

Edgar Filing: PRO PHARMACEUTICALS INC - Form 10QSB/A

PRO PHARMACEUTICALS INC
Form 10QSB/A
April 16, 2002

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

FORM 10-QSB/A

(Mark One)

Amendment No. 1 to quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2001

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, Suite 200, 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 August 31, 2001, was 13,641,580.

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

This amendment on Form 10-QSB of Pro-Pharmaceuticals, Inc. incorporates certain

Edgar Filing: PRO PHARMACEUTICALS INC - Form 10QSB/A

revisions to historical financial data and related descriptions but is not intended to update other information presented in this report as originally filed, except where specifically noted. The amendment reflects the restatement of the Registrant's condensed consolidated financial statements for the three and six months ended June 30, 2001 included in its Form 10-QSB filed on September 9, 2001. See note 9 to our financial statements for detailed discussion of the matter.

TABLE OF CONTENTS

Part I -- FINANCIAL INFORMATION

Item 1.	Financial Statements.....	1
	Review Report of Independent Accountants.....	1
	Balance Sheets (As Restated).....	2
	Statements of Operations (As Restated).....	4
	Statement of Changes in Stockholders' Equity (Deficit) (As Restated).....	5
	Statements of Cash Flows (As Restated).....	6
	Notes to Financial Statements (As Restated).....	7
Item 2.	Plan of Operation.....	16

Part II -- OTHER INFORMATION

Item 1.	Legal Proceedings.....	21
Item 2.	Changes in Securities.....	21
Item 3.	Defaults Upon Senior Securities.....	21
Item 4.	Submission of Matters to a Vote of Security Holders.....	21
Item 5.	Other Information.....	21
Item 6.	Exhibits and Reports on Form 8-K.....	22

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
And Shareholders of
Pro-Pharmaceuticals, Inc.
Newton, Massachusetts

We have reviewed the accompanying balance sheets of Pro-Pharmaceuticals, Inc. as

Edgar Filing: PRO PHARMACEUTICALS INC - Form 10QSB/A

of June 30, 2001 and the related statements of operations, changes in deficiency in assets, and cash flows for the three-month and six-month periods then ended and for the period from inception (July 10, 2000) through June 30, 2001. These financial statements are the responsibility of the Corporation's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such financial statements for them to be in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, certain conditions raise substantial doubt about the Corporation's ability to continue as a going concern. Management's plans in regard to these matters are also described in that note.

We have previously audited, in accordance with generally accepted auditing standards, the balance sheet of Pro-Pharmaceuticals, Inc. and subsidiaries as of December 31, 2000, and the related statements of operations, changes in deficiency in assets and cash flows for the year then ended (not presented herein); and in our report dated December 4, 2001, except as to Note 7, as to which the date is April 10, 2002, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying balance sheet as of December 31, 2000 is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

/s/ Scillia Dowling & Natarelli LLC
Scillia Dowling & Natarelli LLC

Hartford, Connecticut
August 31, 2001, except for Note 10, as to which the date is April 10, 2002

PRO-PHARMACEUTICALS, INC.
(A Company in the Development Stage)
BALANCE SHEETS (AS RESTATED)

	June 30, 2001 ----- (unaudited) (As Restated)	December 31, 2000 ----- (As Restated)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 746,351	\$ 204,745
Other current assets	2,409	--
	-----	-----

Edgar Filing: PRO PHARMACEUTICALS INC - Form 10QSB/A

	748,760	204,745
	-----	-----
PROPERTY AND EQUIPMENT, at cost	15,812	--
Less accumulated depreciation	(1,119)	--
	-----	-----
	14,693	--
	-----	-----
OTHER ASSETS		
Patent	8,695	8,695
Contractual Rights	107,000	--
Debt issuance costs, net of accumulated amortization of \$8,583 and \$0 at June 30, 2001 and December 31, 2000, respectively	27,417	14,500
Deposit	26,950	--
	-----	-----
	170,062	23,195
	-----	-----
	\$ 933,515	\$ 227,940
	=====	=====

2

	June 30, 2001	December 31, 2000
	-----	-----
	(unaudited)	(As Restated)
	(As Restated)	
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	\$ 222,414	\$ 79,129
Accrued expenses	78,451	23,238
Other current liabilities	12,629	--
	-----	-----
Total current liabilities	313,494	102,367
CONVERTIBLE NOTES PAYABLE (net of discount of \$766,997)	1,310,602	79,245
	-----	-----
Total liabilities	1,624,096	181,612
	-----	-----
STOCKHOLDERS' EQUITY (DEFICIT)		
Common voting shares, \$0.001 par value, 100,000,000 shares authorized, 13,576,560 and 12,354,670 shares issued and outstanding at June 30, 2001		

Edgar Filing: PRO PHARMACEUTICALS INC - Form 10QSB/A

and December 31, 2000, respectively	13,577	12,355
Private placement units of common stock and warrants	133,000	--
Additional paid-in capital	1,351,435	221,910
Deficit accumulated during development stage	(2,188,593)	(187,937)
	-----	-----
	(690,581)	46,328
	-----	-----
	\$ 933,515	\$ 227,940
	=====	=====

See notes to financial statements. 3

PRO-PHARMACEUTICALS, INC.
(A Company in the Development Stage)
STATEMENTS OF OPERATIONS (AS RESTATED)

	For the Three Months Ended June 30, 2001	For the Six Months Ended June 30, 2001
	(unaudited) (As Restated)	(unaudited) (As Restated)
REVENUE	\$ --	\$ --
	-----	-----
RESEARCH AND DEVELOPMENT		
Consulting fees and salaries	73,802	90,851
Laboratory fees	48,590	64,690
	-----	-----
	122,392	155,541
	-----	-----
GENERAL AND ADMINISTRATIVE		
Legal	149,506	219,370
Salaries	45,834	45,834
Payroll taxes and benefits	7,416	7,416
Consulting	62,792	74,004
Rent	13,160	13,160
Office expenses	74,017	105,038
Contributions	100	5,100
Accounting	71,841	84,841
Marketing	24,149	24,149
Miscellaneous	1,274	1,274
Repairs and maintenance	1,097	1,097
Depreciation and amortization	5,619	9,972
Telephone and utilities	2,117	4,723
Travel and entertainment	6,008	6,674
	-----	-----

Edgar Filing: PRO PHARMACEUTICALS INC - Form 10QSB/A

	464,930	602,652
	-----	-----
NET LOSS FROM OPERATIONS	(587,322)	(758,193)
	-----	-----
OTHER INCOME (EXPENSE)		
Interest income	5,087	12,666
Interest expense	(1,060,962)	(1,247,265)
	-----	-----
	(1,055,875)	(1,245,818)
	-----	-----
NET LOSS	\$ (1,643,197)	\$ (2,004,011)
	=====	=====
LOSS PER SHARE		
Basic and diluted	\$ (0.13)	\$ (0.16)
	=====	=====
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		
Basic and diluted	12,979,192	12,666,931
	=====	=====

See notes to financial statements. 4

PRO-PHARMACEUTICALS, INC.
(A Company in the Development Stage)
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT) (AS RESTATED)

	Common Voting Shares		Private Placement Units of Common Stock and Warrants	Additional Paid-in Capital
	Shares	Amount		
	-----	-----	-----	-----
Issuance of Common Stock of Pro-Pharmaceuticals, Inc.	12,354,670	\$ 12,355	\$ --	\$ --
Beneficial conversion feature & Common Share Grants embedded in convertible notes				221,910
Net loss	--	--	--	--
	-----	-----	-----	-----
Balance at December 31, 2000	12,354,670	12,355	--	221,910
Beneficial conversion feature & Common Share Grants embedded in convertible notes				1,026,102

Edgar Filing: PRO PHARMACEUTICALS INC - Form 10QSB/A

Issuance of Stock to Acquire Contractual Rights, and Payment of Stock	1,221,890	1,222	--	103,423
Sale of Private Placement Units, beginning June 2001	--	--	133,000	--
Net loss	--	--	--	--
	-----	-----	-----	-----
Balance at June 30, 2001 (unaudited)	13,576,560	\$ 13,577	\$ 133,000	\$ 1,351,435
	=====	=====	=====	=====

	Deficit Accumulated During the Development Stage	Stockholders' Equity (Deficit)
	-----	-----
Issuance of Common Stock of Pro-Pharmaceuticals, Inc.	\$ (3,355)	\$ 9,000
Beneficial conversion feature & Common Share Grants embedded in convertible notes		221,910
Net loss	(184,582)	(184,582)
	-----	-----
Balance at December 31, 2000	(187,937)	46,328
Beneficial conversion feature & Common Share Grants embedded in convertible notes		1,026,102
Issuance of Stock to Acquire Contractual Rights, and Payment of Stock	3,355	108,000
Sale of Private Placement Units, beginning June 2001	--	133,000
Net loss	(2,004,011)	(2,004,011)
	-----	-----
Balance at June 30, 2001 (unaudited)	\$ (2,188,593)	\$ (690,581)
	=====	=====

See notes to financial statements. 5

PRO-PHARMACEUTICALS, INC.
(A Company in the Development Stage)
STATEMENTS OF CASH FLOWS (AS RESTATED)

Edgar Filing: PRO PHARMACEUTICALS INC - Form 10QSB/A

	For the Three Months Ended June 30, 2001 ----- (unaudited) (As Restated)	For the Six Months Ended June 30, 2001 ----- (unaudited) (As Restated)
CASH FLOWS FROM		
OPERATING ACTIVITIES		
Net loss	\$(1,643,197)	\$(2,004,011)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	5,619	9,972
Non cash interest expense	1,045,054	1,231,357
Changes in assets and liabilities:		
Debt issuance cost	(2,409)	(2,409)
Accounts payable	196,007	185,756
Accrued expenses	2,601	2,601
	-----	-----
Net cash used in operating activities	(396,325)	(576,734)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Patent costs		
Deposit	(26,950)	(26,950)
Purchase of property, plant and equipment	(15,812)	(15,812)
	-----	-----
Net cash used in investing activities	(42,762)	(42,762)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the sale of private placement units	133,000	133,000
Proceeds from the issuance of common stock	--	--
Proceeds from convertible notes payable	211,500	1,026,102
Increase in due to Stockholder		1,000
Cash received from stock subscription receivable	--	1,000
	-----	-----
Net cash provided by financing activities	344,500	1,161,102
	-----	-----
NET (DECREASE) INCREASE IN CASH	(94,587)	541,606
CASH AND CASH EQUIVALENTS, Beginning	840,938	204,745
	-----	-----
CASH AND CASH EQUIVALENTS, Ending	\$ 746,351	\$ 746,351
	=====	=====

Edgar Filing: PRO PHARMACEUTICALS INC - Form 10QSB/A

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

During the period from inception (July 10, 2000) through June 30, 2001, the Company capitalized debt issuance costs totaling \$35,000, a long-term asset, by incurring an accrued liability of the same amount.

See notes to financial statements. 6

PRO-PHARMACEUTICALS, INC.
(A Company in the Development Stage)
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 -- OPERATIONS

Nature of Operations

Pro-Pharmaceuticals, Inc. (the "Company") was established in July 2000. The Company is in the development stage and is engaged in developing technology that will reduce toxicity and improve the efficacy of currently existing chemotherapy drugs by combining the drugs with a number of specific carbohydrate compounds. The carbohydrate-based drug delivery system may also have applications for drugs now used to treat other diseases and chronic health conditions.

The Company is devoting substantially all of its efforts toward product research and development and raising capital. Its product candidates are still in the research and development stage, with none yet in clinical trials. The Company is subject to a number of risks similar to those of other development-stage companies, including dependence on key individuals, uncertainty of product development and generation of revenues, dependence on outside sources of capital, risks associated with clinical trials of products, dependence on third-party collaborators for research operations, lack of experience in clinical trials, need for regulatory approval of products, risks associated with protection of intellectual property, and competition with larger, better-capitalized companies. To date, the Company has raised capital principally through the issuance of convertible notes and the sale of common stock through a private placement.

The Company's financial statements have been presented on a going-concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company is in the development stage, has incurred a net loss since inception of \$2,188,593 and expects to incur additional losses in the near future. Successful completion of the Company's development program and, ultimately, the attainment of profitable operations is dependent upon future events, including maintaining adequate financing to fulfill its development activities and achieving a level of sales adequate to support the Company's cost structure. The Company is actively seeking additional financing to fund future operations and future significant investments in the business. However, there can be no assurance that the Company will be able to obtain financing on acceptable terms, or at all.

7

PRO-PHARMACEUTICALS, INC.
(A Company in the Development Stage)

Edgar Filing: PRO PHARMACEUTICALS INC - Form 10QSB/A

NOTES TO FINANCIAL STATEMENTS
(Unaudited)

Reverse Merger Transaction

On May 15, 2001, Pro-Pharmaceuticals, Inc., a Nevada corporation organized in January 2001 and formerly known as DTR-Med Pharma Corp. ("Pro-Pharmaceuticals-NV"), issued 12,354,670 shares of its common stock to the stockholders of Pro-Pharmaceuticals, Inc., a Massachusetts corporation organized in July 2000 ("Pro-Pharmaceuticals-MA"), in exchange for all of the outstanding shares of the common stock of Pro-Pharmaceuticals-MA. Such exchange diluted the ownership percentage of the prior Pro-Pharmaceuticals-NV stockholders to approximately 9% and resulted in the prior stockholders of Pro-Pharmaceuticals-MA owning approximately 91% of Pro-Pharmaceuticals-NV's outstanding shares. Following the exchange of stock, Pro-Pharmaceuticals-MA, as a wholly owned subsidiary, merged with Pro-Pharmaceuticals-NV, which is the surviving corporation in the merger.

At the time of the merger, the common shares issued to the stockholders of Pro-Pharmaceuticals-NV represented a majority of the Company's common stock, enabling them to retain voting and operating control of the Company. The merger was treated as a capital transaction and was accounted for as a reverse merger in which Pro-Pharmaceuticals-MA was the accounting acquirer. The historical results presented are those of Pro-Pharmaceuticals-MA, the accounting acquirer. Information concerning common stock in 2000 has been restated on an equivalent-share basis.

NOTE 2 -- BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with the instructions to Form 10-QSB of the Securities and Exchange Commission. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America. However, in the opinion of management, the accompanying unaudited financial statements contain all adjustments (all of which are normal and recurring in nature) necessary to present fairly the financial position of Pro-Pharmaceuticals, Inc. (the Company) at June 30, 2001 and December 31, 2000, and the results of operations, changes in stockholders' deficit and cash flows for the three months and six months ended June 30, 2001, and for the period from inception (July 10, 2000) through June 30, 2001. For further information, refer to the financial statements and disclosures that were filed by the Company with the Securities and Exchange Commission in a registration statement on Form 10-SB (General Form for Registration of Securities of Small Business Issuers) (File No. 000-32877). That registration became effective as of August 13, 2001.

8

PRO-PHARMACEUTICALS, INC.
(A Company in the Development Stage)
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

NOTE 3 -- PRIVATE PLACEMENT

The Company began on May 25, 2001, a private placement of securities exempt from registration pursuant to Rule 506 of Regulation D of the Securities Act of 1933

Edgar Filing: PRO PHARMACEUTICALS INC - Form 10QSB/A

in order to raise \$5,145,000. The securities consist of 1,470,000 units offered at \$3.50 each of one share of its common stock and one four-year warrant exercisable at \$6.50 to purchase one share of common stock. The warrant is subject, following written notice, to acceleration if either (i) the Company files a "New Drug Application" with the Food and Drug Administration; or (ii) the Company's stock is listed on an exchange and its closing price exceeds \$11.00 on any 10 trading days within a period of 20 consecutive trading days, or if the Company's stock is quoted on the NASDAQ National Market System or Small Cap Market, or over-the-counter, and the average of the closing bid and asked prices thereon exceeds \$11.00 on any 10 trading days within a period of 20 consecutive trading days.

As of June 30, 2001, the Company had received proceeds of \$133,000 from the sale of the securities offered in the private placement representing 38,000 units. Such purchases will result in the Company issuing 250,400 shares of common stock and warrants to purchase 38,000 shares of its common stock.

NOTE 4 -- PER SHARE DATA

The shares of common stock issuable upon (i) exercise of the warrants issued pursuant to the May 2001 private placement of the Company; (ii) conversion of the convertible notes issued by Pro-Pharmaceuticals (Massachusetts) and assumed by the Company; and (iii) exercise of the warrants issued to such noteholders who elect an early conversion of their convertible notes (see Note 8) have not been included in the calculation of loss per share of common stock as the effect of such an inclusion would be anti-dilutive reducing the loss per share.

The outstanding shares have been restated to reflect the shares outstanding as of each period based upon the reverse acquisition transactions (see Note 1).

9

PRO-PHARMACEUTICALS, INC.
(A Company in the Development Stage)
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

NOTE 5 -- CONVERTIBLE NOTES PAYABLE

During the six-months ended June 30, 2001 and the year ended December 31, 2000 the Company issued \$1,026,102 and \$284,500 of convertible notes, respectively. The notes accrue interest at a rate of 10% per year and mature one year from their issuance dates. At the Company's discretion, the notes may be extended for a one-year period and, in consideration for the extension, holders shall receive one-quarter of one share of the Company's common stock for each whole dollar amount of principal. However, subsequent to the end of the year, these notes were extended. The Company may prepay the amounts outstanding under the convertible notes at any time prior to maturity.

At any time prior to maturity, the holder has the right to convert the note into shares of common stock. The number of shares the holder has a right to receive upon early conversion is computed by dividing the unpaid balance of the principal and accrued and unpaid interest by 75% of the offering price of the Company's most recent equity offering. This conversion price, however, may not exceed \$2.00. At maturity, the notes are converted based on dividing the principal and accrued interest by \$0.50, assuming a minimum of 10,000,000 shares outstanding.

Edgar Filing: PRO PHARMACEUTICALS INC - Form 10QSB/A

In connection with the issuance of these convertible notes, each holder was entitled to receive one-half share of the Company's common stock for each whole dollar amount of principal. The Company has issued a total of 660,321 shares of common stock to the holders of convertible notes.

The Company has allocated \$1,248,012 of the \$1,310,602 proceeds from the issuance of the convertible debt to the common shares and the embedded beneficial conversion feature. The beneficial conversion feature was calculated at the convertible debt issuance dates based on the difference between the conversion price most beneficial to the holders and the estimated fair value of the common stock at that date. This amount, however, was limited to the proceeds received from the issuance of the convertible debt.

As additional consideration in the event of an acquisition or merger of the Company by or with a non-operating public company, the note holders receive one half of a share of the acquiring company's common stock for each dollar of principal amount loaned. If the acquisition has not occurred by the maturity date of the notes, the holders receive one-half of a share of the company for each dollar of principal amount loaned. If the Company does not have at least 10,000,000 shares outstanding as of the maturity date of the notes, the holders will receive such percentage of the Company's common stock as they would have received had 10,000,000 shares been outstanding. The shares for additional consideration are to be issued upon the earliest of completion of such acquisition or merger; filing of a registration statement for the common stock of the Company (or the acquiring company, as the case may be) with the Securities and Exchange Commission; or the maturity date of the notes.

10

PRO-PHARMACEUTICALS, INC.
 (A Company in the Development Stage)
 NOTES TO FINANCIAL STATEMENTS
 (Unaudited)

NOTE 6 -- RELATED PARTY TRANSACTIONS

The Company has incurred consulting expenses as follows, to a corporation controlled by a person who is also a stockholder, director and officer of the Company for financing and business development services classified as a general and administrative expense in the financial statements, to a stockholder for strategic advisory services also classified as general and administrative expense, and to a corporation controlled by a stockholder formerly an officer of the Company for research and development services and so classified.

	For the Three Months Ended June 30, 2001 -----	For the Six Months Ended June 30, 2001 -----	Period from From Incepti (July 10, 20 through June 30, 20 -----
General and administrative fees	\$ 12,500	\$ 76,352	\$ 88,852
Research and development	25,000	50,895	75,895
	-----	-----	-----
	\$ 37,500	\$127,247	\$164,747
	=====	=====	=====

Edgar Filing: PRO PHARMACEUTICALS INC - Form 10QSB/A

NOTE 7 -- LEASE OBLIGATION

In June 2001, the Company entered into a sublease for certain office space at 189 Wells Avenue, Newton, Massachusetts. The sublease required the Company to provide a security deposit of \$48,883, of which up to \$24,442 could be in the form of a letter of credit. The Company paid \$26,950 in cash and provided the remainder of the security deposit in the form of a letter of credit. Additionally, the Company has to assume its proportional share of expenses of the building. The following is a schedule of the minimum lease payments for that agreement:

Years ended June 30, -----	
2002	\$ 89,147
2003	105,174
2004	106,420
2005	107,656
2006	100,234

	\$ 508,631
	=====

11

PRO-PHARMACEUTICALS, INC.
(A Company in the Development Stage)
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

NOTE 8 -- COMMITMENTS AND CONTINGENCY

Litigation

SafeScience, Inc. (SafeScience), a prior employer of David Platt, Ph.D., founder of the Company, issued a demand letter dated February 15, 2001 alleging that Dr. Platt directly and indirectly, through his activity in the Company, is engaged in a business competitive with SafeScience in violation of a non-competition covenant binding on Dr. Platt. Dr. Platt, by his counsel, responded in a letter dated February 19, 2001 denying such violation and inviting a substantive meeting to discuss the allegations. No determination has been made of the likelihood of a favorable or unfavorable outcome, nor has any estimate been made as to the amount or range, if any, of potential loss. The Company intends to contest the allegations vigorously.

Financial Consulting Agreement

In August 2001, the Company retained I.W. Miller Group, Inc. of Irvine, California, for two years to provide the Company with financial public relations and financial consulting services. Either party may terminate on thirty days' notice. The Miller Group has agreed to prepare informational materials about the Company's business for potential investors and business partners, to assist the Company in seeking business relationships, to introduce the Company to sources

Edgar Filing: PRO PHARMACEUTICALS INC - Form 10QSB/A

of investment capital, to assist in negotiating financing terms, to introduce the Company to potential media outlets and to advise the Company about investor relations. The Company paid a fee of \$10,000 to the Miller Group on signing the agreement, and has agreed to issue shares of its common stock to the Miller Group over the term of the agreement. The Company will be required to pay finders' fees and retainer fees and issue additional shares of common stock to the Miller Group as follows:

- a) \$12,500 monthly retainer for six months commencing upon and subject to locating investment capital of \$250,000 from Miller Group sources or introductions. The monthly retainer will resume for a second six month period provided Miller Group introductions have invested \$750,000 in the Company through the term of the agreement. For amounts raised from Miller Group introductions in excess of the above thresholds, additional shares of restricted stock will be issued based upon the increments in the amount of funds raised.
- b) The Miller Group will receive a finder's fee of 10 percent in cash of all capital raised for the Company.

12

PRO-PHARMACEUTICALS, INC.
(A Company in the Development Stage)
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

Private Placement

On August 22, 2001, the Company sold 133,400 units of the offered securities described in Note 3 for \$400,200 to one subscriber willing to make a substantial investment. The aggregate purchase price for such securities represents a reduction of the unit price from \$3.50 to \$3.00. In addition, the holder's exercise price under the warrant is reduced from \$6.50 to \$5.00 and the Company's exercise acceleration rights occur at \$10.00 rather than \$11.00 (see Note 3 for detail). The Company also granted this subscriber an option to purchase an additional 200,000 units of the offered securities upon the same terms at any time until after 30 days after the Company notifies the investor that an investigational new drug application of the Company filed with the Food and Drug Administration has become effective with respect to any one compound.

As a result of agreeing to accept different terms on the offered securities with such investor, the Company intends to notify each previous purchaser of such securities of such event. This could result in the Company agreeing to refund some or all of the previous investments.

Consulting Arrangements

The Company has entered into consulting arrangements, each terminable on thirty days' notice, with (i) a corporation controlled by a person who is a stockholder, director and officer of the Company for financing and business development services in consideration of \$10,000 per month and expense reimbursement, (ii) a corporation controlled by a person who is a stockholder and former officer of the Company for research and development services in consideration of \$5,000 per month and expense reimbursement, and (iii) an individual otherwise unaffiliated with the Company with respect to product development services in consideration of \$2,000 per month and expense reimbursement.

PRO-PHARMACEUTICALS, INC.
(A Company in the Development Stage)
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

NOTE 10 -- SUBSEQUENT EVENTS

Convertible Notes

In August 2001, the Company requested that the holders of its outstanding convertible notes convert them, in accordance with their terms, to shares of its common stock prior to the notes' maturity dates. In order to encourage early conversion by September 7, 2001, the Company has offered to issue each noteholder who converts a common stock purchase warrant identical to the warrant offered in its ongoing private placement. In the case of a noteholder who accepts the Company's offer, the warrant issued would be exercisable to purchase such number of shares as is equal to the number of shares of the Company's common stock that the holder receives as of the conversion of the note. As of August 29, 2001, holders of notes with an aggregate principal amount of \$627,002 have elected to accept the Company's early conversion offer.

NOTE 10 -- RESTATEMENT

Subsequent to the issuance of the Company's condensed financial statements for the six-months ended June 30, 2001, management has revised its best estimate of the fair value of the Company's stock. Management believes that the estimated value of the Company's stock at the time of the issuances of the convertible debt was understated. Had the higher estimate been used, the proceeds from convertible debt issued in 2000 and the six-months ended June 30, 2001 would have been allocated to two equity features--an embedded beneficial conversion feature and shares received. The valuation of these features results in an allocation to additional paid in capital and a discount to debt that will be amortized over the term of the debt. Management believes that the updated estimates and restated financial statements better reflect the economic substance of the financing transactions.

Management has also determined that salaries and consulting expenses that were originally recorded as an expense in 2001 related to services that were performed in 2000, and therefore should be recorded as a liability and an expense in 2000. As a result, the 2000 financial statements have been restated from the amounts previously reported to reflect these changes.

PRO-PHARMACEUTICALS, INC.
(A Company in the Development Stage)
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

The significant effects of the restatement are as follows:

As

Edgar Filing: PRO PHARMACEUTICALS INC - Form 10QSB/A

	Previously Reported	As Restated
At June 30, 2001:		
Additional paid in capital	103,423	1,351,435
Deficit accumulated during development stage	(940,581)	(2,188,593)
For the three months ended June 30, 2001:		
Interest expense	(15,908)	(1,060,962)
Net Loss	(598,143)	(1,643,197)
Loss per share (Basic and diluted)	(0.05)	(0.13)
For the six months ended June 30, 2001:		
Research and Development	196,791	155,541
General and Administrative	616,402	602,652
Interest expense	(27,127)	(1,258,484)
Net Loss	(827,654)	(2,004,011)
Loss per share (Basic and diluted)	(0.07)	(0.16)
Period from Inception (July 10, 2000) through June 30, 2001:		
Interest expense	(28,365)	(1,276,377)
Net Loss	(940,581)	(2,188,593)

15

Item 2. Plan of Operation

This quarterly report on Form 10-QSB contains, in addition to historical information, forward-looking statements as such term is defined in the Private Securities Litigation Reform Act of 1995. The forward-looking statements are based on management's current expectations and are subject to a number of factors and uncertainties which could cause actual results to differ materially from those described in such statements. We caution investors that actual results or business conditions may differ materially from those projected or suggested in forward-looking statements as a result of various factors including, but not limited to, the following: uncertainties as to the utility and market for our potential products; uncertainties associated with preclinical and clinical trials of our drug delivery candidates; our lack of experience in product development and expected dependence on potential licensees and collaborators for commercial manufacturing, sales, distribution and marketing of our potential products; possible development by competitors of competing products and technologies; lack of assurance regarding patent and other protection of our proprietary technology; compliance with and change of government regulation of our activities, facilities and personnel; uncertainties as to the extent of reimbursement for our potential products by government and private health insurers; our dependence on key personnel; our history of operating losses and accumulated deficit; and economic conditions related to the biotechnology and biopharmaceutical industry, each as discussed in our Registration Statement on Form 10-SB filed with the Securities and Exchange Commission. We cannot assure you that we have identified all the factors that create uncertainties. Readers should not place undue reliance on forward-looking statements. We have no obligation to publicly update forward-looking statements we make in this Form 10-QSB.

Overview

We are currently in the development stage and have not yet generated any operating revenues. Since the formation in July 2000 of our predecessor,

Edgar Filing: PRO PHARMACEUTICALS INC - Form 10QSB/A

Pro-Pharmaceuticals, Inc., a Massachusetts corporation, we have been engaged in research and development activities in connection with identifying and developing a technology that will reduce toxicity and improve the efficacy of currently-used drug therapies, including cancer chemotherapies, by combining the drugs with a number of carbohydrate compounds. Our preliminary studies have identified certain mannans, a group of polysaccharides, that could be utilized as a potential drug delivery system. Polysaccharides are molecules consisting of one or more types of sugars. In the case of mannans, the principal component is the sugar mannose, which is similar to glucose. We believe that a mannan having a suitable chemical structure and composition, when attached to or combined with the active agent of a chemotherapy drug, would increase cellular membrane fluidity and permeability, thereby assisting delivery of the drug.

During 2001 we conducted preclinical animal experiments to study the reduction of toxicity of two widely-used anti-cancer drugs, 5-Fluorouracil (5-FU) and Adriamycin, in combination with mannan compounds we selected for the studies. Preliminary results of studies in which toxicity was measured based on animal survival rates, indicate that one of the mannan compounds may significantly decrease the toxicity of 5-FU, and another mannan may significantly decrease the toxicity of Adriamycin. In another preclinical experiment, we studied toxicity reduction of 5-FU in combination with the same mannan that demonstrated toxicity reduction in the previous 5-FU study. In this experiment, toxicity was measured by effect on blood count. Preliminary results indicate that the mannan decreased toxicity of 5-FU by this measure as well, since the 5-FU/mannan combination resulted in decreased loss of hemoglobin, platelets and red blood cells compared to the loss resulting from administration of 5-FU alone.

This year we also conducted preclinical animal experiments to study the efficacy of 5-FU in combination with the same mannan that demonstrated toxicity reduction. Our objective was to

16

determine whether the desirable toxicity reduction of the 5-FU/mannan combination occurs at the expense of diminished drug efficacy. Preliminary results of these experiments indicate that such combination results in a significant increase in efficacy of the drug when administered into cancer-carrying animals.

We are currently developing formulations of carbohydrates linked to anti-cancer drugs. We have chemically synthesized two novel products that are carbohydrate derivatives of Adriamycin, and have conducted preclinical animal experiments, studying both toxicity (on healthy animals) and efficacy (on cancer-carrying animals). Preliminary results of these experiments indicate that both of the synthesized carbohydrate-Adriamycin compounds are significantly less toxic compared with the original Adriamycin, and demonstrate therapeutic efficacy as well. We engaged independent laboratories to conduct all of the foregoing studies.

We believe that the results of our studies show promise for carbohydrate-based anti-cancer drug delivery systems. We have no products and have not yet conducted any clinical trials.

Business Combination; Ownership and Management Structure

We were incorporated as "DTR-Med Pharma Corp." under Nevada law in January 2001 for the purpose of acquiring all the outstanding stock of our predecessor, Pro-Pharmaceuticals, Inc., which was a Massachusetts corporation engaged in a business we desired to acquire. From our incorporation until just before the

Edgar Filing: PRO PHARMACEUTICALS INC - Form 10QSB/A

acquisition, we were a wholly-owned subsidiary of Developed Technology Resource, Inc., a Minnesota corporation whose common stock is publicly traded on the Over-the-Counter Bulletin Board. In exchange for 1,221,890 shares of our common stock, Developed Technology transferred to us contractual rights that are described in our registration statement on Form 10-SB under "Item 1. Description of Business -- Business of Pro-Pharmaceuticals -- Cancer Detection Technology." As part of that process, Developed Technology distributed its holdings of our common stock to its shareholders of record as of May 7, 2001. In anticipation of the acquisition of the Massachusetts company, we changed our name to "Pro-Pharmaceuticals, Inc."

On May 15, 2001, we acquired all of the outstanding common stock of the Massachusetts company. We acquired these shares in exchange for 12,354,670 shares of our common stock. As a result, that company became our wholly owned subsidiary, and its shareholders through an exchange became owners of approximately 91% of the outstanding shares of our common stock, with the Developed Technology shareholders owning the remaining 9%. After the acquisition, we merged with the Massachusetts company and are the surviving corporation following the merger. The merger was treated as a capital transaction and was accounted for as a reverse merger in which Pro-Pharmaceuticals (Massachusetts) was the accounting acquirer.

Concurrent with the acquisition, all of our original officers and directors resigned and were succeeded by the officers and directors of the predecessor Massachusetts company.

As required by the stock exchange agreement that effected the acquisition, we filed a registration statement in June 2001 on Form 10-SB with the Securities and Exchange Commission in order to register our common stock under the Securities Exchange Act of 1934. The registration of our common stock under the Exchange Act became effective on August 13, 2001.

We entered into a 5-year sublease commencing June 1, 2001 for approximately 2,830 square feet for our executive offices located at 189 Wells Avenue, Suite 200, Newton, Massachusetts 02459. The rent for the first year is \$87,730 (\$7,311 per month) and is subject to increase in subsequent years. The sublease is a so-called "triple net" lease, meaning that we must

17

pay our proportionate share of items such as property taxes, insurance and operating costs. The sublease required us to provide a security deposit of \$48,883, of which up to \$24,442 could be in the form of a letter of credit. We paid \$26,950 in cash and provided the remainder of the security deposit in the form of a letter of credit.

We have entered into consulting arrangements directly and indirectly with an officer and certain advisors, in order to utilize their expertise at this stage of our corporate development. Each of the following agreements is terminable on thirty days' notice.

Extol International Ltd., a company controlled by James Czirr, our Executive Vice President of Business Development and a director, has agreed to provide financing and business development services. This agreement provides for a monthly payment of \$10,000 and reimbursement of expenses. Mr. Czirr owns more than 5% of our outstanding common stock.

MIR International, Inc., a company controlled by Anatole A. Klyosov, Ph.D., a member of our Scientific Advisory Board and formerly our Senior Vice President and Chief Scientific Officer, has agreed to provide consulting services

Edgar Filing: PRO PHARMACEUTICALS INC - Form 10QSB/A

regarding our research and development including design of preclinical experimental protocols, arranging preclinical experiments, performing chemical synthetic work, preparing reports on biochemical study and clinical applications of carbohydrates. This agreement provides for a monthly payment of \$5,000 and reimbursement of expenses. Dr. Klyosov owns more than 5% of our outstanding common stock.

Eliezer Zomer, Ph.D., has agreed to provide consulting services with respect to the development of standard operations procedures for the manufacture of our medical products. This agreement provides for a monthly payment of \$2,000 and reimbursement of expenses.

Plan of Operation

For the twelve-month period ending June 30, 2002, our plan of operation is to:

- o Make drug delivery formulations to upgrade the anti-cancer drugs 5-Fluorouracil, Adriamycin, Taxol, Cytosol and Cisplatin linked to carbohydrates, in quantities necessary for preclinical evaluation of the upgraded formulations
- o Based on results of preclinical evaluations, and depending on the availability of funds, select one or more of the drug enhancement systems to conduct clinical trials
- o File an Investigational New Drug (IND) application with the Food and Drug Administration to conduct clinical trials, aiming for a fast-track designation to shorten the FDA approval process
- o Begin clinical trials

We plan in subsequent years to complete clinical trials, file at least one New Drug Application (NDA) with the FDA and obtain FDA approval to market the product. We would then arrange for manufacture and marketing of our product(s).

We do not plan to purchase or sell any plant or significant equipment during 2001. We expect to maintain our employee headcount at three to four.

Liquidity and Capital Resources

Our capital resources to date consist primarily of the proceeds of a private placement of convertible notes issued and sold by the predecessor Massachusetts company in anticipation of its

18

being acquired by us. These notes are now our corporate obligations as a result of the merger. See "Part II. Item 4. Recent Sales of Unregistered Securities" in our Form 10-SB for a discussion of the convertible notes. Sale of the notes as of June 30, 2001 resulted in aggregate proceeds of \$1,310,602.

We began as of May 25, 2001 a private placement of securities exempt from registration pursuant to Rule 506 of Regulation D under the Securities Act of 1933 in order to raise \$5,145,000 to cover our expenditures. Purchasers under the private placement must qualify as "accredited investors" as such term is defined in Regulation D. The securities consist of 1,470,000 units, offered at \$3.50 each, of one share of our common stock and one 4-year warrant exercisable at \$6.50 to purchase one share of our common stock. The warrant is subject, following written notice, to acceleration if either (i) we file a New Drug

Edgar Filing: PRO PHARMACEUTICALS INC - Form 10QSB/A

Application with the FDA, or (ii) our stock is listed on an exchange and its closing price exceeds \$11.00 on any 10 trading days within a period of 20 consecutive trading days or, if our stock is quoted on the NASDAQ National Market System or Small Cap Market, or over-the-counter, and the average of the closing bid and asked prices thereon exceeds \$11.00 on any 10 trading days within a period of 20 consecutive trading days.

In connection with an agreement with an early investor in this offering who was willing to invest a substantial amount of funds, we sold 133,400 of the units to that investor at \$3.00 each, for a total of \$400,200. We reduced the investor's warrant exercise price to \$5.00, and changed the warrant acceleration provision to lower the 10-day closing price threshold to \$10.00. We also granted that investor an option to purchase an additional 200,000 units on the same terms as the investor's current purchase. The option is exercisable at any time until 30 days after we notify the investor of our receipt of notice that an investigational new drug application filed by us with the FDA has become effective for any one of our compounds. As a result of agreeing to accept different terms on the offered securities with that investor, we intend to notify each previous purchaser of the sale to that investor. This could result in our agreeing to refund some or all of the previous investments.

As of June 30, 2001 we had received proceeds of \$133,000 from the sale of the securities offered in our private placement, and through August 27, 2001 we have received proceeds of \$772,950. Such purchases will result in our issuing 239,900 shares of our common stock and warrants to purchase 239,900 shares.

We have requested that the holders of the convertible notes described above convert them, in accordance with their terms, to shares of our common stock prior to the notes' maturity dates. In order to encourage early conversion by September 7, 2001, we have offered to issue each noteholder who converts a common stock purchase warrant identical to the warrant offered in our ongoing private placement. In the case of a noteholder who accepts our offer, the warrant we issue would be exercisable to purchase such number of shares as is equal to the number of shares of our common stock that the holder receives as of the conversion of the note. As of August 29, 2001 holders of notes with an aggregate principal amount of \$627,002 have elected to accept our early conversion offer.

Regardless of whether a noteholder accepts our early conversion offer or ever decides to convert, each of our noteholders is entitled to receive, as "additional consideration" for originally purchasing the note, one-half (1/2) share of our common stock for each dollar of principal. We are presently issuing an aggregate of 656,601 of such "additional compensation" shares. Based upon the offering price of the securities in our private placement, the conversion price under the convertible note is now fixed at one share of our common stock for each two dollars (\$2.00) of unpaid principal and interest. All shares of common stock issued upon conversion of the notes are "restricted securities" as defined in Rule 144 under the Securities Act.

19

As of June 30, 2001, we had approximately \$746,000, and as of August 31, 2001 approximately \$1,113,000, in cash and cash equivalents. We have budgeted expenditures for the twelve-month period ending June 30, 2002, of \$5,000,000, comprised of anticipated expenditures for research and development (\$3,200,000), general and administrative (\$1,300,000), equipment and leaseholds (\$200,000) and contingency allowance (\$300,000).

Additional funds may be raised through additional equity financings, as well as borrowings and other resources. We are currently holding discussions

Edgar Filing: PRO PHARMACEUTICALS INC - Form 10QSB/A

with potential investors. With the capital we have raised to date, and the additional \$5,145,000 we are attempting to raise, we believe that we will be able to proceed with our current plan of operations and meet our obligations for approximately the next twelve months. If we do not raise the additional funds, we will have to cut our research and development expenditures to a minimum level for the next twelve months, since available cash at August 27, 2001 would be insufficient to cover more than equipment and leasehold costs and some administrative costs. In that case, overall administrative expenses for the next twelve months would have to be cut by approximately \$500,000. If we have only minimal funds to spend on research and development, that would substantially slow progress that we might expect to make during the next twelve months in development of our business including commencement of clinical trials.

In August 2001 we retained I.W. Miller Group, Inc., of Irvine, California, for two years to provide us with financial public relations and financial consulting services. Either party may terminate on thirty days' notice. The Miller Group has agreed to prepare informational materials about our business for potential investors and business partners, assist us in seeking business relationships, introduce us to sources of investment capital and assist in negotiating financing terms, introduce us to potential media outlets, and advise us about investor relations. We paid a fee of \$10,000 to the Miller Group on signing the agreement, and have agreed to issue shares of our common stock to the Miller Group over the term of the agreement. We will be required to pay finders' fees and retainer fees and issue additional shares of common stock to the Miller Group if we receive threshold amounts of equity financing from Miller Group sources or introductions during the 2-year term. As of August 27, 2001, we have no current or pending financing transactions with any Miller Group sources or introductions.

We expect to generate losses from operations for several years due to substantial additional research and development costs, including costs related to clinical trials. Our future capital requirements will depend on many factors, in particular our progress in and scope of our research and development activities, and the extent to which we are able to enter into collaborative efforts for research and development and, later, manufacturing and marketing products. We may need additional capital to the extent we acquire or invest in businesses, products and technologies. If we should require additional financing due to unanticipated developments, additional financing may not be available when needed or, if available, we may not be able to obtain this financing on terms favorable to us or to our stockholders. Insufficient funds may require us to delay, scale back or eliminate some or all of our research and development programs, or may adversely affect our ability to operate as a going concern. If additional funds are raised by issuing equity securities, substantial dilution to existing stockholders may result.

20

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities

During the quarter ended June 30, 2001, we began a private placement exempt from registration pursuant to Rule 506 of Regulation D under the Securities Act of 1933 in order to raise up to \$5,145,000 to cover our budgeted expenditures as set forth in "Part I -- Financial Information -- Item 2. Plan of Operation -- Liquidity and Capital Resources," above. Purchasers under the private placement

Edgar Filing: PRO PHARMACEUTICALS INC - Form 10QSB/A

must qualify as "accredited investors" as that term is defined in Regulation D. The securities consist of 1,470,000 units, offered at \$3.50 each, of one share of our common stock and one 4-year warrant exercisable at \$6.50 to purchase one share of our common stock. The warrant is subject, following written notice, to acceleration if either (i) we file a New Drug Application with the FDA, or (ii) our stock is listed on an exchange and its closing price exceeds \$11.00 on any 10 trading days within a period of 20 consecutive trading days or, if our stock is quoted on the NASDAQ National Market System or Small Cap Market, or over-the-counter, and the average of the closing bid and asked prices thereon exceeds \$11.00 on any 10 trading days within a period of 20 consecutive trading days. For further information about this offering, please see "Part I -- Financial Information -- Item 2. Plan of Operation -- Liquidity and Capital Resources."

As of June 30, 2001 we had received proceeds of \$133,000 from the sale of the securities offered in our private placement, and through August 27, 2001 we have received proceeds of \$772,950. Such purchases will result in our issuing 239,900 shares of our common stock and warrants to purchase 239,900 shares.

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

21

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit Number -----	Description of Document -----
3.1	Articles of Incorporation of the Registrant, dated January 26, 2001*
3.2	By-laws of the Registrant*
10.1	Assignment and Assumption Agreement, dated April 23, 2001, by and between Developed Technology Resource, Inc. and DTR-Med Pharma Corp.*
10.2	Stock Exchange Agreement, dated April 25, 2001, by and among Developed Technology Resource, Inc., DTR-Med Pharma Corp., Pro-Pharmaceuticals, Inc. (Massachusetts) and the Shareholders (as defined therein)*

* Incorporated by reference to the Registrant's Registration Statement on Form 10-SB, as filed with the Commission on June 13, 2001.

(b) Reports on Form 8-K

Edgar Filing: PRO PHARMACEUTICALS INC - Form 10QSB/A

None

22

SIGNATURE

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on April 12, 2002.

PRO-PHARMACEUTICALS, INC.
Registrant

By: /S/ DAVID PLATT

Name: David Platt
Title: President, Chief Executive Officer,
Treasurer and Secretary
(Principal Executive Officer and
Principal Financial and Accounting
Officer)

23

EXHIBIT INDEX

Exhibit Number -----	Description of Document -----
3.1	Articles of Incorporation of the Registrant, dated January 26, 2001*
3.2	By-laws of the Registrant*
10.1	Assignment and Assumption Agreement, dated April 23, 2001, by and between Developed Technology Resource, Inc. and DTR-Med Pharma Corp.*
10.2	Stock Exchange Agreement, dated April 25, 2001, by and among Developed Technology Resource, Inc., DTR-Med Pharma Corp., Pro-Pharmaceuticals, Inc. (Massachusetts) and the Shareholders (as defined therein)*

* Incorporated by reference to the Registrant's Registration Statement on Form 10-SB, as filed with the Commission on June 13, 2001.

24