

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 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 September 30, 2001, was 14,727,226.

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

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PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders  
Pro-Pharmaceuticals, Inc.  
Newton, Massachusetts

We have reviewed the accompanying balance sheet of Pro-Pharmaceuticals, Inc. as of September 30, 2001 and the related statements of operations, changes in stockholders' deficit and cash flows for the three-month and nine-month periods then ended and for the period from inception (July 10, 2000) through September 30, 2001. These financial statements are the responsibility of the Company'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 auditing standards generally accepted in the United States of America, 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.

The balance sheet of Pro-Pharmaceuticals, Inc. as of December 31, 2000, and the related statements of operations, changes in stockholders' deficit, and cash flows for the year then ended (not presented herein) were previously audited in accordance with auditing standards generally accepted in the United States of America by another accountant, whose report dated February 10, 2001, expressed an unqualified opinion on those financial statements. 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  
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SCILLIA DOWLING & NATARELLI LLC

Hartford, Connecticut

October 30, 2001

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

	September 30, 2001 ----- (unaudited)	December 31, 2000 -----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 865,913	\$204,745
Other current assets	2,228	--
	-----	-----
	868,141	204,745
	-----	-----
PROPERTY AND EQUIPMENT, at cost		
Less accumulated depreciation	96,800	--
	(2,572)	--
	-----	-----
	94,228	--
	-----	-----
OTHER ASSETS		
Contractual rights	107,000	--
Patent	47,345	8,695
Debt issuance costs, net of accumulated amortization of \$13,083 and \$0 at September 30, 2001 and December 31, 2000, respectively	5,000	14,500
Deposits and other assets	48,883	--
	-----	-----
	208,228	23,195
	-----	-----
	\$ 1,170,597	\$227,940
	=====	=====

See notes to financial statements.

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

	September 30, 2001 ----- (unaudited)	December 31, 2000 -----
--	---	-------------------------------

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES

Accounts payable	\$ 290,317	\$ 24,129
Accrued expenses	189,690	23,238
Other current liabilities	10,029	--
	-----	-----
Total current liabilities	490,036	47,367
CONVERTIBLE NOTES PAYABLE	195,000	284,500
	-----	-----
Total liabilities	685,036	331,867
	-----	-----
STOCKHOLDERS' DEFICIT		
Common voting shares, \$0.001 par value, 100,000,000 shares authorized, 14,727,226 and 12,354,670 shares issued and outstanding at September 30, 2001 and December 31, 2000, respectively	14,728	12,355
Undesignated shares, \$0.01 par value, 5,000,000 shares authorized, none issued	--	--
Private placement units of common stock and warrants	883,200	--
Private placement units subscription receivable	(73,500)	--
Additional paid-in capital	1,288,005	--
Stock subscription receivable	--	(3,355)
Deficit accumulated during development stage	(1,626,872)	(112,927)
	-----	-----
	485,561	(103,927)
	-----	-----
	\$ 1,170,597	\$ 227,940
	=====	=====

See notes to financial statements.

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

	For the Three Months Ended September 30, 2001	For the Nine Months Ended September 30, 2001	Period from Inception (July 10, 2000) through September 30, 2001
	(unaudited)	(unaudited)	(unaudited)
REVENUE	\$ --	\$ --	\$ --
	-----	-----	-----
RESEARCH AND DEVELOPMENT			
Consulting fees and salaries	248,295	380,396	430,396
Laboratory fees	86,140	150,830	159,830
	-----	-----	-----
	334,435	531,226	590,226
	-----	-----	-----
GENERAL AND ADMINISTRATIVE			
Legal fees	2,108	221,478	228,127
Consulting fees	50,036	147,115	172,115
Salaries	84,501	130,335	130,335
Accounting fees	24,230	113,746	121,246
Office expenses	3,393	71,856	77,627
Marketing	28,575	54,962	54,962
Rent	27,781	40,941	40,941

Travel and entertainment	8,670	27,179	30,909
Payroll taxes and benefits	16,111	24,599	24,599
Miscellaneous	16,507	17,697	17,697
Depreciation and amortization	23,870	33,572	33,572
Telephone and utilities	9,914	14,637	18,937
Repairs and maintenance	3,501	12,032	12,032
Contributions	--	5,100	5,100
Insurance	2,140	2,490	2,490
	-----	-----	-----
	301,337	917,739	970,689
	-----	-----	-----
NET LOSS FROM OPERATIONS	(635,772)	(1,448,965)	(1,560,915)
	-----	-----	-----
OTHER INCOME (EXPENSE)			
Interest income	4,326	16,992	17,253
Interest expense	(54,845)	(81,972)	(83,210)
	-----	-----	-----
	(50,519)	(64,980)	(65,957)
	-----	-----	-----
NET LOSS	\$ (686,291)	\$ (1,513,945)	\$ (1,626,872)
	=====	=====	=====
LOSS PER SHARE			
Basic	\$ (0.05)	\$ (0.12)	\$ (0.12)
	=====	=====	=====
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Basic	13,883,404	13,074,466	13,017,978
	=====	=====	=====

See notes to financial statements.

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

	Common Voting Shares		Undesignated Shares		Stock Subscription Receivable
	Shares	Amount	Shares	Amount	
Issuance of Common Stock of Pro-Pharmaceuticals, Inc.	12,354,670	\$ 12,355	--	\$ --	\$ (3,335)
Net loss	--	--	--	--	--
Balance at December 31, 2000	12,354,670	12,355	--	--	(3,355)
Issuance of Stock to Acquire Contractual Rights, and Payment of Stock Subscription Receivable	1,221,890	1,222	--	--	3,355
Sale of Private Placement Units, beginning May 2001	--	--	--	--	--
Conversion of Notes Payable to Common Stock	1,150,666	1,151	--	--	--
Net loss	--	--	--	--	--
Balance at September 30, 2001 (unaudited)	14,727,226	\$14,728	--	\$ --	\$ --
	=====	=====	=====	=====	=====
	Private Placement Units of Common	Private Placement Units	Additional	Deficit Accumulated During	

	Stock and Warrants	Subscription Receivable	Paid-in Capital	Development Stage	Total
	-----	-----	-----	-----	-----
Issuance of Common Stock of Pro-Pharmaceuticals, Inc.	\$ --	--	\$ --	\$ --	\$ 9,000
Net loss	--	--	--	(112,927)	(112,927)
Balance at December 31, 2000	--	--	--	(112,927)	(103,927)
Issuance of Stock to Acquire Contractual Rights, and Payment of Stock Subscription Receivable	--	--	103,423	--	108,000
Sale of Private Placement Units, beginning May 2001	883,200	(73,500)	--	--	809,700
Conversion of Notes Payable to Common Stock	--	--	1,184,582	--	1,185,733
Net loss	--	--	--	(1,513,945)	(1,513,945)
Balance at September 30, 2001 (unaudited)	\$ 883,200	\$ (73,500)	\$ 1,288,005	\$ (1,626,872)	\$ 485,561
	-----	-----	-----	-----	-----

See notes to financial statements.

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

	For the Three Months Ended September 30, 2001	For the Nine Months Ended September 30, 2001	Period from Inception (July 10, 2000) through September 30, 2001
	-----	-----	-----
	(unaudited)	(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	\$ (686,291)	\$ (1,513,945)	\$ (1,626,872)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	23,600	33,572	33,572
Changes in assets and liabilities:			
Other current assets	181	(2,228)	(2,228)
Accounts payable and accrued expenses	250,544	491,300	515,139
Other current liabilities	(2,601)	--	--
	-----	-----	-----
Net cash used in operating activities	412,696	(1,029,951)	(1,119,039)
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES			
Patent costs	(38,650)	(38,650)	(47,345)
Deposit	(21,933)	(48,883)	(48,883)
Purchase of property and equipment	(80,988)	(96,800)	(96,800)
	-----	-----	-----
Net cash used in investing activities	(141,571)	(184,333)	(193,028)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from sale of private placement units	676,700	809,700	809,700
Proceeds from issuance of common stock	--	--	9,000
Proceeds from issuance of convertible notes payable	--	1,026,102	1,310,602
Increase in due to stockholder	(1,000)	--	9,028
Cash received from stock subscription receivable	--	1,000	1,000
	-----	-----	-----
Net cash provided by financing activities	675,700	1,836,802	2,139,330
	-----	-----	-----
NET (DECREASE) INCREASE IN CASH	119,562	661,168	865,913

CASH AND CASH EQUIVALENTS, Beginning	746,351	204,745	--
	-----	-----	-----
CASH AND CASH EQUIVALENTS, End	\$ 865,913	\$ 865,913	\$ 865,913
	=====	=====	=====

See notes to financial statements.

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

FINANCING ACTIVITIES

During the nine months ended September 30, 2001, the Company received certain contractual rights of Developed Technology Resource, Inc., valued at \$107,000, in exchange for shares of the common stock of the Company.

During the period from inception (July 10, 2000) through September 30, 2001, the Company capitalized debt issuance costs totaling \$36,000, a long-term asset, by incurring an accrued liability of the same amount.

On September 7, 2001 certain convertible note holders accepted an early conversion offer issued by the Company. The result was a conversion of notes payable totaling \$1,115,602 and related accrued interest totaling \$70,131, resulting in the issuance of 1,150,666 shares of common stock (see note 7).

See notes to financial statements.

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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 Massachusetts in July 2000 to identify, develop and seek regulatory approval of 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. As detailed below, the Company is a Nevada corporation.

The Company is in the development stage while it is focusing on research and raising capital. Its product candidates are still in research and development, with none yet in clinical trials. Principal risks to the Company include 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.

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 of its shares of 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 percent and resulted in the prior stockholders of Pro-Pharmaceuticals-MA owning approximately 91 percent 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. As a legal effect of the merger, Pro-Pharmaceuticals-NV assumed all of the assets and liabilities of Pro-Pharmaceuticals-MA. For reporting purposes, however, the foregoing stock-exchange transaction has been accounted for as a reverse acquisition in which Pro-Pharmaceuticals-MA acquired all the assets and liabilities of Pro-Pharmaceuticals-NV and recorded them at their fair values and as if Pro-Pharmaceuticals-MA remained the reporting entity. The only assets of Pro-Pharmaceuticals-NV were contractual rights with a fair value \$107,000. Because Pro-Pharmaceuticals-NV is the surviving entity for legal purposes, all equity transactions have been restated in terms of this corporation's capital structure.

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

NOTE 2 -- BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month and nine month periods ended September 30, 2001, are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. For further information, refer to the financial statements and footnotes which were filed with the Securities and Exchange Commission by the Company in a registration statement on Form 10-SB (General Form for Registration of Securities of Small Business Issuers) (File No. 000-32877), which registration became effective as of August 13, 2001.

NOTE 3 -- NEW ACCOUNTING PRONOUNCEMENTS

Statement of Financial Accounting Standards No. 141

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, Business Combinations (SFAS 141). This statement addresses financial accounting and reporting for business combinations and supersedes APB Opinion No. 16 Business Combinations, and FASB Statement No. 38, Accounting for Preacquisition Contingencies of Purchased Enterprises. All business combinations in the scope of this statement are to be accounted for using one method, the purchase method.

Statement of Financial Accounting Standards No. 142

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142). Upon adoption of SFAS 142, intangible assets with finite lives will be amortized over those lives and assets with infinite lives will be tested for impairment at least annually.

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



NOTES TO FINANCIAL STATEMENTS  
(Unaudited)

NOTE 4 -- 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 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 September 30, 2001, the Company had received proceeds of \$809,700 from the sale of the securities offered in the private placement representing 250,400 units. Such purchases will result in the Company issuing 250,400 shares of common stock and warrants to purchase 250,400 shares of its common stock. In addition, the Company has a subscription receivable totaling \$73,000 which would result in the sale of the securities offered in the private placement representing approximately 21,000 units. Such purchases will result in the Company issuing 21,000 shares of common stock and warrants to purchase 21,000 shares of its common stock.

NOTE 5 -- PER SHARE DATA

The shares of common stock issuable upon exercise of the warrants issued pursuant to the May 2001 private placement of the Company 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).

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

NOTE 6 -- RELATED PARTY TRANSACTIONS

The Company has paid consulting fees 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.

	For the Three Months Ended September 30, 2001	For the Nine Months Ended September 30, 2001	Period from Inception (July 10, 2000) through September 30, 2001
	-----	-----	-----
General and administrative fees	\$ 70,711	\$147,063	\$159,563
Research and development	16,143	67,038	92,038
	-----	-----	-----

\$ 86,854  
=====

\$214,101  
=====

\$251,601  
=====

NOTE 7 -- 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. In a letter dated February 19, 2001, Dr. Platt denied any violation because the Company is involved in drug delivery technology rather than new drug development. Counsel for SafeScience indicated a willingness to resolve these matters but attempts to set up a meeting were unsuccessful. No determination has been made of the likelihood of a substantive 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 if SafeScience takes further action.

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 consulting services. This engagement was terminated on September 21, 2001.

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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.

The Company notified 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.

Subsequent to September 30, 2001, the Company issued 285,400 shares of common stock related to the private placement.

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, (iii) an individual otherwise unaffiliated with the Company with respect to product development services in consideration of \$2,000 per month and expense reimbursement, and (iv) an individual who is a stockholder of the Company for management consultant services in consideration of \$5,000 per month and expense reimbursement.

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NOTE 8 -- CONVERTIBLE NOTES PAYABLE

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 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. On September 7, 2001, holders of notes with an aggregate principal amount of \$1,115,602 and related accrued interest totaling \$70,131, elected to accept the Company's early conversion offer. In total 1,150,666 shares of common stock were issued to these note holders.

NOTE 9 -- SUBSEQUENT EVENTS

Stock Incentive Plan

On October 18, 2001, the Company's Board of Directors adopted the "Pro-Pharmaceuticals, Inc. 2001 Stock Incentive Plan" which permits awards of incentive and non-qualified stock options and other forms of incentive compensation to employees and non-employees such as directors and consultants. The Board reserved 2,000,000 of the Company's shares of common stock for awards pursuant to such plan, all of which reserved shares could be awarded as incentive stock options. The Board agreed to recommend such plan to the Company's stockholders for approval at the next annual or special meeting of stockholders.

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, 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.

#### Preclinical Animal Experiments

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.

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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 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. More specifically, the 5-FU/mannan combination in animal experiments results in a significant delay of tumor enlargement and an increase of average survival time.

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. We have initiated large-scale production of our mannan for use in forthcoming clinical trials.

#### Intellectual Property Protection

We have two pending utility patent applications and one provisional patent application in the United States. The patent applications cover methods and compositions for reducing side effects in chemotherapeutic formulations, and improving efficacy and reducing toxicity of chemotherapeutic agents. One of our utility patents is filed worldwide under the Patent Cooperation Treaty (PCT).

We have three pending trademark applications filed in the United States.

#### Business Combination and Ownership

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 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 transaction has been accounted for as a reverse acquisition in which the predecessor company purchased our outstanding shares, due to the change in control of the entity. The business combination has been accounted for using purchase accounting, with the assets and liabilities of the acquired company being recorded at fair value.

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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. The financial statements of the Massachusetts company were audited by different independent accountants than the accountants whom we engaged since our inception. The change in accountants did not occur by resignation or dismissal in connection with a disagreement over any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

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.

#### Facilities

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 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.

#### Consulting Arrangements

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 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.

Offer Binder, Ph.D. has agreed to provide management advisory services. This agreement provides for a monthly payment of \$5,000 and reimbursement of expenses. Dr. Binder owns more than 5% of our outstanding common stock.

#### Plan of Operation

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

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- o Make drug delivery formulations to upgrade the anti-cancer drugs 5-Fluorouracil, Adriamycin, Taxol, Cytosin 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 the twelve months ending September 30, 2002. We expect to maintain our employee headcount at three to four.

#### Liquidity and Capital Resources

Our capital resources to date consist of (i) the proceeds of a private placement of convertible notes issued and sold by the predecessor Massachusetts company in anticipation of its being acquired by us and (ii) the proceeds of a private placement begun in May 2001 of our common stock and stock purchase warrants. Each is further described below.

The convertible notes became our corporate obligations as a result of the merger. Sale of the convertible notes resulted in aggregate proceeds of \$1,310,602. See "Part II. Item 4. Recent Sales of Unregistered Securities" in our Form 10-SB for a discussion of the convertible notes.

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 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 have notified each previous purchaser

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of the sale to that investor. This could result in our agreeing to refund some or all of the previous investments.

As of September 30, 2001 we had received aggregate subscriptions of \$907,700 for securities offered in our private placement and, as of November 9, 2001, an additional \$24,500 of subscriptions. Such purchases will result in our issuing 285,400 shares of our common stock and warrants to purchase 285,400 shares of our common stock.

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 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. In response to our offer, holders of an aggregate of \$1,115,602 of principal amount of the convertible notes have requested conversion of their notes.

Regardless of whether a noteholder accepted our early conversion offer or later 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 completing our issuance an aggregate of 655,301 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.

As of September 30, 2001, we had approximately \$865,913, and as of October 31, 2001 approximately \$852,092, in cash and cash equivalents. We have budgeted expenditures for the twelve-month period ending September 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 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 October 31, 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. We have since terminated this relationship.

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

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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.

#### Recent Events

Our Board of Directors on October 18, 2001 adopted the "Pro-Pharmaceuticals, Inc. 2001 Stock Incentive Plan" which permits awards of incentive and non-qualified stock options and other forms of incentive compensation to employees and non-employees such as directors and consultants. The Board reserved 2,000,000 of our shares of common stock for awards pursuant to such plan, all of which reserved shares could be awarded as incentive stock options. The Board agreed to recommend such plan to our stockholders for approval at the next annual or special meeting of stockholders.

Our Board of Directors on October 18, 2001 amended our by-laws to insert a provision for indemnification of our directors, officers and other employees, as well as other persons who may be entitled to indemnification. The by-law amendment enables us to indemnify such persons to the extent permitted under the Nevada corporation law statute which governs our company.

On October 18, 2001, we appointed Maureen Foley to the office of Chief Operating Officer. Ms. Foley had been serving as our senior administrator since January 2001.

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## PART II -- OTHER INFORMATION

### Item 1. Legal Proceedings

None

### Item 2. Changes in Securities

In May 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 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 September 30, 2001 we had received aggregate subscriptions of \$907,700 for securities offered in our private placement and, as of November 9, 2001, an additional \$24,500 of subscriptions. Such purchases will result in our issuing 285,400 shares of our common stock and warrants to purchase 285,400 shares of our common stock.

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

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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	Amended and Restated 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)*
10.3	Pro-Pharmaceuticals, Inc. 2001 Stock Incentive Plan

\* 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

None

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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 November 13, 2001.

PRO-PHARMACEUTICALS, INC.  
Registrant

By: /S/ DAVID PLATT

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

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#### EXHIBIT INDEX

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AMENDED AND RESTATED BY-LAWS  
of  
PRO-PHARMACEUTICALS, INC.  
(formerly known as DTR-Med Pharma Corp.)  
(a Nevada corporation)

ARTICLE I

DEFINITIONS

BY-LAW 1.01. The following words or phrases when used in these By-Laws, whether or not initially capitalized, shall have the meanings set forth below:

- a. "Articles of Incorporation" shall mean the Articles of Incorporation of the Corporation.
- b. "Board of Directors" shall mean the Board of Directors of the Corporation.
- c. "Corporation" shall mean Pro-Pharmaceuticals, Inc.
- d. "Director" shall mean a member of the Board of Directors.
- e. "Shares" shall mean the authorized shares of the Corporation as identified in the Corporation's Articles of Incorporation.
- f. "Shareholder" or "Shareholders" shall mean a Shareholder or the holders of the Corporation's Shares as reflected in the records of the Corporation.
- g. "Statute" shall mean Chapter 78 of the Nevada Revised Statutes.

ARTICLE II

OFFICES, BOOKS AND RECORDS

BY-LAW 2.01 Registered and Other Offices. The registered office of the Corporation in Nevada shall be that of its registered agent as most recently appointed either in the Articles of Incorporation or any amendment thereto, or as evidenced by a certificate of acceptance executed by such registered agent and filed with the Secretary of State of Nevada in the manner prescribed by Statute. The Corporation may have such other offices, including its principal executive offices, within or without the State of Nevada as the Board of Directors shall, from time to time, determine.

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BY-LAW 2.02 Maintenance of Records. The original books and records of the Corporation, or copies thereof, shall be maintained at the principal executive office of the Corporation. Certified copies of the Articles of Incorporation and By-Laws, as well as a statement of the name and address of the custodian of the stock ledger shall be maintained at the Corporation's registered office, and shall be available for examination by the Shareholders on such terms and conditions as the Board of Directors may from time to time impose, consistent with and as provided by Statute.

ARTICLE III

SHAREHOLDERS' MEETING

BY-LAW 3.01 Place and Time. Meetings of the Shareholders shall be held in the county where the principal executive office of the Corporation is located, at such place as may be specified by the President, or shall be held at such other place within the United States of America as the Board of Directors may designate. Consistent with these By-Laws, all meetings of the Shareholders will be held on such date and at such time as may be specified by the President, or on such other date or at such other time as the Board of Directors may

designate.

BY-LAW 3.02 Annual Meeting. The annual meeting of the Shareholders shall be held within the five calendar months following the end of the Corporation's fiscal year for federal income tax purposes.

BY-LAW 3.03 Special Meeting. A special meeting of the Shareholders may be called for any purpose by the President, or a majority of the Directors.

BY-LAWS 3.04 Notice. Written notice of the place, date and time of any meeting of the Shareholders shall be given to each Shareholder entitled to vote thereat by personal delivery, or by United States mail, postage prepaid, in accordance with Statute. All notices must be signed by the President, a Vice President, Treasurer, Secretary or any assistant Treasurer or Secretary, or by any other person designated by the Board of Directors. Except where a greater notice period has been fixed by Statute, notice of any meeting of the Shareholders shall be given at least ten days before the meeting. No notice of any meeting of the Shareholders may be given more than sixty days before such meeting. The notice of any meeting shall set forth the purposes of the meeting and, in

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a general nature, the business to be transacted at the meeting. Except for incidental matters, the business transacted at any meeting of the Shareholders shall be confined to the purposes stated in the notice of such meeting. In determining the number of days of notice required under this By-Law, the date upon which any such notice is given shall be included as one day and the date of the meeting which is the subject of the notice shall not be included.

BY-LAW 3.05 Waiver of Notice; Consent Meetings. Notice of the time, place and purpose of any meeting of the Shareholders may be waived in writing by any Shareholder before, at, or after any such meeting. Any action which may be taken at a meeting of the Shareholders may be taken without a meeting if authorized by a writing signed by Shareholders owning 80% or more of the voting power of each class of Shares outstanding at the time the action is taken. Attendance at a meeting of the Shareholders is a waiver of the notice of that meeting, unless at the beginning of that meeting a Shareholder objects that the meeting is not lawfully called or convened, or unless prior to the vote on any item of business, a Shareholder objects that the item may not be lawfully considered at that meeting and such Shareholder does not participate in the consideration of that item at that meeting.

BY-LAW 3.06 Quorum; Adjournment. The presence at any meeting, in person or by proxy, of the Shareholders owning at least one third of each class of the outstanding voting Shares shall constitute a quorum for the transaction of business. Once a quorum is established at any meeting of the Shareholders, the voluntary withdrawal of any Shareholder from the meeting shall not affect the authority of the remaining Shareholders to conduct any business which properly comes before the meeting. In the absence of a quorum, the chairman of the meeting or Shareholders present at the meeting may adjourn the meeting from day to day or time to time without further notice other than announcement at such meeting of such date, time and place of the adjourned meeting. At an adjourned meeting of the Shareholders at which a quorum is present, any business may be transacted which might have been transacted at the meeting as originally noticed.

BY-LAW 3.07 Voting; Record Date. At each meeting of the Shareholders, each Shareholder entitled to vote thereat may vote in person or by proxy duly appointed by an instrument in writing

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subscribed by such Shareholder. Except as may be set forth in the Articles of Incorporation, at a meeting of the Shareholders, each Shareholder shall have one vote for each Share standing in such Shareholder's name on the books of the Corporation, or on the books of any transfer agent appointed by the Corporation, on the record date established by the Board of Directors, which date may not be more than sixty days from the date of any such meeting. If no record date has been established, the record date shall be as of the close of business on the

day immediately preceding the date such notice is first given to a Shareholder, or, if no notice is given and all shareholders waive notice, on the day prior to the date of the meeting. Upon the demand of any Shareholder at the meeting, the vote for directors, or the vote upon any question before the meeting, shall be by written ballot. All elections shall be effected, and all questions shall be decided, by Shareholders owning a majority of the Shares present in person and by proxy, except as otherwise specifically provided for by Statute or by the Articles of Incorporation.

BY-LAW 3.08 Presiding Officer. The President of the Corporation or any person so designated by the President shall preside as chairman over each meeting of the Shareholders, unless another person is designated by the Board of Directors to preside at such meeting or meetings. In the absence of the President or his designee, or another person designated by the Board of Directors to preside at any meeting of the Shareholders, the Shareholders at the meeting may elect any person present to act as the presiding chairman of the meeting.

BY-LAW 3.09 Conduct of Meetings of Shareholders. Subject to the following, meetings of Shareholders generally shall follow accepted rules of parliamentary procedure:

a. The chairman of the meeting shall have absolute authority over matters of procedure and there shall be no appeal from the ruling of the chairman. If the chairman, in his absolute discretion, deems it advisable to dispense with the rules of parliamentary procedure as to any one meeting of Shareholders or part thereof, the chairman shall so state and shall clearly state the rules under which the meeting or appropriate part thereof shall be conducted.

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b. If disorder should arise which prevents or impairs the continuation of the legitimate business of the meeting, the chairman may (i) quit the chair and announce the adjournment of the meeting, and upon his so doing, the meeting is immediately adjourned, or (ii) cause the person or persons causing such disorder to be forcibly removed if that person does not leave the meeting voluntarily.

c. The chairman may ask or require that anyone leave the meeting who is not a bona fide Shareholder of record entitled to notice of the meeting, or a duly appointed proxy thereof, and cause the person to be forcibly removed if that person does not leave the meeting voluntarily.

BY-LAW 3.10 Inspectors of Election. The Board of Directors in advance of any meeting of Shareholders may appoint one or more inspectors to act at such meeting or adjournment thereof. If inspectors of election are not so appointed, the person acting as chairman of any such meeting may, and on the request of any Shareholder or his or her proxy present shall, make such appointment. In case any person appointed as inspector shall fail to appear or act, the vacancy may be filled by appointment made by the Board of Director's in advance of the meeting, or at the meeting by the officer or person acting as chairman. The inspectors of election shall determine the number of Shares outstanding, the voting power of each, the Shares represented at the meeting, the existence of a quorum, the authenticity, validity and effect of proxies, and shall receive votes, ballots, assents or consents, hear and determine all challenges and questions in any way arising and announce the result, and do such acts as may be proper to conduct the election or vote with fairness to all Shareholders. No inspector whether appointed by the Board of Directors or by the officer or person acting as chairman need be a Shareholder.

#### ARTICLE IV BOARD OF DIRECTORS

BY-LAW 4.01 Number, Election and Term. Within the limitations set forth in the Articles of Incorporation, the number of the members of the Board of Directors to be elected at any meeting of the Shareholders shall be determined from time to time by the Board of Directors and, if the Board

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of Directors does not expressly fix the number of Directors to be so elected, then the number of Directors shall be the number of Directors elected at the preceding annual meeting of Shareholders. The number of Directors may be increased at any subsequent special meeting of Shareholders called for the election of additional Directors, by the number so elected. A Director need not be a Shareholder. Directors shall be elected at each annual meeting of the Shareholders. Each Director shall be elected to serve for an indefinite term, terminating at the next annual meeting of the Shareholders and the election of a qualified successor by the Shareholders, or terminating upon the earlier death, resignation, removal or disqualification of such Director.

BY-LAW 4.02 Regular Meetings. Unless otherwise specified by the Board of Directors, a meeting of the Board of Directors shall be held at the place of, and immediately following the adjournment of, the regular meeting of the Shareholders. At such meeting of the Board of Directors, the Board of Directors shall elect such officers as are deemed necessary for the operation and management of the Corporation, and transact such other business as may properly come before it.

BY-LAW 4.03 Special Meetings. Special meetings of the Board of Directors may be called by notice given by or at the direction of the President or any Director at any time, to be held at the principal executive office of the Corporation, or at some other location as the Board of Directors may determine.

BY-LAW 4.04 Notice. Notice of the date, time and place of meetings of the Board of Directors shall be given to each Director at least two days prior to the meeting; provided that if the notice is given by mail, it shall be deposited in the United States mail at least five days prior to the meeting. Notice may be given to each Director orally, by mail, overnight delivery service, or electronic transmission addressed to the Director's last known business or residence address, facsimile number, e-mail address or similar number or address. In determining the number of days of notice required under this By-Law, the date upon which any such notice is given shall be included as one day, and the date of the meeting which is the subject of the notice shall not be included. In the case of meetings held by voice communication as provided in By-Law 4.05 below, such notice shall set

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forth the specific manner in which the meeting is to be held and how the Director may participate. Any Director may, before, at, or after a meeting of the Board of Directors, waive notice thereof. Any Director who attends a meeting shall be deemed to have waived notice of the meeting, unless such Director objects at the beginning of the meeting to the transaction of business because the meeting is not lawfully called and does not participate in the meeting.

BY-LAW 4.05 Telephone and Consent Meetings. Participation in any meeting of the Board of Directors by conference telephone or other similar means of communication, whereby all persons participating in the meeting can simultaneously and continuously hear each other, shall constitute presence in person at that meeting. Any action which might be taken at a meeting of the Board of Directors may be taken without a meeting if done in writing, signed by all members of the Board of Directors.

BY-LAW 4.06 Quorum/Voting. At all meetings of the Board of Directors, a majority of the members must be present to constitute a quorum for the transaction of business. Each member shall have one vote. Voting by proxy, or the establishment of a quorum by proxy, is prohibited. The act of the majority of the Directors present at any meeting at which there is a quorum shall be the act of the Board of Directors. In the absence of a quorum, a majority of those present may adjourn the meeting from day to day or time to time without notice other than announcement at such meeting of the date, time and place of the adjourned meeting.

BY-LAW 4.07 Order of Business/Record. The Board of Directors may, from time to time, determine the order of the business at any meeting thereof. The Secretary of the Corporation, or a Secretary Pro Tem chosen by the person presiding over the meeting as chairman, shall keep a record of all proceedings at a meeting of the Board of Directors.

BY-LAW 4.08 Vacancy. A vacancy in membership of the Board of Directors shall be filled by the affirmative vote of the remaining members of the Board of Directors, though less than a quorum, and a member so elected shall serve until his successor is elected by the Shareholders at their next annual meeting, or at a special meeting duly called for that purpose.

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BY-LAW 4.09 Committees. The Board of Directors may, by resolution adopted by a majority of the members of the Board of Directors, establish and name a committee, designate one or more persons to constitute such committee, which, to the extent provided in such resolution, shall have and exercise the authority of the Board of Directors in the management of the affairs of the Corporation. At least one committee member on each such committee will be a Director. Any such committee shall be subject at all times to the control and direction of the Board of Directors. Unless otherwise provided by the Board of Directors, the calling of any meeting of a committee, and the conduct of any such meeting, including the voting of committee members thereof, shall be governed by By-Laws 4.03, 4.04, 4.05, 4.06 and 4.07, as if the word "committee" is substituted for the words "Board of Directors," and the words "committee member" are substituted for the word "Director."

BY-LAW 4.10 Other Powers. In addition to the powers and authorities conferred upon them by By-Laws, the Board of Directors shall have the power to do all acts necessary and expedient to the conduct of the business of the Corporation which are not conferred upon the Shareholders by Statute, these By-Laws or the Articles of Incorporation.

#### ARTICLE V

##### SHARES

BY-LAW 5.01 Issuance of Securities. The Board of Directors is authorized to issue securities of the Corporation, and rights thereto, to the full extent authorized by the Articles of Incorporation, in such amounts, at such times and to such persons as may be determined by the Board of Directors and permitted by law, subject to any limitations specified in these By-Laws.

BY-LAW 5.02 Certificates for Shares. Every Shareholder shall be entitled to a certificate, to be in such form as prescribed by law and adopted by the Board of Directors, evidencing the number of Shares owned by such Shareholder. The certificates shall be signed by the President, or any other officer or officers designated by the Board of Directors. If a transfer agent has been appointed for the Shares, such signature may be a facsimile.

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BY-LAW 5.03 Transfer of Shares. Subject to any applicable or reasonable restrictions which may be imposed by the Board of Directors, Shares shall be transferred upon written demand of the Shareholder named in the certificate, or the Shareholder's legal representative, or the Shareholder's duly authorized attorney-in-fact, accompanied by a tender of the certificates to be transferred properly endorsed, and payment of all transfer taxes due thereon, if any. The Corporation may treat, as the absolute owner of Shares, the person or persons in whose name or names the Shares are registered on the books of the Corporation.

BY-LAW 5.04 Lost Certificate. Any Shareholder claiming a certificate evidencing ownership of Shares to be lost, stolen or destroyed shall make an affidavit or affirmation of that fact in such form as the Board of Directors may require, and shall, if the Board of Directors so require, give the Corporation (and its transfer agent, if a transfer agent be appointed) a bond of indemnity in such form with one or more sureties satisfactory to the Board of Directors, in such amount as the Board of Directors may require, whereupon a new certificate may be issued of the same tenor and for the same number of Shares as the one alleged to have been lost, stolen or destroyed.

#### ARTICLE VI OFFICERS

BY-LAW 6.01 Election of Officers. The Board of Directors, at its regular meeting held after each regular meeting of Shareholders shall, and at any special meeting may, elect a President, Treasurer and Secretary. Except as may otherwise be determined from time to time by the Board of Directors, such officers shall exercise such powers and perform such duties as are prescribed by these By-Laws. The Board of Directors may elect such other officers and agents as it shall deem necessary from time to time, including one or more Vice Presidents, assistant Treasurers and assistant Secretaries, and a chairman of the board, who shall exercise such powers and perform such duties, not in conflict with the duties of officers designated in these By-Laws, as shall be determined from time to time by the Board of Directors.

BY-LAW 6.02 Terms of Office. The officers of the Corporation shall hold office until their successors are elected and qualified, notwithstanding an earlier termination of their office as

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Directors. Any officer elected by the Board of Directors may be removed with or without cause by the affirmative vote of a majority of the Board of Directors present at a meeting.

BY-LAW 6.03 Salaries. The salaries of all officers of the Corporation shall be determined by the Board of Directors.

BY-LAW 6.04 Chief Executive Officer. The President shall be the chief executive officer of the Corporation, unless the Board of Directors shall designate another person as the chief executive officer. The chief executive officer shall:

- a. have general active management of the business of the Corporation;
- b. when present, and except where the Board of Directors elects or designates a chairman other than the president, preside as chairman at all meetings of the Board of Directors and of the Shareholders;
- c. see that all orders and resolutions of the Board of Directors are carried into effect;
- d. sign and deliver in the name of the Corporation any deeds, mortgages, bonds, contracts or other instruments pertaining to the business of the Corporation, except in cases in which the authority to sign and deliver is required by law to be exercised by another person or is expressly delegated by the Articles of Incorporation or these By-Laws or by the Board of Directors to some other officer or agent of the Corporation;
- e. maintain records of and, whenever necessary, certify all proceedings of the Board of Directors and the Shareholders; and
- f. perform other duties prescribed by the Board of Directors.

BY-LAW 6.05 Chief Financial Officer. The Treasurer shall be the chief financial officer of the Corporation, and as such shall:

- a. keep accurate financial records for the Corporation;
- b. deposit all money, drafts, and checks in the name of and to the credit of the Corporation in the banks and depositories designated by the Board of Directors;

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- c. endorse for deposit all notes, checks, and drafts received by the Corporation as ordered by the Board of Directors, making proper vouchers therefor;

- d. disburse funds of the Corporation, and issue checks and drafts in the name of the Corporation, as ordered by the Board of Directors;



e. render to the chief executive officer and the Board of Directors, whenever requested, an account of all transactions by the Treasurer and of the financial condition of the Corporation; and

f. perform other duties prescribed by the Board of Directors or by the chief executive officer, under whose supervision the Treasurer shall be.

BY-LAW 6.06 Secretary. The Secretary shall:

a. at the request of the chief executive officer or the Board of Directors, attend meetings of the Board of Directors and Shareholders, and record and maintain in the Corporation's permanent records, all votes and the minutes of all such proceedings; and shall perform like duties for a committee when requested by the chief executive officer or the chairman of such committee; and

b. perform other duties prescribed by the Board of Directors, or by the chief executive officer under whose supervision the Secretary shall be.

#### ARTICLE VII MISCELLANEOUS

BY-LAW 7.01 Corporate Seal. The Corporation shall not adopt or use a corporate seal. The failure to use any such a seal shall not affect the validity of any documents executed on behalf of the Corporation.

BY-LAW 7.02 Reimbursement by Directors and Officers. Any payments made to any officer or Director of this Corporation, such as salary, commission, bonus, interest, or rent, or entertainment expenses incurred by him, which shall be disallowed in whole or in part as a deductible expense by the Internal Revenue Service, shall be reimbursed by such officer or Director to the Corporation to the full extent of such disallowance. It shall be the duty of the Board of

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Directors to enforce payment of each said amount disallowed. In lieu of payment by the officer or Director, subject to the determination of the Board of Directors, proportionate amounts may be withheld from his future compensation payments until the amount owed to the Corporation has been recovered.

BY-LAW 7.03 Amendments to By-Laws. These By-Laws may be amended or altered by the vote of a majority of all of the members of the Board of Directors at any meeting. Such authority of the Board of Directors is subject to the power of the Shareholders to adopt, amend or repeal By-Laws adopted, amended or repealed by the Board of Directors, pursuant to Statute at any meeting of the Shareholders called for that purpose.

BY-LAW 7.04 Acquisitions of Controlling Interests. The provisions of Sections 78.378 to 78.3793 of the Statutes shall not apply to the Corporation or to the acquisition of the Corporation's shares by any person.

BY-LAW 7.05 Indemnification of Officers and Directors. The Corporation shall indemnify the officers and directors of the Corporation to the fullest extent permitted by Section 78.7502 of the Statute (as from time to time amended) provided such officer or director acts in good faith and in a manner which such person reasonably believes to be in or not opposed to the best interests of the Corporation, and with respect to any criminal matter, had no reasonable cause to believe such person's conduct was unlawful.

To the fullest extent permitted by Section 78.751 of the Statute (as from time to time amended), the Corporation shall pay the expenses of officers and directors of the Corporation incurred in defending a civil or criminal action, suit or proceeding, as they are incurred and in advance of the final disposition of such matter, upon receipt of an undertaking in form and substance acceptable to the Board of Directors for the repayment of such advances if it is ultimately determined by a court of competent jurisdiction that the officer or director is not entitled to be indemnified.

Amended and restated as of October 18, 2001

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PRO-PHARMACEUTICALS, INC.

2001 STOCK INCENTIVE PLAN

1. Purposes of the Plan.

The purposes of this 2001 Stock Incentive Plan of Pro-Pharmaceuticals, Inc. (the "Company") are to promote the interests of the Company and its stockholders by strengthening the Company's ability to attract, motivate, and retain employees, consultants, advisors and outside directors of exceptional ability and to provide a means to encourage stock ownership and a proprietary interest in the Company by them upon whose judgment, initiative, and efforts the financial success and growth of the business of the Company largely depend.

2. Definitions.

(a) "Accelerate," "Accelerated," and "Acceleration," (i) when used with respect to an Option, mean that as of the relevant time of reference, such Option shall become fully exercisable with respect to the total number of shares of Common Stock subject to such Option and may be exercised for all or any portion of such shares and (ii) when used with respect to shares of Common Stock granted pursuant to a Restricted Stock Award, mean that as of the relevant time of reference, such shares shall become free of any reacquisition or repurchase rights in the Company with respect thereto.

(b) "Acquisition" means

(i) a merger or consolidation in which securities possessing more than 50% of the total combined voting power of the Company's outstanding securities are transferred to a person or persons different from the persons who held those securities immediately prior to such transaction, or

(ii) the sale, transfer, or other disposition of all or substantially all of the Company's assets to one or more persons (other than any wholly owned subsidiary of the Company) in a single transaction or series of related transactions.

(c) "Beneficial Ownership" means beneficial ownership determined pursuant to Securities and Exchange Commission Rule 13d-3 promulgated under the Exchange Act.

(d) "Board" means the Board of Directors of the Company.

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(e) "Committee" means the Compensation Committee of the Board; provided, that the Board by resolution duly adopted may at any time or from time to time determine to assume any or all of the functions of the Committee under the Plan, and during the period of effectiveness of any such resolution, references herein to the "Committee" shall mean the Board acting in such capacity. During any period in which there is no Committee or the Committee has disbanded, the Board shall be deemed to be the Committee and references herein to the "Committee" shall mean the Board acting in such capacity.

(f) "Change in Control" means a change in ownership or control of the Company effected through either of the following transactions:

(i) any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with the Company) directly or indirectly acquires Beneficial Ownership of securities possessing more than 50% of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's stockholders that the Board does not recommend such stockholders to accept, or

(ii) over a period of 36 consecutive months or less, there is a change in the composition of the Board such that a majority of the Board members (rounded up to the next whole number, if a fraction) ceases, by reason of one or more proxy contests for the

election of Board members, to be composed of individuals who either (A) have been Board members continuously since the beginning of such period, or (B) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in the preceding clause (A) who were still in office at the time such election or nomination was approved by the Board.

(g) "Common Stock" means the authorized common stock of the Company.

(h) "Company" means Pro-Pharmaceuticals, Inc., a Nevada corporation.

(i) "Eligible Employee" means any person who is, at the time of the grant of an Option or Restricted Stock Award, an employee (including officers and employee directors) of, or a consultant, advisor or outside director to, the Company or any Subsidiary.

(j) "Exchange Act" means the Securities Exchange Act of 1934, as amended and in effect from time to time.

(k) "Fair Market Value" means the value of a share of Common Stock as of the relevant time of reference, as determined as follows. If the Common Stock is then publicly traded, Fair Market Value shall be (i) the last sale price of a share of Common Stock on the

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principal national securities exchange on which the Common Stock is traded, if the Common Stock is then traded on a national securities exchange; or (ii) the last sale price of the Common Stock reported in the NASDAQ National Market System, if the Common Stock is not then traded on a national securities exchange; or (iii) the average of the closing bid and asked prices for the Common Stock quoted by an established quotation service for over-the-counter securities, if the Common Stock is not then traded on a national securities exchange or reported in the NASDAQ National Market System. If the Common Stock is not then publicly traded, Fair Market Value shall be the fair value of a share of the Common Stock as determined by the Board or the Committee, taking into consideration such factors as it deems appropriate, which may include recent sale and offer prices of Common Stock in arms'-length private transactions.

(l) "Hostile Takeover" means a change in ownership of the Company effected through the following transaction:

(i) any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with the Company) directly or indirectly acquires Beneficial Ownership of securities possessing more than 50% of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's stockholders that the Board does not recommend such stockholders to accept, and

(ii) more than 50% of the securities so acquired in such tender or exchange offer are accepted from holders other than the officers and directors of the Company who are subject to the short-swing profit restrictions of Section 16 of the Exchange Act.

(m) "Incentive Stock Option" means an Option intended to qualify as an "incentive stock option" under Section 422 of the Internal Revenue Code and regulations thereunder.

(n) "Nonqualified Stock Option" means a stock option granted hereunder that is not intended to be an Incentive Stock Option.

(o) "Option" means an Incentive Stock Option or a Nonqualified Stock Option.

(p) "Participant" means any Eligible Employee selected to receive an Option or Restricted Stock Award pursuant to Section 5 or any Permitted Transferee to whom an Option or Restricted Stock has been transferred in accordance with Section 9(e).

(q) "Permitted Transferee" means any immediate family member of a person to whom an Option or Restricted Stock Award has been granted pursuant to Section 5 or a trust maintained exclusively for the benefit of, or partnership of all of the interests which are held by, one or more of such immediate family members.

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(r) "Plan" means this 2001 Stock Incentive Plan as set forth herein and as amended and/or restated from time to time.

(s) "Restricted Stock Award" means a right to the grant or purchase, at a price determined by the Committee, of Common Stock which is nontransferable, except in accordance with Section 9(e) and subject to substantial risk of forfeiture until specific conditions of continuing employment or performance, specified by the Committee, are met.

(t) "Subsidiary" means any subsidiary corporation (as defined in Section 424 of the Internal Revenue Code) of the Company.

(u) "Takeover Price" means, with respect to any Option, the greater of (i) the Fair Market Value per share of Common Stock on the date such Option is surrendered to the Company in connection with a Hostile Takeover or (ii) the highest reported price per share of Common Stock paid by the tender offeror in effecting such Hostile Takeover.

### 3. Shares of Common Stock Subject to the Plan.

(a) Subject to adjustment in accordance with the provisions of Section 3(c) and Section 8 of the Plan, the aggregate number of shares of Common Stock that may be issued or transferred pursuant to Options or Restricted Stock Awards under the Plan shall not exceed 2,000,000 shares, all of which may be awards of Incentive Stock Options.

(b) The shares of Common Stock to be delivered under the Plan will be made available, at the discretion of the Committee, from authorized but unissued shares of Common Stock and/or from previously issued shares of Common Stock reacquired by the Company and shall be issued subject to any and all restrictions on the Company's Common Stock in effect as of the time of the issuance.

(c) If shares covered by any Option cease to be issuable for any reason, and/or shares covered by Restricted Stock Awards are forfeited, such number of shares will no longer be charged against the limitation provided in Section 3(a) and may again be made subject to Options or Restricted Stock Awards.

### 4. Administration of the Plan.

(a) The Plan will be governed by and interpreted and construed in accordance with the internal laws of the Commonwealth of Massachusetts (without reference to principles of conflicts or choice of law). The captions of sections of the Plan are for reference only and will not affect the interpretation or construction of the Plan.

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(b) The Plan will be administered by the Committee as determined and appointed by the Company's Board of Directors, which shall consist of two or more persons. The Committee has and may exercise such powers and authority of the Board as may be necessary or appropriate for the Committee to carry out its functions as described in the Plan. By way of specification and not by way of limitation, the Committee shall determine the Eligible Employees to whom, and the time or times at which, Options or Restricted Stock Awards may be granted and the number of shares subject to each Option or Restricted Stock Award. The Committee also has authority (i) to interpret the Plan, (ii) to determine the terms and provisions of the Option or Restricted Stock Award instruments, and (iii) to make all other determinations necessary or advisable for Plan administration. The Committee has authority to prescribe, amend, and rescind rules and regulations relating to the Plan. All interpretations, determinations, and actions by the Committee will be final, conclusive, and binding upon all parties.

(c) No member of the Committee will be liable for any action taken or determination made in good faith by the Committee with respect to the Plan or any Option or Restricted Stock Award under it.

5. Grants.

(a) The Committee shall determine and designate from time to time those Eligible Employees who are to be granted Options or Restricted Stock Awards, the type of each Option to be granted and the number of shares covered thereby or issuable upon exercise thereof, and the number of shares covered by each Restricted Stock Award. Each Option and Restricted Stock Award will be evidenced by a written agreement or instrument and may include any other terms and conditions consistent with the Plan, as the Committee may determine.

(b) No person will be eligible for the grant of an Incentive Stock Option who owns or would own immediately before the grant of such Option, directly or indirectly, stock possessing more than ten percent of the total combined voting power of all classes of stock of the Company or of any parent corporation or Subsidiary. This limitation will not apply if, at the time such Incentive Stock Option is granted, its exercise price is at least 110% of the Fair Market Value of the Common Stock and by its terms, it is not exercisable after the expiration of five years from the date of grant.

6. Terms and Conditions of Stock Options.

(a) The price at which Common Stock may be purchased by a Participant under an Option shall be determined by the Committee; provided however, that the purchase price under an Incentive Stock Option shall not be less than 100% of the Fair Market Value of the Common Stock on the date of grant of such Option. The price at which Common Stock may be purchased by a Participant under a Nonqualified Stock Option may be a nominal amount as determined by the Committee in its complete discretion.

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(b) Each Option shall be exercisable at such time or times, during such periods, and for such numbers of shares as shall be determined by the Committee and set forth in the agreement or instrument evidencing the Option grant (subject to Acceleration by the Committee, in its discretion). In any event, the Option shall expire no later than the tenth anniversary of the date of grant.

(c) Unless the Committee otherwise determines at the time any Incentive Stock Option is granted or at the time of grant of any Nonqualified Stock Option or thereafter, upon the exercise of an Option, the purchase price will be payable in full in cash.

(d) For purposes of this Section 6(d), Incentive Stock Options may be granted under the Plan only to Eligible Employees defined as individuals who are, at the time of the grant of the Incentive Stock Option, actual so-called "common law employees" of the Company and not a consultant, advisor, service provider or independent contractor. The aggregate Fair Market Value of the shares with respect to which Incentive Stock Options may become exercisable for the first time in any calendar year shall not exceed the excess, if any, of (i) one hundred thousand dollars (\$100,000) over (ii) the aggregate Fair Market Value of the shares which the Eligible Employee, as defined in this Section 6(d), may acquire for the first time in that calendar year pursuant to other incentive stock options (within the meaning of section 422 of the Internal Revenue Code) previously granted, if any, to such Eligible Employee after December 31, 1986, under this Plan or any other plan of the Company, its Subsidiaries and any "parent corporation" (as defined in section 424 of the Internal Revenue Code) of the Company. For purposes of the preceding sentence, the Fair Market Value of shares shall be determined as of the respective dates of grant of the Options under which such shares may be purchased. Any Options that purport to be Incentive Stock Options but which are granted to persons other than employees of the Company or a Subsidiary shall be, and any Options that purport to be Incentive Stock Options but are granted or become exercisable in amounts in excess of those specified in this Section 6(d), shall to the extent of such excess be, Nonqualified Stock Options.

(e) No fractional shares will be issued pursuant to the exercise of an Option, nor will any cash payment be made in lieu of fractional shares.

(f) Subject to the short-swing profit restrictions of the Federal securities laws, each Option granted to any officer of the Company may provide that upon the occurrence of a Hostile Takeover, such Option, if outstanding for at least six months, will automatically be canceled in exchange for a cash distribution from the Company in an amount equal to the excess of (i) the aggregate Takeover Price of the shares of Common Stock at the time subject to the canceled Option (regardless of whether the Option is otherwise then exercisable for such shares) over (ii) the aggregate Option price payable for such shares. Such cash distribution shall be made within five days after the consummation of the Hostile Takeover. Neither the approval of the Committee nor the consent of the Board shall be required in connection with such Option cancellation and cash distribution.

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7. Terms and Conditions of Restricted Stock Awards.

(a) All shares of Common Stock subject to Restricted Stock Awards granted or sold pursuant to the Plan may be issued or transferred for such consideration (which may consist wholly of services) as the Committee may determine, and will be subject to the following conditions:

(i) The shares may not be sold, transferred, or otherwise alienated or hypothecated, except to the Company, until the conditions imposed pursuant to subsection (b) of this Section 7 have been met or are removed, unless the Committee determines otherwise in accordance with Section 9(d).

(ii) The Committee may provide in the agreement or instrument evidencing the grant of the Restricted Stock Awards that the certificates representing shares subject to Restricted Stock Awards granted or sold pursuant to the Plan will be held in escrow by the Company until the restrictions on the shares lapse in accordance with the provisions of subsection (b) of this Section 7.

(iii) Each certificate representing shares subject to Restricted Stock Awards granted or sold pursuant to the Plan will bear a legend making appropriate reference to the restrictions imposed.

(iv) The Committee may impose other conditions on any shares subject to Restricted Stock Awards granted or sold pursuant to the Plan as it may deem advisable, including without limitation, restrictions under the Securities Act of 1933, as amended, under the requirements of any stock exchange or securities quotations system upon which such shares or shares of the same class are then listed, and under any blue sky or other securities laws applicable to such shares.

(b) The restrictions imposed under subparagraph (a) above upon Restricted Stock Awards will lapse at such time or times, and/or upon the achievement of such predetermined performance objectives, as shall be determined by the Committee and set forth in the agreement or instrument evidencing the Restricted Stock Award grant. In the event a holder of a Restricted Stock Award ceases to be an employee or consultant of the Company, all shares under the Restricted Stock Award that remain subject to restrictions at the time his or her employment or consulting relationship terminates will be returned to or repurchased by the Company at their initial price unless the Committee determines otherwise.

(c) Subject to the provisions of subparagraphs (a) and (b) above, the holder will have all rights of a shareholder with respect to the shares covered by Restricted Stock Awards granted or sold, including the right to receive all dividends and other distributions paid or made with respect thereto; provided, however, that the Committee may require that he or she shall execute an irrevocable proxy or enter into a voting agreement with the Company as determined by the

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Committee for the purpose of granting the Company or its nominee the right to vote all shares that remain subject to restrictions under this Section 7 in the same proportions (for and against) as the outstanding voting shares of the Company that are not subject to such restrictions are voted by the other

shareholders of the Company on any matter, unless the Committee determines otherwise.

8. Adjustment Provisions.

(a) All of the share numbers set forth in the Plan reflect the capital structure of the Company at the time of the effectiveness of the Plan. Subject to Section 8(b), if subsequent to such date the outstanding shares of Common Stock of the Company are increased, decreased, or exchanged for a different number or kind of shares or other securities, or if additional shares or new or different shares or other securities are distributed with respect to such shares of Common Stock or other securities, through merger, consolidation, sale of all or substantially all the property of the Company, reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split, or other distribution with respect to such shares of Common Stock, or other securities, an appropriate and proportionate adjustment shall be made in (i) the maximum numbers and kinds of shares provided in Sections 3 and 5, (ii) the numbers and kinds of shares or other securities subject to the then outstanding Options and Restricted Stock Awards, and (iii) the price for each share or other unit of any other securities subject to then outstanding Options (without change in the aggregate purchase price as to which such Options remain exercisable).

(b) Upon the occurrence of a Change in Control of the Company, the Committee shall have discretion to provide for the Acceleration of (i) one or more outstanding Options held by Participants and/or (ii) one or more shares of Common Stock held by Participants as Restricted Stock Awards. Such Acceleration may be conditioned on the subsequent termination of the affected optionee's employment and/or advisory or consulting relationship as the case may be. Any Options Accelerated in connection with a Change in Control shall remain fully exercisable until the expiration or sooner termination of the term of such Option.

(c) In the event of an Acquisition, (i) to the extent that any shares of Common Stock held by Participants as Restricted Stock Awards are then subject to any rights in the Company with respect to the reacquisition or repurchase thereof, such reacquisition or repurchase rights shall be terminated immediately, except to the extent that such reacquisition or repurchase rights are to be assigned to the acquiring entity and (ii) all outstanding Options held by Participants will Accelerate to the extent not assumed by the acquiring entity or replaced by comparable options to purchase shares of the capital stock of the successor or acquiring entity or parent thereof (the determination of comparability to be made by the Committee, which determination shall be final, binding, and conclusive). The Committee shall have discretion, exercisable either in advance of an Acquisition or at the time thereof, to provide (upon such terms as it may deem appropriate) for the automatic Acceleration of (i) one or more outstanding Options held by Participants that are assumed or replaced and do not otherwise Accelerate by reason of the Acquisition, and/or (ii) one or more shares held by Participants as Restricted Stock Awards that are assigned in connection

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with the Acquisition and do not otherwise Accelerate at the time thereof, in the event that the employment and/or consulting relationship, as applicable, of the respective grantees of such Options or Restricted Stock Awards should subsequently terminate following such Acquisition.

(d) Each outstanding Option that is assumed in connection with an Acquisition, or is otherwise to continue in effect subsequent to such Acquisition, shall be appropriately adjusted, immediately after such Acquisition, to apply to the number and class of securities that would have been issued to the Option holder, in consummation of such Acquisition, had such holder exercised such Option immediately prior to such Acquisition. Appropriate adjustments shall also be made to the Option price payable per share, provided, that the aggregate Option price payable for such securities shall remain the same. The class and number of securities available for issuance under the Plan following the consummation of such Acquisition shall be appropriately adjusted.

(e) Adjustments under this Section 8 will be made by the Committee in accordance with the terms of such sections, whose determination as to what adjustments will be made and the extent thereof so as to effectuate the intent of such sections will be final, binding, and conclusive. No fractional shares will be issued under the Plan on account of any such adjustments.



9. General Provisions.

(a) Nothing in the Plan or in any instrument executed pursuant to the Plan will confer upon any Participant any right to continue as an employee, consultant or advisor to the Company or any of its Subsidiaries or affect the right of the Company or any Subsidiary to terminate the employment, consulting or advisory relationship of any Participant at any time, with or without cause.

(b) No shares of Common Stock will be issued or transferred pursuant to an Option or Restricted Stock Award unless and until all then applicable requirements imposed by Federal and state securities and other laws, rules and regulations and by any regulatory agencies having jurisdiction, and by any stock exchanges or securities quotations systems upon which the Common Stock may be listed, have been fully met. As a condition precedent to the issuance of shares pursuant to the grant or exercise of an Option or Restricted Stock Award, the Company may require the Participant to take any reasonable action to meet such requirements.

(c) No Participant and no beneficiary or other person claiming under or through such Participant will have any right, title, or interest in or to any shares of Common Stock allocated or reserved under the Plan or subject to any Option, except as to such shares of Common Stock, if any, that have been issued or transferred to such Participant.

(d) Except as set forth in paragraph (f) below, no Option and no right under the Plan, contingent or otherwise, will be transferable or assignable or subject to any encumbrance, pledge,

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or charge of any nature except that, under such rules and regulations as the Committee may establish pursuant to the terms of the Plan, a beneficiary may be designated with respect to an Option in the event of death of a Participant. If such beneficiary is the executor or administrator of the estate of the Participant, any rights with respect to such Option may be transferred to the person or persons or entity (including a trust) entitled thereto under the will of the holder of such Option.

(e) The Committee may, upon the grant of a Nonqualified Stock Option or a Restricted Stock Award or by amendment to any written agreement or instrument evidencing such Nonqualified Stock Option or Restricted Stock Award, provide that such Nonqualified Stock Option or Restricted Stock Award be transferable by the person to whom such Nonqualified Stock Option or Restricted Stock Award was granted, without payment of consideration, to a Permitted Transferee of such person; provided, however, that no transfer of a Nonqualified Stock Option or Restricted Stock Award shall be valid unless first approved by the Committee, acting in its sole discretion.

(f) The Committee may cancel, with the consent of the Participant, all or a portion of any Option granted under the Plan to be conditioned upon the granting to the Participant of a new Option for the same or a different number of shares as the Option surrendered, or may require such voluntary surrender as a condition to a grant of a new Option to such Participant. Subject to the provisions of Section 6(d), such new Option shall be exercisable at such time or time, during such periods, and for such numbers of shares, and in accordance with any other terms or conditions, as are specified by the Committee at the time the new Option is granted, all determined in accordance with the provisions of the Plan without regard to the price, period of exercise, or any other terms or conditions of the Option surrendered.

(g) The written agreements or instruments evidencing Restricted Stock Awards or Options granted under the Plan may contain such other provisions as the Committee may deem advisable. Without limiting the foregoing, and if so authorized by the Committee at the date of grant in the case of any Incentive Stock Option or at the date of grant or thereafter in the case of any Nonqualified Stock Option, the Company may, with the consent of the Participant and at any time or from time to time, cancel all or a portion of any Option granted under the Plan then subject to exercise and discharge its obligation with respect to the Option either by payment to the Participant of an amount of cash equal to the excess, if any, of the Fair Market Value, at such time, of the shares subject to the portion of the Option so canceled over the aggregate purchase price specified in the Option covering such shares, or by issuance or transfer to the Participant of shares of Common Stock with a Fair Market Value

at such time, equal to any such excess, or by a combination of cash and shares. Upon any such payment of cash or issuance of shares, (i) there shall be charged against the aggregate limitations set forth in Section 3(a) a number of shares equal to the number of shares so issued plus the number of shares purchasable with the amount of any cash paid to the Participant on the basis of the Fair Market Value as of the date of payment, and (ii) the number of shares subject to the portion of the Option so canceled, less the number of shares so charged against such limitations, shall thereafter be available for other grants.

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10. Withholding; Notice of Disposition of Stock Prior to Expiration of Specified Holding Period.

(a) The Committee shall adopt rules regarding the withholding of federal, state, or local taxes of any kind required by law to be withheld with respect to payments and delivery of shares to Participants under the Plan. Whenever shares of Common Stock are to be issued upon exercise of an Option, the Committee shall have the right to require the Optionee to remit to the Company an amount sufficient to satisfy federal, state, local or other withholding tax requirements (whether so required to secure for the Company an otherwise available tax deduction or otherwise) if and to the extent required by law prior to the delivery of any certificate for such shares. With respect to any Nonqualified Stock Option, the Committee, in its discretion, may permit the Participant to satisfy, in whole or in part, any tax withholding obligation that may arise in connection with the exercise of the Nonqualified Stock Option by electing to have the Company withhold shares of Common Stock having a Fair Market Value equal to the amount of the tax withholding.

(b) The Committee may require as a condition to the issuance of shares covered by any Incentive Stock Option that the person exercising such Option give a written representation to the Company, satisfactory in form and substance to its counsel and upon which the Company may reasonably rely, that he or she will report to the Company any disposition of those shares prior to the expiration of the holding periods specified by Section 422(a)(1) of the Code. If and to the extent that the disposition imposes upon the Company federal, state, local or other withholding tax requirements, or any such withholding is required to secure for the Company an otherwise available tax deduction, the Company shall have the right to require that the person making the disposition remit to the Company an amount sufficient to satisfy those requirements.

11. Amendment and Termination.

(a) The Board shall have the power, in its discretion, to amend, modify, suspend, or terminate the Plan at any time, subject to the rights of holders of outstanding Options and Restricted Stock Awards on the date of such action, and to the approval of the stockholders of the Company if an amendment or modification would change the eligibility requirements of the Plan, extend the term of the Plan, increase the number of shares of Common Stock subject to grant as Options or Restricted Stock Awards under the Plan, or is required by applicable law or regulation.

(b) The Committee may, with the consent of a Participant, make such modifications in the terms and conditions of an Option or Restricted Stock Award held by such Participant as it deems advisable.

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(c) No amendment, suspension or termination of the Plan will, without the consent of the Participant, alter, terminate, impair, or adversely affect any right or obligation under any Option or Restricted Stock Award previously granted to such Participant under the Plan.

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