

PRO PHARMACEUTICALS INC
Form 10QSB
November 14, 2003
Table of Contents

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

FORM 10-QSB

(Mark One)

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2003

Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 000-32877

PRO-PHARMACEUTICALS, INC.

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

Nevada
(State or other jurisdiction of incorporation or organization)

04-3562325
(I.R.S. Employer Identification No.)

189 Wells Avenue, Newton, Massachusetts 02459

(Address of principal executive offices)

(617) 559-0033

(Issuer's telephone number)

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS

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

NOT APPLICABLE

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: The total number of shares of common stock, par value \$0.001 per share, outstanding as of September 30, 2003 was 22,723,100.

Transitional Small Business Disclosure Format (Check one): Yes No

Table of Contents

TABLE OF CONTENTS

Part I FINANCIAL INFORMATION

<u>Item 1. Financial Statements (Unaudited)</u>	3
<u>Condensed Balance Sheets</u>	3
<u>Condensed Statements of Operations</u>	4
<u>Condensed Statements of Cash Flows</u>	5
<u>Notes to Condensed Financial Statements</u>	6
<u>Item 2. Plan of Operation</u>	10
<u>Item 3. Controls and Procedures</u>	15

Part II OTHER INFORMATION

<u>Item 1. Legal Proceedings</u>	16
<u>Item 2. Changes in Securities</u>	16
<u>Item 3. Defaults Upon Senior Securities</u>	16
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	16
<u>Item 5. Other Information</u>	17
<u>Item 6. Exhibits and Reports on Form 8-K</u>	17

Table of Contents**Part 1 Financial Information****Item 1. Financial Statements****PRO-PHARMACEUTICALS, INC.****(A Development Stage Company)****CONDENSED BALANCE SHEETS (Unaudited)**

	September 30, 2003	December 31, 2002
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,787,646	\$ 1,921,233
Prepaid expenses and other current assets	46,910	72,733
Total current assets	4,834,556	1,993,966
PROPERTY AND EQUIPMENT, Net	162,644	177,160
INTANGIBLE ASSETS	128,113	85,090
DEPOSITS AND OTHER ASSETS	26,951	26,951
Total assets	\$ 5,152,264	\$ 2,283,167
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 341,614	\$ 302,899
Accrued expenses	57,438	174,644
Offering costs payable	1,892	174,250
Convertible notes payable		15,000
Total current liabilities	400,944	666,793
STOCKHOLDERS EQUITY:		
Common stock, \$0.001 par value; 100,000,000 shares authorized, 22,743,071 and 19,034,647 issued and outstanding at September 30, 2003 and December 31, 2002, respectively; 5,000,000 undesignated shares, \$.01 par value, 0 issued and outstanding	22,743	19,034
Additional paid-in capital	15,913,559	9,635,531
Stock subscriptions receivable	0	(150,000)
Deferred compensation	(49,821)	(54,959)
Deficit accumulated during the development stage	(11,135,161)	(7,833,232)
Total stockholders equity	4,751,320	1,616,374
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 5,152,264	\$ 2,283,167

See notes to condensed financial statements.

Table of Contents**PRO-PHARMACEUTICALS, INC.****(A Development Stage Company)****CONDENSED STATEMENTS OF OPERATIONS (Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,		Cumulative Period From Inception (July 10, 2000) To September 30,
	2003	2002	2003	2002	2003
OPERATING EXPENSES:					
Research and development	\$ 454,358	\$ 316,592	\$ 1,256,181	\$ 1,077,304	\$ 3,732,915
General and administrative (a)	945,630	322,430	2,078,729	1,120,387	5,238,255
Total operating expenses	(1,399,988)	(639,022)	(3,334,910)	(2,197,691)	(8,971,170)
INTEREST INCOME	17,558	3,726	36,861	15,683	86,297
INTEREST EXPENSE	(25)	(28,264)	(3,880)	(376,255)	(2,250,288)
Net loss	\$ (1,382,455)	\$ (663,560)	\$ (3,301,929)	\$ (2,558,263)	\$ (11,135,161)
NET LOSS PER SHARE BASIC AND DILUTED					
	\$ (0.06)	\$ (0.04)	\$ (0.16)	\$ (0.16)	
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING					
Basic and diluted	22,343,154	15,990,355	21,010,099	15,726,838	
(a) The following summarizes the allocation of the stock-based compensation charge:					
General and administrative	\$ 162,504	\$ 24,638	\$ 246,564	\$ 65,364	

See notes to condensed financial statements.

Table of Contents**PRO-PHARMACEUTICALS, INC.**

(A Development Stage Company)

CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended September 30,		Cumulative Period From Inception (July 10, 2000) To September 30,
	2003	2002	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (3,301,929)	\$ (2,558,263)	\$ (11,135,161)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	58,948	29,691	114,787
Amortization of debt discount on convertible notes			1,258,012
Amortization of deferred extension costs through interest expense		139,447	167,497
Expense related to issuance of warrants to purchase common stock		235,987	235,987
Writeoff of intangible assets			107,000
Debt conversion expense			503,019
Settlement of accrued interest through issuance of common stock			10,274
Stock based compensation expense	246,564	65,364	499,210
Changes in current assets and liabilities:			
Prepaid and other expenses	25,823	70,290	(43,782)
Deposits and other assets			(26,951)
Accounts payable	38,715	(6,890)	332,586
Accrued interest related to convertible notes payable		(3,988)	
Accrued expenses	(2,058)	(27,900)	172,586
	<u>(2,933,937)</u>	<u>(2,056,262)</u>	<u>(7,804,936)</u>
Net cash used in operating activities			
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(39,360)	(83,966)	(272,359)
Increase in patents costs and other assets	(48,095)	(20,777)	(133,185)
	<u>(87,455)</u>	<u>(104,743)</u>	<u>(405,544)</u>
Net cash used in investing activities			
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from issuance of common stock and warrants			2,229,750
Net proceeds from issuance of common stock	5,887,805	1,925,310	9,524,746
Return of placement fee		20,000	
Net proceeds from issuance of convertible notes payable			1,320,602
Repayment of convertible notes payable			(86,000)
Proceeds from shareholder advances			9,028
	<u>5,887,805</u>	<u>1,945,310</u>	<u>12,998,126</u>
Net cash provided by financing activities			
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,866,413	(215,695)	4,787,646
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,921,233	1,491,172	
	<u>\$ 4,787,646</u>	<u>\$ 1,275,477</u>	<u>\$ 4,787,646</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD			

See notes to condensed financial statements.

Table of Contents

PRO-PHARMACEUTICALS, INC.

(A Development Stage Company)

NOTES TO CONDENSED FINANCIAL STATEMENTS (Unaudited)

September 30, 2003

1. NATURE OF OPERATIONS, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

Pro-Pharmaceuticals, Inc. (the Company) was established in July 2000. The Company is in the development stage and is in the process of developing technology that is intended to reduce the toxicity and improve the efficacy of currently existing chemotherapy drugs by combining the drugs with its proprietary carbohydrate compounds.

The Company is devoting substantially all of its efforts toward product research and development, and raising capital.

One of its product candidates began Phase I clinical trials in February 2003.

The Company raised gross proceeds of approximately \$4,800,000 in capital, of which approximately \$4,300,000 was raised in the quarter ended September 30, 2003, through a private placement of securities that began in May 2003 and concluded in July 2003.

The Company raised gross proceeds of approximately \$4,600,000 through a private placement of securities to certain institutional investors that closed subsequent to the quarter ended September 30, 2003.