

PRO PHARMACEUTICALS INC

Form 10-Q

November 12, 2010

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2010

.. **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.

Edgar Filing: PRO PHARMACEUTICALS INC - Form 10-Q

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)	02459 (Zip Code)
(617) 559-0033 (Registrant's Telephone Number, Including Area Code)	

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.05 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer <input type="checkbox"/>	Accelerated Filer <input type="checkbox"/>
Non-Accelerated Filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input checked="" type="checkbox"/>

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 November 10, 2010 was 62,184,664.

Table of Contents

PRO-PHARMACEUTICALS, INC.

INDEX TO FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2010

	PAGE
PART I FINANCIAL INFORMATION	
ITEM 1	3
Unaudited Condensed Consolidated Financial Statements	
<u>Condensed Consolidated Balance Sheets as of September 30, 2010 and December 31, 2009 (unaudited)</u>	
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2010 and 2009, and for the Cumulative Period From Inception (July 10, 2000) to September 30, 2010 (unaudited)</u>	
<u>Condensed Consolidated Statement of Changes in Redeemable Convertible Preferred Stock and Stockholders' Deficit for the Nine Months Ended September 30, 2010 (unaudited)</u>	
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2010 and 2009, and for the Cumulative Period From Inception (July 10, 2000) to September 30, 2010 (unaudited)</u>	
<u>Notes to Unaudited Condensed Consolidated Financial Statements (unaudited)</u>	
ITEM 2	14
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
ITEM 3	19
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	
ITEM 4	19
<u>Controls and Procedures</u>	
PART II OTHER INFORMATION	
ITEM 1	19
<u>Legal Proceedings</u>	
ITEM 1A	19
<u>Risk Factors</u>	
ITEM 2	19
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	
ITEM 5	19
<u>Other Information</u>	
ITEM 6	20
<u>Exhibits</u>	
<u>SIGNATURES</u>	21

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

(A Development-Stage Company)

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	September 30, 2010	December 31, 2009
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,814	\$ 251
Prepaid expenses and other current assets	50	53
Total current assets	2,864	304
Property and equipment, net	9	17
Restricted cash	59	59
Intangible assets, net	53	56
Total assets	\$ 2,985	\$ 436
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	\$ 189	\$ 221
Accrued expenses	582	779
Accrued dividends payable		52
Total current liabilities	771	1,052
Warrant liabilities	1,442	1,633
Other long-term liabilities	14	304
Total liabilities	2,227	2,989
Commitments and contingencies (Note 8)		
Series B-1 12% redeemable convertible preferred stock; 900,000 shares authorized, 900,000 shares issued and outstanding at September 30, 2010 and December 31, 2009, redemption value: \$1,800,000, liquidation value: \$1,800,000 at September 30, 2010	1,601	1,270
Series B-2 12% redeemable convertible preferred stock; 2,100,000 shares authorized, 2,100,000 and 1,330,000 issued and outstanding at September 30, 2010 and December 31, 2009, respectively, redemption value: \$4,200,000, liquidation value: \$4,200,000 at September 30, 2010	1,985	644
Stockholders deficit:		
Series A 12% convertible preferred stock; 5,000,000 shares authorized, 1,592,500 and 1,642,500 issued and outstanding at September 30, 2010 and December 31, 2009, respectively	644	664
Common stock, \$0.001 par value; 300,000,000 shares authorized at September 30, 2010 and December 31, 2009; 60,696,529 and 51,742,090 issued and outstanding at September 30, 2010 and December 31, 2009, respectively	61	52

Edgar Filing: PRO PHARMACEUTICALS INC - Form 10-Q

Additional paid-in capital	51,373	42,532
Deficit accumulated during the development stage	(54,906)	(47,715)
Total stockholders' deficit	(2,828)	(4,467)
Total liabilities, redeemable convertible preferred stock and stockholders' deficit	\$ 2,985	\$ 436

See notes to unaudited condensed consolidated financial statements.

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

(A Development-Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,		Cumulative from inception through September 30, 2010
	2010	2009	2010	2009	
	(in thousands, except share and per share amounts)				
Operating expenses:					
Research and development	\$ 313	\$ 289	\$ 676	\$ 865	\$ 19,141
General and administrative	899	961	2,918	4,111	33,908
Total operating expenses	1,212	1,250	3,594	4,976	53,049
Total operating loss	(1,212)	(1,250)	(3,594)	(4,976)	(53,049)
Other income:					
Interest income	3	1	4	3	774
Interest expense					(4,451)
Change in fair value of convertible debt instrument					(3,426)
Change in fair value of warrant liabilities	100	(122)	(1,311)	(1,836)	9,476
Other income		2		2	2
Total other income (expense)	103	(119)	(1,307)	(1,831)	2,375
Net loss	\$ (1,109)	\$ (1,369)	\$ (4,901)	\$ (6,807)	\$ (50,674)
Series A 12% preferred stock dividend	(48)	(53)	(144)	(157)	(592)
Series B-1 12% preferred stock dividend	(57)	(59)	(171)	(146)	(375)
Series B-2 12% preferred stock dividend	(134)	(50)	(349)	(65)	(486)
Series B preferred stock accretion	(551)	(384)	(1,626)	(936)	(3,033)
Net loss applicable to common stock	\$ (1,899)	\$ (1,915)	\$ (7,191)	\$ (8,111)	\$ (55,160)
Basic and diluted net loss per share	\$ (0.03)	\$ (0.04)	\$ (0.13)	\$ (0.17)	
Shares used in computing basic and diluted net loss per share	58,764	48,447	54,268	48,232	

See notes to unaudited condensed consolidated financial statements.

Table of Contents

PRO-PHARMACEUTICALS, INC.

(A Development-Stage Company)

CONSOLIDATED STATEMENT OF CHANGES IN REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT

NINE MONTHS ENDED SEPTEMBER 30, 2010 (UNAUDITED)

(in thousands except share data)

	Series B-1 12% Redeemable Convertible Preferred Stock		Series B-2 12% Redeemable Convertible Preferred Stock		Series A 12% Convertible Preferred Stock		Stockholders' Common Stock		Deficit		Total Stockholders' Deficit
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Additional Paid-In Capital	Deficit Accumulated During the Development Stage	
Balance at December 31, 2009	900,000	\$ 1,270	1,330,000	\$ 644	1,642,500	\$ 664	51,742,090	\$ 52	\$ 42,532	\$ (47,715)	\$ (4,467)
Issuance of Series B-2 redeemable convertible preferred stock and warrants, net of issuance costs of \$77			770,000	434					1,029		1,029
Beneficial conversion feature recognized on issuance of series B-2 redeemable convertible preferred stock				(388)					388		388
Accretion of Series B-1 and B-2 redeemable convertible preferred stock to redemption value		331		971						(1,302)	(1,302)
Accretion of beneficial conversion feature for Series B-2				324						(324)	(324)
Series A 12% convertible							196,086		196	(144)	52

Edgar Filing: PRO PHARMACEUTICALS INC - Form 10-Q

preferred stock dividend												
Series B-1 12% redeemable convertible preferred stock dividend							342,429		171		(171)	
Series B-2 12% redeemable convertible preferred stock dividend							698,013	1	348		(349)	
Issuance of restricted common stock							100,000					
Exercise of common stock warrants							6,983,911	7	4,987			4,994
Exercise of common stock options							584,000	1	127			128
Conversion of Series A to common stock			(50,000)	(20)		50,000			20			
Stock-based compensation									1,575			1,575
Net loss											(4,901)	(4,901)
Balance at September 30, 2010	900,000	\$ 1,601	2,100,000	\$ 1,985	1,592,500	\$ 644	60,696,529	\$ 61	\$ 51,373	\$ (54,906)	\$ (2,828)	

See notes to unaudited condensed consolidated financial statements.

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

(A Development-Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30,		Cumulative Period from Inception (July 10, 2000) to September 30, 2010
	2010	2009	
	(in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (4,901)	\$ (6,807)	\$ (50,674)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	11	30	536
Stock-based compensation expense	1,575	1,368	5,970
Non-cash interest expense			4,279
Change in fair value of convertible debt instrument			3,426
Change in fair value of warrant liabilities	1,311	1,836	(9,476)
Write off of intangible assets			336
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	3	9	(47)
Accounts payable and accrued expenses	(228)	191	842
Other long-term liabilities	(290)	308	14
Net cash used in operating activities	(2,519)	(3,065)	(44,794)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment			(421)
Change in restricted cash			(59)
Increase in patents costs and other assets			(404)
Net cash used in investing activities			(884)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from issuance of common stock and warrants			28,690
Net proceeds from exercise of common stock options and warrants	3,619		3,619
Net proceeds from issuance of Series A 12% Convertible Preferred Stock and related warrants			1,691
Net proceeds from issuance of Series B-1 12% Redeemable Convertible Preferred Stock and related warrants		1,548	1,548
Net proceeds from issuance of Series B-2 12% Redeemable Convertible Preferred Stock and related warrants	1,463	1,867	3,935
Net proceeds from issuance of convertible debt instruments			10,621
Repayment of convertible debt instruments			(1,641)
Proceeds from issuance of common stock warrants			20
Proceeds from (repayments of) shareholder advances		(200)	9
Net cash provided by financing activities	5,082	3,215	48,492

Edgar Filing: PRO PHARMACEUTICALS INC - Form 10-Q

NET INCREASE IN CASH AND CASH EQUIVALENTS	2,563	150	2,814
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	251	318	
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 2,814	\$ 468	\$ 2,814
SUPPLEMENTAL DISCLOSURE Cash paid for interest	\$	\$	\$ 114
NONCASH FINANCING ACTIVITIES:			
Issuance of equity warrants in connection with equity offerings	\$ 1,029	\$ 2,424	\$ 5,037
Conversion of accrued expenses into common stock			303
Cashless exercise of stock options		24	98
Conversion and redemptions of convertible notes and accrued interest into common stock			12,243
Conversion of extension costs related to convertible notes into common stock			171
Payment of Convertible Preferred Stock dividend in common stock	716	316	1,149
Issuance of warrants to induce conversion of notes payable			503
Issuance of stock to acquire Pro-Pharmaceuticals-NV			107

See notes to unaudited condensed consolidated financial statements.

Table of Contents

PRO-PHARMACEUTICALS, INC.

(A DEVELOPMENT-STAGE COMPANY)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The unaudited condensed consolidated financial statements as reported in this Quarterly Report on Form 10-Q reflect all adjustments which are, in the opinion of management, necessary to present fairly the financial position of Pro-Pharmaceuticals, Inc. (the Company) as of September 30, 2010 and the results of its operations for the three and nine-months ended September 30, 2010 and 2009 and the cumulative period from inception (July 10, 2000) through September 30, 2010 and its cash flows for the nine months ended September 30, 2010 and 2009, and for the cumulative period from inception (July 10, 2000) to September 30, 2010. All adjustments made to the interim financial statements include all those of a normal and recurring nature. The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. Subsequent events have been evaluated through the date these financial statements are available to be issued. The results for interim periods are not necessarily indicative of results which may be expected for any other interim period or for the full year.

The unaudited condensed consolidated financial statements of the Company should be read in conjunction with its Annual Report on Form 10-K for the year ended December 31, 2009.

The financial statements of the Company have been prepared assuming that the Company will continue as a going concern. As shown in the unaudited condensed consolidated financial statements, the Company incurred cumulative net losses applicable to common stockholders of approximately \$55.2 million for the cumulative period from inception (July 10, 2000) through September 30, 2010. The Company's net losses have resulted principally from costs associated with (i) research and development expenses, including clinical trial costs, (ii) general and administrative activities and (iii) the Company's financing transactions including interest and the costs related to fair value accounting for the Company's convertible debt instrument and warrant liabilities. As a result of planned expenditures for future research, discovery, development and commercialization activities and potential legal cost to protect its intellectual property, the Company expects to incur additional losses and use additional cash in its operations for the foreseeable future. From inception (July 10, 2000) through September 30, 2010, the Company has raised a net total of approximately \$48.5 million in capital through sale and issuance of common stock, common stock warrants, convertible preferred stock, redeemable convertible preferred stock, convertible debt securities in public and private offerings and the exercise of common stock options and warrants. From inception (July 10, 2000) through September 30, 2010, the Company has used approximately \$44.8 million of cash in its operations.

The Company's Form 10-K, which was filed with the SEC on March 12, 2010, contained an audit opinion that expresses doubt about the ability of the Company to continue as a going concern for a reasonable period of time. At September 30, 2010, the Company had \$2,814,000 of unrestricted cash and cash equivalents available to fund future operations. Subsequent to September 30, 2010, the Company issued 1,488,135 shares of common stock for the exercise of common stock warrants, resulting in cash proceeds of \$904,000. Additionally, in October 2010, the Company received a payment of \$200,000 for the sale of DAVANAT® (see Agreement with PROCAPS S.A.) and, in November 2010, the Company received \$255,000 from the Internal Revenue Service under the Qualifying Therapeutic Discovery Project Program (see Note 9, Subsequent Events). The Company believes that with the funds on hand at September 30, 2010 and cash received subsequent to quarter end, there is sufficient cash to fund operations into the third quarter of 2011. The Company is actively seeking to raise additional capital and has significantly reduced its administrative and clinical spending. If the Company is unsuccessful in raising additional capital before the end of the third quarter of 2011, the Company may be required to cease operations or seek bankruptcy protection. In light of the Company's current financial position and the uncertainty of raising sufficient capital to achieve its business plan, there is substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that may result if such circumstances arise.

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, need for regulatory approval of products, risks associated with protection of intellectual property, and competition with larger, better-capitalized companies. Successful completion of the Company's development program and, ultimately, the attainment of profitable operations is dependent upon future events, including obtaining adequate financing to fulfill its development activities and achieving a level of revenues adequate to support the Company's cost structure. There are no

Edgar Filing: PRO PHARMACEUTICALS INC - Form 10-Q

assurances that the Company will be able to obtain additional financing on favorable terms, or at all, or successfully market its products.

Agreement with PROCAPS S.A.

On March 25, 2010, the Company granted PROCAPS S.A. (PROCAPS) exclusive rights to market and sell DAVANAT[®] to treat cancer in Colombia, South America. PROCAPS is a large, international, privately held pharmaceutical company based in Barranquilla, Colombia. Under terms of the agreement, PROCAPS is responsible for obtaining regulatory and pricing approval in Colombia, South America. PROCAPS also will be responsible for the vial filling, packaging, marketing and distribution of DAVANAT[®] in the region.

Table of Contents**PRO-PHARMACEUTICALS, INC.****(A DEVELOPMENT-STAGE COMPANY)****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Once approved for sale by regulators, the Company will receive a transfer payment for each dose of DAVANAT[®] shipped to PROCAPS, in addition to a royalty above a minimum annual sales threshold. There had been no such transfer payments and no sales had occurred as of September 30, 2010. In October 2010, the Company received a payment of \$200,000 and shipped DAVANAT[®] to PROCAPS to be used by PROCAPS to qualify its vial filling process and to replicate the Company's stability study. The Company retains all intellectual property rights and is the owner of the regulatory approval of DAVANAT[®] in the region. PROCAPS has first negotiation rights to other countries in South and Central America and the Caribbean. Based on approval in Colombia, PROCAPS may then obtain the marketing authorization in more than 10 countries in Latin America.

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board issued Accounting Standards Update No. 2010-06 for Fair Value Measurements and Disclosures (Topic 820): *Improving Disclosures about Fair Value Measurements*. This Update requires new disclosures for transfers in and out of Level 1 and 2 and activity in Level 3. This Update also clarifies existing disclosures for level of disaggregation and about inputs and valuation techniques. The new disclosures are effective for interim and annual periods beginning after December 15, 2009, except for the Level 3 disclosures, which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those years. Other than requiring additional disclosures, adoption of this new guidance did not have a material impact on the Company's financial statements and is not expected to have a significant impact on the reporting of the Company's financial condition or results of operations.

2. Stock-Based Compensation

Stock-based compensation expense related to stock options and restricted stock totaled \$206,000 and \$1,121,000 for the three and nine-months ended September 30, 2010, respectively, and \$232,000 and \$1,147,000 for the three and nine-months ended September 30, 2009, respectively. Additionally, the Company granted options during the nine months ended September 30, 2010, of which \$365,000 was included in accrued expenses at December 31, 2009.

Stock Options

The following table summarizes the stock option activity in the Company's equity incentive plans from December 31, 2009 through September 30, 2010:

	Shares	Weighted Average Exercise Price
Outstanding, December 31, 2009	10,260,250	\$ 1.20
Granted	2,180,000	0.30
Exercised	(554,000)	0.20
Options forfeited/cancelled	(57,000)	2.70
Outstanding, September 30, 2010	11,829,250	\$ 1.07

As of September 30, 2010, there was \$337,000 of unrecognized compensation related to 1,861,461 unvested options which is expected to be recognized over a weighted average period of approximately 1.0 years. The weighted-average grant date fair value for options granted during the nine months ended September 30, 2010, was \$0.26; there were no grants during the three months ended September 30, 2010. The weighted-average grant date fair value for options granted during the three and nine-month periods ended September 30, 2009 was \$0.40 and

\$0.27, respectively.

Table of Contents**PRO-PHARMACEUTICALS, INC.****(A DEVELOPMENT-STAGE COMPANY)****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The fair value of the options granted is determined using the Black-Scholes option-pricing model. The following weighted average assumptions were used:

	Nine Months Ended September 30,		Cumulative Period from Inception (July 10, 2000) to September 30,
	2010	2009	2010
Risk-free interest rate	2.38%	2.00%	2.44%
Expected life of the options	5 years	5 years	5 years
Expected volatility of the underlying stock	126%	122%	112%
Expected dividend rate	0%	0%	0%

Restricted Stock.

During the year ended December 31, 2009, the Company granted 2,500,000 shares of restricted common stock to members of its Board of Directors. These shares are restricted and any unvested shares are subject to forfeiture upon termination and would revert back to the Company. Of the 2,500,000 shares, 2,187,500 were vested as of September 30, 2010, an additional 156,250 will vest during the remainder of 2010 and 156,250 will vest in 2011. At September 30, 2010 there were 312,500 restricted shares remaining. The restricted shares were valued at \$450,000 (\$0.18 per share) at the date of grant and will be recognized over the vesting period.

In May 2010, the Company granted 100,000 shares of restricted common stock to a consultant. These shares are restricted until November 15, 2010 and any unvested shares are subject to forfeiture upon termination and would revert back to the Company. At September 30, 2010 there were 100,000 restricted shares remaining. The restricted shares were valued at \$79,000 (\$0.79 per share) at September 30, 2010, will be adjusted for unvested shares and will be recognized over the vesting period. During the three and nine-months ended September 30, 2010, the Company recognized expenses of \$24,000 and \$59,000, respectively.

3. Accrued Expenses

Accrued expenses consist of the following:

	September 30, 2010	December 31, 2009
	(in thousands)	
Legal and accounting fees	\$ 80	\$ 99
Scientific and clinical fees	12	12
Accrued compensation	73	414
Accrued other	99	100
Accrued severance, current portion (see Note 8)	318	154

Edgar Filing: PRO PHARMACEUTICALS INC - Form 10-Q

Total \$ 582 \$ 779

4. Common Stock Warrants

The following table summarizes the stock warrant activity from December 31, 2009 through September 30, 2010:

	Shares	Weighted Average Exercise Price
Outstanding, December 31, 2009	50,387,255	\$ 0.63
Granted	10,872,000	0.54
Exercised	(6,983,911)	0.50
Forfeited/cancelled	(131,000)	0.50
Outstanding, September 30, 2010	54,144,344	\$ 0.63