

PRO PHARMACEUTICALS INC
Form 10-Q/A
June 26, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2006

.. **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from _____ to _____

Commission File No. 000-32877

PRO-PHARMACEUTICALS, INC.

Nevada
(State or other jurisdiction

of incorporation)

04-3562325
(I.R.S. Employer

Identification No.)

7 Wells Avenue, Newton, Massachusetts
(Address of Principal Executive Offices)

(617) 559-0033

02459
(Zip Code)

(Registrant's Telephone Number, Including Area Code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

The number of shares outstanding of the registrant's common stock as of August 7, 2006 was 28,367,687.

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PRO-PHARMACEUTICALS, INC.

Explanatory Note

As discussed in Note 8 to the unaudited condensed consolidated financial statements included herein, Pro-Pharmaceuticals, Inc. (the Company) has restated in this amendment to its Quarterly Report on Form 10-Q (the Form 10-Q/A) the unaudited condensed consolidated financial statements as of June 30, 2006 and 2005 and for the three and six months ended June 30, 2006 and 2005 and the Condensed Consolidated Balance Sheet as of December 31, 2005 and the cumulative period from inception (July 10, 2000) to June 30, 2006 included in the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006 originally filed with the United States Securities and Exchange Commission (the SEC) on August 11, 2006 (the Form 10-Q).

Subsequent to the issuance of the unaudited condensed consolidated financial statements for the quarter ended June 30, 2006, the Company determined that its warrants issued in October 2003, April 2004 and August 2004 (collectively, the Warrants) that were issued in connection with its equity finance transactions in October 2003, April 2004 and August 2004, respectively, and were accounted for in stockholders' equity at their relative fair value upon issuance, should have been accounted for as derivative liabilities in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133). The Warrants did not meet any of the scope exceptions allowed by SFAS No. 133. Specifically, the warrants did not meet the criteria in paragraph 11(a) of SFAS No. 133 that a contract should not be considered a derivative instrument if it is (1) indexed to its own stock and (2) classified in stockholders' equity. The Warrants, when classified as derivative liabilities, are required to be initially recorded at fair value and to be marked to fair value at the end of each reporting period, which results in a non-cash charge or credit to other income and expense in the Company's consolidated statement of operations.

Based on this determination the Company restated the financial statements for the years ended December 31, 2005 and 2004 in its Annual Report on form 10-K for the year ended December 31, 2006 as filed on April 2, 2007.

All the information in this Form 10-Q/A is as of August 11, 2006, the date the Company originally filed its Form 10-Q with the SEC, and does not reflect any subsequent information or events other than the restatement discussed in Note 8 to the unaudited condensed consolidated financial statements appearing in this Form 10-Q/A. For the convenience of the reader, this Form 10-Q/A sets forth the originally filed Form 10-Q in its entirety. However, the following items have been amended solely as a result of, and to reflect, the restatement, and no other information in the Form 10-Q/A is amended hereby as a result of the restatement:

Part I, Item 1, Financial Statements

Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations

Part I, Item 4, Controls and Procedures

Part II, Item 6, Exhibits

The Company is including currently dated Sarbanes-Oxley Act Section 302 and Section 906 certifications of the Chief Executive Officer and Chief Financial Officer that are attached to this Form 10-Q/A as Exhibits 31.1, 31.2, 32.1 and 32.2.

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(A Development-Stage Company)

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED) (dollars in thousands except share and per share amounts)

	June 30, 2006 (As Restated See Note 8)	December 31, 2005 (As Restated See Note 8)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,719	\$ 4,466
Certificate of deposit	5,000	
Prepaid expenses and other current assets	249	228
Total current assets	9,968	4,694
PROPERTY AND EQUIPMENT NET	63	60
INTANGIBLE ASSETS NET	256	209
TOTAL ASSETS	\$ 10,287	\$ 4,963
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	\$ 244	\$ 295
Accrued expenses	639	1,085
Current portion of convertible debt instrument	6,177	
Total current liabilities	7,060	1,380
CONVERTIBLE DEBT INSTRUMENT	2,406	
WARRANT LIABILITIES	8,391	5,936
Total liabilities	\$ 17,857	\$ 7,316
CONTINGENCIES (Note 6)		
STOCKHOLDERS DEFICIT:		
Common stock, \$0.001 par value; 100,000,000 shares authorized, 28,059,420 and 27,315,411 issued and outstanding at June 30, 2006 and December 31, 2005 respectively; Undesignated shares, \$.01 par value; 10,000,000 shares authorized, none issued and outstanding	28	27
Additional paid-in capital	23,032	20,154
Deficit accumulated during the development stage	(30,630)	(22,534)
Total stockholders deficit	(7,570)	(2,353)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	\$ 10,287	\$ 4,963

See notes to unaudited condensed consolidated financial statements.

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(A Development-Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED) (dollars in thousands except share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,		Cumulative Period from Inception (July 10, 2000) to June 30, 2006 (As Restated See Note 8)
	2006	2005	2006	2005	
	(As Restated See Note 8)	(As Restated See Note 8)	(As Restated See Note 8)	(As Restated See Note 8)	
OPERATING EXPENSES:					
Research and development	\$ 998	\$ 831	\$ 1,452	\$ 1,432	\$ 11,961
General and administrative	1,101	897	2,371	1,749	16,395
Total operating expenses	\$ (2,099)	\$ (1,728)	\$ (3,823)	\$ (3,181)	\$ (28,356)
OTHER INCOME AND EXPENSE					
Interest income	43	30	70	66	424
Interest expense	(582)		(908)		(3,159)
Change in fair value of convertible debt instrument	526		(3,233)		(3,233)
Change in fair value of warrant liabilities	2,342	(297)	(202)	206	3,694
Total other income and (expense)	\$ 2,329	\$ (267)	\$ (4,273)	\$ 272	\$ (2,274)
NET INCOME(LOSS)	\$ 230	\$ (1,995)	\$ (8,096)	\$ (2,909)	\$ (30,630)
NET INCOME(LOSS) PER SHARE BASIC	\$ 0.01	\$ (0.07)	\$ (0.29)	\$ (0.10)	
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING BASIC	27,735,713	27,315,411	27,525,562	27,315,411	
NET LOSS PER SHARE DILUTED	\$ (0.03)	\$ (0.07)	\$ (0.29)	\$ (0.10)	
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING DILUTED	27,750,263	27,315,411	27,525,562	27,315,411	

See notes to unaudited condensed consolidated financial statements.

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	Common Stock		Additional Paid-in Capital	Deficit Accumulated During the Development Stage	Total Stockholders Equity (Deficit)
	Number of Shares	Amount			
BALANCE JANUARY 1, 2006 (As Previously Reported)	27,315,411	\$ 27	\$ 29,986	\$ (26,430)	\$ (3,583)
PRIOR PERIOD ADJUSTMENTS (See Note 8)			(9,832)	3,896	(5,936)
BALANCE, JANUARY 1, 2006 (As Restated See Note 8)	27,315,411	27	20,154	(22,534)	(2,353)
Net loss (As Restated See Note 8)				(8,096)	(8,096)
Common stock issued related to convertible debenture conversions	476,202	1	1,744		1,745
Common stock issued related to convertible debenture redemptions	267,807		909		909
Stock-based compensation expense			225		225
BALANCE, JUNE 30, 2006 (As Restated See Note 8)	28,059,420	\$ 28	\$ 23,032	\$ (30,630)	\$ (7,570)

See notes to unaudited condensed consolidated financial statements.

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	Six Months Ended		Cumulative
	June 30,		Period from
			Inception
			(July 10, 2000)
			to June 30,
	2006	2005	2006
	(As Restated See Note 8)	(As Restated See Note 8)	(As Restated See Note 8)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (8,096)	\$ (2,909)	\$ (30,630)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	34	32	341
Stock-based compensation expense	225	16	1,282
Non-cash interest expense	908		3,082
Write off of intangible assets			136
Change in fair value of convertible debt instrument	3,233		3,233
Change in fair value of warrant liabilities	202	(206)	(3,694)
Changes in current assets and liabilities:			
Prepaid expenses and other current assets	28	(90)	(197)
Accounts payable and accrued expenses	(497)	(122)	1,001
Net cash used in operating activities	(3,963)	(3,279)	(25,446)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(28)	(20)	(344)
Purchase of certificate of deposit	(5,000)		(5,000)
Increase in patents costs and other assets	(56)	(68)	(344)
Net cash used in investing activities	(5,084)	(88)	(5,688)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from issuance of common stock and warrants			25,309
Net proceeds from issuance of convertible debt instruments	9,300		10,621
Repayment of convertible debt instruments			(86)
Proceeds from shareholder advances			9
Net cash provided by financing activities	9,300		35,85