------- -------- -------- -------- Change in cash and cash equivalents ..... (2,779) (1,253) 815 1,266 -- (1,951) Cash and cash equivalents at beginning of period ..... 7,609 4,160 7,002 2,226 -- 20,997 -------- -------- -------- -------- -------- -------- Cash and cash equivalents at end of period . $ 4,830 $ 2,907 $ 7,817 $ 3,492 $ -- $ 19,046 ======== ======== ======== ======== ======== ======== F-36 CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (in thousands) For the Period From January 1, 1999 to December 15, 1999 ---------- Domestic Foreign Non- Condensed

Guarantor Guarantor Guarantor Consolidated Parent Subsidiaries Subsidiaries Subsidiaries Eliminations Total --------- ---------- ---------- ---------- ---------- ---------- Revenue ..... $ 18,046 $ 170,652 $ 96,684 $ 51,115 $ (7,746) $ 328,751 Operating expenses ..... (430) 131,645 65,204 23,782 (7,448) 212,753 Overhead expenses ..... 16,843 13,210 11,480 6,499 (217) 47,815 Depreciation, amortization and drydocking .. 12,104 23,945 33,848 9,524 (12) 79,409 --------- --------- --------- --------- --------- --------- Income (loss) from operations ..... (10,471) 1,852 (13,848) 11,310 (69) (11,226) Other expense, net ..... (445,072) (331,884) (36,271) (17,963) 728,687 (102,503) --------- --------- --------- --------- --------- --------- Income (loss) before reorganization items, income taxes ..... (455,543) (330,032) (50,119) (6,653) 728,618 (113,729) Reorganization items: Professional fees ..... (8,535) -- -- -- -- (8,535) Write down of goodwill and property ..... (79,868) (123,900) (209,099) (2,730) (4,401) (419,998) Other, net ..... (4,154) (586) -- -- -- (4,740) --------- --------- --------- --------- --------- --------- Total reorganization items ..... (92,557) (124,486) (209,099) (2,730) (4,401) (433,273) --------- --------- --------- --------- --------- --------- Loss before income taxes and extraordinary item ..... (548,100) (454,518) (259,218) (9,383) 724,217 (547,002) Provision for income taxes ..... (32,004) -- -- -- -- (32,004) --------- --------- --------- --------- --------- --------- Loss before extraordinary item ..... (516,096) (454,518) (259,218) (9,383) 724,217 (514,998) Gain (loss) on early extinguishment of debt, net of applicable income taxes ..... 267,741 (1,098) -- -- -- 266,643 --------- --------- --------- --------- --------- --------- Net loss ..... $(248,355) $(455,616) $(259,218) $ (9,383) $ 724,217 $(248,355) ========= ========= ========= ========= ========= ========= F-37 CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (in thousands) For the Period From January 1, 1999 to December 15, 1999 ---------- Domestic Foreign Non- Condensed Guarantor Guarantor Guarantor Consolidated Parent Subsidiaries Subsidiaries Subsidiaries Eliminations Total --------- ---------- ---------- ---------- ---------- ---------- Net cash provided by (used in) operating activities ..... $ 193,780 $ (47,750) $ 21,953 $ (2,925) $(150,131) $ 14,927 INVESTING ACTIVITIES: Purchases of vessels and equipment ..... (13,043) 171 (27,755) (13,672) (2,845) (57,144) Expenditures for drydocking ..... (1,481) (2,054) (1,305) (220) -- (5,060) Payments on vessels under construction ..... -- (5,102) -- -- -- (5,102) Purchases of restricted investments ..... -- -- -- (45,790) -- (45,790) Redemption of restricted investments ..... -- -- -- 65,382 -- 65,382 Proceeds from disposal of assets ..... 15,045 8,700 9,107 -- -- 32,852 --------- --------- --------- --------- --------- --------- Net cash provided by (used in) investing activities ..... 521 1,715 (19,953) 5,700 (2,845) (14,862) FINANCING ACTIVITIES: Proceeds from DIP credit facility ..... 26,690 -- -- -- -- 26,690 Proceeds from long-term borrowings ..... 231,008 14,200 -- -- -- 245,208 Repayment of long-term borrowings ..... (287,299) (906) -- -- -- (288,205) Proceeds from issuance of Senior Notes and warrants ..... 85,500 -- -- -- -- 85,500 Proceeds from issuance of Title XI bonds ... -- -- -- 5,428 -- 5,428 Repayment of Title XI bonds ..... (3,670) (539) -- (2,434) -- (6,643) Escrow of restricted cash ..... (15,027) (190) -- -- -- (15,217) Payments of financing costs ..... (12,186) -- -- (492) -- (12,678) Payments of obligations under capital leases (563) (2,257) -- -- -- (2,820) Proceeds from issuance of common stock ..... 253 -- -- -- -- 253 Repayment of DIP credit facility ..... (26,690) -- -- -- -- (26,690) Capital contribution (to) from consolidated affiliates ..... (186,109) 37,788 -- (4,655) 152,976 -- --------- --------- --------- --------- --------- --------- Net cash provided by (used in) financing activities ..... (188,093) 48,096 -- (2,153) 152,976 10,826 --------- --------- --------- --------- --------- --------- Change in cash and cash equivalents ..... 6,208 2,061 2,000 622 -- 10,891 Cash and cash equivalents at beginning of period ..... 1,401 2,099 5,002 1,604 -- 10,106 --------- --------- --------- --------- --------- --------- Cash and cash equivalents at end of period . $ 7,609 $ 4,160 $ 7,002 $ 2,226 $ -- $ 20,997 ========= ========= ========= ========= ========= ========= F-38 CONDENSED CONSOLIDATING BALANCE SHEET (in thousands) As of December 31, 2001 (as restated) ---------- Domestic Foreign Non- Condensed Guarantor Guarantor Guarantor Consolidated Parent Subsidiaries Subsidiaries Subsidiaries Eliminations Total --------- ---------- ---------- ---------- ---------- ---------- ASSETS Current assets: Cash and cash equivalents ..... $ 250 $ 270 $ 3,888 $ 7,223 $ -- $ 11,631 Restricted cash ..... -- -- 1,337 -- -- 1,337 Accounts receivable: Trade, net ..... 1,088 20,186 27,098 2,420 (704) 50,088 Insurance claims and other ..... 2,896 5,849 7,149 388 -- 16,282 Marine operating supplies ..... (795) 3,072 3,624 4,148 -- 10,049 Prepaid expenses ..... 864 844 988 288 -- 2,984 --------- --------- --------- --------- --------- --------- Total current assets ..... 4,303 30,221 44,084 14,467 (704) 92,371 Vessels and equipment, net ..... 45,388 166,678 109,451 267,854 -- 589,371 Deferred costs, net ..... 16,107 10,063 14,187 8,542 -- 48,899 Restricted investments ..... -- -- -- -- -- Due (to) from affiliates ..... (170,000) 80,479 123,866 (30,867) (3,478) -- Investments in affiliates ..... 522,764 366,174 -- 35,547 (924,485) -- Other ..... 289 7,661 6,174 -- -- 14,124 --------- --------- --------- --------- --------- --------- Total assets ..... $ 418,851 $ 661,276 $ 297,762 $ 295,543 $(928,667) $ 744,765 ========= ========= ========= ========= ========= ========= LIABILITIES AND STOCKHOLDERS' EQUITY Current liabilities: Accounts payable ..... $ 5,892 $ 2,353 $ 9,102 $ 824 $ -- $ 18,171 Current maturities of long-term debt ..... 32,056 1,941 -- 4,370 -- 38,367 Current obligations under capital leases . -- 2,972 -- -- -- 2,972 Accrued interest ..... 340 420 -- 695 -- 1,455 Accrued liabilities and other ..... 8,787 5,442 23,110 2,084 (704) 38,719 --------- --------- --------- --------- --------- --------- Total current liabilities ..... 47,075 13,128 32,212 7,973 (704) 99,684 Long-term debt ..... 160,887 23,391 -- 215,696 -- 399,974 Obligations under capital leases ..... -- 31,768 -- -- -- 31,768 Senior notes ..... 81,635 -- -- -- -- 81,635 Other liabilities ..... 4,567 753 807 48 -- 6,175 --------- --------- --------- --------- --------- --------- Total liabilities ..... 294,164 69,040 33,019 223,717 (704) 619,236 Commitment and contingencies Minority interest ..... -- -- -- -- 842 842 Total stockholders' equity

(deficit) ..... 124,687 592,236 264,743 71,826 (928,805) 124,687 --------- --------- --------- --------- --------- --------- Total liabilities and stockholders' equity (deficit) ..... $ 418,851 $ 661,276 $ 297,762 $ 295,543 $(928,667) $ 744,765 ========= ========= ========= ========= ========= ========= F-39 CONDENSED CONSOLIDATING BALANCE SHEET (in thousands) As of December 31, 2000 ---------- Domestic Foreign Non- Condensed Guarantor Guarantor Guarantor Consolidated Parent Subsidiaries Subsidiaries Subsidiaries Eliminations Total --------- ---------- ---------- ---------- ---------- ---------- ASSETS Current assets: Cash and cash equivalents ..... $ 1,402 $ (2,190) $ 6,400 $ 8,621 $ -- $ 14,233 Restricted cash ..... 331 -- -- -- -- 331 Accounts receivable: Trade, net ..... 1,607 24,011 24,298 4,314 (704) 53,526 Insurance claims and other ..... 1,029 3,060 7,114 313 -- 11,516 Marine operating supplies ..... (695) 2,466 3,503 4,364 -- 9,638 Prepaid expenses ..... 568 920 1,250 317 -- 3,055 --------- --------- --------- --------- --------- --------- Total current assets ..... 4,242 28,267 42,565 17,929 (704) 92,299 Vessels and equipment, net ..... 47,349 186,174 129,725 276,648 -- 639,896 Deferred costs, net ..... 17,268 7,926 4,427 8,538 -- 38,159 Restricted investments ..... -- -- -- 865 -- 865 Due (to) from affiliates ..... (141,953) 63,892 117,521 (35,980) (3,480) -- Investments in affiliates ..... 508,955 327,308 -- 37,105 (873,368) -- Other ..... 397 99 3,756 5 -- 4,257 --------- --------- --------- --------- --------- --------- Total assets ..... $ 436,258 $ 613,666 $ 297,994 $ 305,110 $(877,552) $ 775,476 ========= ========= ========= ========= ========= ========= LIABILITIES AND STOCKHOLDERS' EQUITY Current liabilities: Accounts payable ..... $ 976 $ 4,847 $ 6,538 $ 545 $ -- $ 12,906 Current maturities of long-term debt ..... 27,226 1,960 -- 4,084 -- 33,270 Current obligations under capital leases . -- 3,580 -- -- -- 3,580 Accrued interest ..... 454 492 -- 731 -- 1,677 Accrued liabilities and other ..... 7,552 4,676 17,719 4,597 (704) 33,840 --------- --------- --------- --------- --------- --------- Total current liabilities ..... 36,208 15,555 24,257 9,957 (704) 85,273 Long-term debt ..... 181,451 25,333 -- 220,065 -- 426,849 Obligations under capital leases ..... -- 34,718 -- -- -- 34,718 Senior notes ..... 79,108 -- -- -- -- 79,108 Other liabilities ..... 2,944 424 785 42 -- 4,195 --------- --------- --------- --------- --------- --------- Total liabilities ..... 299,711 76,030 25,042 230,064 (704) 630,143 Commitment and contingencies Minority interest ..... -- -- -- -- 8,819 8,819 Total stockholders' equity (deficit) ..... 136,547 537,636 272,952 75,046 (885,667) 136,514 --------- --------- --------- --------- --------- --------- Total liabilities and stockholders' equity (deficit) ..... $ 436,258 $ 613,666 $ 297,994 $ 305,110 $(877,552) $ 775,476 ========= ========= ========= ========= ========= ========= F-40 19. LIQUIDITY At December 31, 2001, the Company had a working capital deficit of approximately $7.3 million as day rates and utilization during the last four months of 2001 sharply declined for offshore vessels working in the Gulf of Mexico. The slowdown in the domestic market was offset in part by continued strength in the Company's international offshore operations, where rising day rates throughout the year contributed to increased revenue in West Africa and Southeast Asia. This increased revenue was driven by higher exploration and production spending as major oil companies moved ahead with oil exploration and development programs outside the U.S. Nonetheless, during the second half of 2001, there was a noticeable softening in both energy demand and the prices paid for oil and natural gas. Management believes that the softening trend is unlikely to affect international exploration and development outlays in key areas where the Company operates as most of the activity there is controlled by the international oil companies, whose strategy reflects a longer-term time horizon. Since the September 11 attacks and subsequent war on terrorism, the U.S. economy has been subject to further downward pressure and, as we enter 2002, the timing of a recovery in the domestic offshore segment is less certain. We therefore do not expect earnings in 2002 from the offshore segment to match those of 2001. Nevertheless, consistent with industry forecasts regarding exploration and production spending, the Company believes that the energy fundamentals that drive the offshore industry will lead to a recovery in the U.S. offshore market during the second half of 2002 and that the more important international offshore markets will remain strong throughout the year. However, there can be no assurance this will occur. The Company also expects to benefit from higher earnings in its tanker business as a result of higher time charter and bareboat charter rates that take effect in 2002. The Company's capital requirements arise primarily from its need to service debt, fund working capital and maintain and improve its vessels. The Company's expected 2002 capital requirements for debt service, vessel maintenance and fleet improvements total approximately $109.4 million. The Company expects that cash flow from operations will continue to make significant contributions toward working capital and its capital requirements. The Company also expects to complete the sale of certain non-strategic assets in 2002 of which $5 million in proceeds could be used for working capital purposes. If operating cash flow is not adequate, the Company believes that the amounts available under the revolving line of credit will be sufficient to meet its capital requirements. Management is currently implementing certain initiatives in an effort to improve profitability and liquidity. These initiatives include (1) repositioning certain vessels to take advantage of higher day rates, (2) lay-up or selling unprofitable vessels , (3) changing tanker contracts from spot trading to time charters, and (4) eliminating non-essential operating and overhead expenses. As a result of the expanding market in West Africa and softening in the Gulf of Mexico, the Company has mobilized two of its Gulf of Mexico supply boats for redeployment to West Africa during the first quarter of 2002. At the end of December 2001, low-rate voyage charters for three of the Company's tankers expired and were replaced by two higher-rate time charters and a ten-year bareboat charter. The Company continues to evaluate financing alternatives, including a possible equity infusion or other strategic transaction to reduce debt levels and support future growth opportunities. While management believes that the initiatives are sound and attainable, the possibility exists that unforeseen events or business conditions, including deterioration in its markets could prevent the Company from meeting targeted operating result and meeting its financial covenants. If unforeseen events or business conditions prevent the Company from meeting targeted operating results, the Company has alternative plans

including additional asset sales, additional reductions in operating expenses and deferral of capital expenditures, which should enable it to satisfy essential capital requirements. While the Company believes it could successfully complete alternative plans, if necessary, F-41 there can be no assurance that such alternatives would be available or that the Company would be successful in their implementation. 20. SUBSEQUENT EVENTS In December 2001, management decided to sell the fixed assets of Sun State. On March 22, 2002, the Company closed on the sale of the marine transportation assets of Sun State for $3.8 million in cash. 21. SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED) The following information is presented as supplementary financial information for 2001 and 2000 (in thousands, except per share information): First Second Third Fourth Year Ended December 31, 2001 Quarter Quarter Quarter Quarter(d) ---------- -------- -------- -------- ---------- (as restated) Revenue ..... $ 81,420 $ 91,424 $ 89,720 $ 84,166 Income from operations(a) ..... 8,409 18,903 18,565 3,211 Net (loss) income(b) ..... (7,233) 2,750 2,907 (10,385) Net (loss) earnings per common share--basic(c) $ (0.71) $ 0.27 $ 0.28 $ (0.99) Net (loss) earnings per common share--assuming dilution(c) ..... $ (0.71) $ 0.27 $ 0.28 $ (0.99) First Second Third Fourth Year Ended December 31, 2000 Quarter Quarter Quarter Quarter(d) ---------- -------- -------- -------- ---------- Revenue ..... $ 78,607 $ 80,211 $ 81,623 $ 80,042 Income from operations ..... 2,013 5,976 9,307 8,060 Net loss(1)(2)(3) ..... (12,909) (3,251) (3,142) (9,650) Net loss per common share--basic(c) ..... $ (1.29) $ (0.33) $ (0.31) $ (0.96) Net loss per common share--assuming dilution(c) ..... $ (1.29) $ (0.33) $ (0.31) $ (0.96) ---------- (a) Includes $1.4 million writedown on the value of a shipyard's assets held for sale in the fourth quarter of 2001. (b) Includes gains (losses) on the disposal of assets of $0.3 million, $(0.1) million, $(0.2) million and $(0.1) million in the first, second, third and fourth quarters of 2001. (c) The sum of the four quarters' (loss) earnings per share will not necessarily equal the annual earnings per share, as the computations for each quarter are independent of the annual computation. (d) Includes $4.1 million in additional insurance premiums in the fourth quarter of 2001 (see Note 2). (1) Includes gains (losses) on the disposal of assets of $(0.2) million, $0.5 million, $4.0 million, and $(0.4) million in the first, second, third, and fourth quarters of 2000, respectively. (2) Includes gain of $7.0 million on the settlement of a contingent liability in the third quarter of 2000. (3) Includes approximately $0.9 million in additional depreciation expense in the fourth quarter of 2000 as a result of the change in estimated useful lives of certain vessels (see Note 3). 22. SUBSEQUENT EVENTS (UNAUDITED) On June 13, 2002, the Company announced the signing of a definitive agreement with DLJ Merchant Banking Partners III, L.P., a CSFB Private Equity fund, and affiliated entities, and Carlyle/Riverstone Global Energy and Power Fund I, L.P. and affiliated entities, for the private placement of 12.5 million shares of newly issued Seabulk common stock at a cash price of $8.00 per share. The $100 million investment would give the new investors approximately 51% of the pro forma, fully diluted F-42 common shares of the Company and majority representation on its Board of Directors. The investment is subject to shareholder approval, the refinancing of the Company's senior credit facility, certain regulatory approvals and satisfaction of other customary conditions. The new investors have also agreed to purchase, for $8.00 per share, all of the Company's common stock and common stock purchase warrants beneficially owned by accounts managed by Loomis, Sayles & Co., L.P., an SEC-registered investment advisor. These accounts, which collectively represent approximately 48% of the Company's outstanding shares of common stock, currently hold approximately 5.2 million shares (excluding shares issuable upon exercise of warrants). Loomis has agreed to approve the investment transaction and the related amendments to the Company's Certificate of Incorporation, subject to approvals and certain other conditions customary for transactions of this type. Taken together, the two transactions would give the new investors approximately 73% of the pro forma, fully diluted shares of the Company. The Company also announced that it has signed a commitment letter with Fortis Capital Corp. and NIB Capital Bank N.V., as arrangers, for a $180 million senior secured credit facility, which would replace the Company's existing facility. The new credit facility will consist of an $80 million term loan and a $100 million revolving credit facility and will have a five-year maturity. The term loan portion of the new credit facility will be used to redeem the Company's outstanding 12 1/2% Senior Secured Notes due 2007. The revolving portion of the credit facility will be subject to semi-annual reductions commencing six months after closing. The new credit facility will be secured by first liens on substantially all of the Company's vessels (excluding vessels financed with U.S. Maritime Administration Title XI financing) and will be guaranteed by substantially all of the subsidiaries of the Company. The new credit facility will be subject to various financial covenants, including minimum adjusted tangible net worth requirements, minimum ratios of adjusted EBITDA to adjusted interest expense, and a maximum ratio of adjusted funded debt to adjusted EBITDA. The Company will also be required to maintain a minimum fair market value of collateralized assets of at least 175% of outstanding borrowings under the new credit facility, based upon appraisals which may be requested not more than once during any 12-month period. In connection with the closing of the new investment, the Company expects to redeem or repurchase all of its outstanding 12 1/2% Senior Secured Notes due 2007. In addition, and as a condition to the closing of the new investment, President and Chief Executive Officer Gerhard E. Kurz has agreed to a five-year extension of his employment contract with the Company. Proceeds from the new equity investment and new bank credit facility, totaling approximately $280 million before payment of fees and expenses of the transaction, will be used to repay the Company's existing bank debt, repurchase or redeem its outstanding Senior Notes, and provide growth capital for new initiatives. It is contemplated that, in connection with the new investment, the new investors would enter into a stockholders agreement together with the Company and Mr. Kurz. A shareholder vote will be required to approve the new share issuance under Nasdaq Stock Market rules and to approve the necessary amendments to the Company's Certificate of Incorporation. The amendments to the Certificate of Incorporation include several provisions intended, for certain periods following closing, to ensure independent director oversight of affiliated party transactions and to provide certain protective rights to minority shareholders. Certain regulatory approvals are also required. If the approvals are obtained, closing of the

transaction is expected to take place by the end of the third quarter. F-43