

PRO PHARMACEUTICALS INC
Form 10-Q
November 12, 2010
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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.

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| | |
|--|--|
| 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.

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(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 |

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| | | |
|---|----------|----------|
| 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.

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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 Additional Paid-In Capital | | Deficit Accumulated During the Development Stage | Total Stockholders Deficit |
|---|---|----------|---|--------|--|--------|---------------------------|--------|------------------------------------|--|--|----------------------------|
| | Number of Shares | Amount | Number of Shares | Amount | Number of Shares | Amount | Number of Shares | Amount | | | | |
| 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 preferred stock | | | | | | | 196,086 | | 196 | | (144) | 52 |

dividend
Series B-1 12%
redeemable
convertible
preferred stock
dividend