

QUARTERLY UPDATE

Second Quarter Financial Results and Business Update

Snapshot

September 29, 2006

Pro-Pharmaceuticals, Inc. ("the Company") is a development stage company engaged in the discovery, development, and commercialization of novel, nanotechnology, carbohydrate-based therapeutic compounds. The Company's expertise in carbohydrates offers opportunities to provide advanced treatment of cancer, liver, infectious, cardiovascular, and inflammatory disease, as well as viral infections. Pro-Pharmaceuticals' work has initially concentrated on target delivery of chemotherapy drugs for the treatment of cancer. DAVANAT[®], the lead product candidate in this area, when used in combination with existing U.S. Food and Drug Administration (FDA)-approved cancer drugs, may increase the efficacy and decrease the toxicity of current chemotherapy treatments. DAVANAT[®], in combination with 5-Fluorouracil (5-FU), a widely used chemotherapy, has successfully completed a Phase I clinical trial for all solid tumors and a Phase II colorectal cancer trial, and is currently in two Phase II trials for front-line therapy of colorectal and biliary cancer. The Company has also initiated a Europe-based Phase III trial for second-line treatment of colorectal cancer. Pro-Pharmaceuticals has further undertaken preclinical work with DAVANAT[®] in combination with other chemotherapy drugs, and has entered into a research collaboration with Mount Sinai School of Medicine to evaluate the anti-fibrotic effects of some of the Company's novel, carbohydrate compounds. All of the Company's product candidates are in the development stage with one, DAVANAT[®], in Phase II/III clinical trials.



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Recent Financial Data

Ticker (Exchange)	PRW (AMEX)
Recent Price (09/29/06)	\$0.82
52-Week Range	\$0.58-4.16
Shares Outstanding	28.4 million
Market Capitalization	\$23.3 million
Average 3-month Volume	109,162
Insider +5% Owners	38.7%
Institutional Owners	3.5%
EPS (Quarter Ended 06/30/06)	(\$0.08)
Employees (Full time)	9



Key Points

- On September 28, 2006, Pro-Pharmaceuticals announced several new corporate initiatives and developments. The Company notified its Convertible Debenture holders that it will make the next monthly payment of principal and interest in cash and has implemented initiatives to enable the Company to make future Debenture payments in cash or to extend the current cash runway. Also, clinical sites have been added in Israel and Europe to accelerate patient enrollment for the Phase II colorectal and biliary cancer trials.
- On August 14, 2006, Pro-Pharmaceuticals announced results for the quarter and six months ended June 30, 2006. For the quarter, the Company reported a net loss of \$1.2 million or (\$0.04) per share ([(\$0.08) fully diluted) versus a net loss of \$1.7 million or (\$0.06) per share (basic and fully diluted) for the same period in 2005. For the six months ended June 30, 2006, the Company reported a net loss of \$8.5 million or (\$0.31) per share (basic and diluted) versus a net loss of \$3.1 million or (\$0.11) per share (basic and diluted) for the same period 2005.
- Research and development (R&D) expenses were \$998,000 during the quarter ended June 30, 2006 versus \$831,000 during the quarter ended June 30, 2005. R&D expenses for the six months ended June 30, 2006 were \$1.5 million versus \$1.4 million for the year-ago period. The increase in R&D expenses is due principally to the initiation of the Phase II biliary and Phase III Europe-based colorectal cancer trials. This was offset by a \$220,000 reduction in the Phase II DAVANAT[®]/5-FU colorectal cancer trial, which has concluded.
- General and administrative (G&A) expenses during the second quarter were \$1.1 million, a 23% increase from \$897,000 incurred during the three months ended June 30, 2005. G&A expenses for the six months ended June 30, 2006 increased 36% to \$2.4 million versus \$1.8 million for the same period in 2005.
- At June 30, 2006, the Company had cash, cash equivalents, and a certificate of deposit of \$9.7 million.

Financial Results and Recent Highlights

Second Quarter Results

On August 14, 2006, Pro-Pharmaceuticals, Inc. announced results for the three-month and six-month periods ended June 30, 2006. For the quarter, the Company reported a net loss of \$1.2 million or (\$0.04) per share ([\$0.08] fully diluted) versus a net loss of \$1.7 million or (\$0.06) per share (basic and fully diluted) for the same period in 2005. The principal reason for the decrease in net loss was the \$872,000 in non-cash net income related to fair value accounting and interest expense associated with the Company's Convertible Debenture financing.

Research and development (R&D) expenses increased 20% to \$998,000 for the quarter ending June 30, 2006 versus \$831,000 for the year-ago period. The Company's clinical trials expense increased due to the initiation of the Phase II biliary and Phase III Europe-based colorectal cancer trials. This was offset by a \$220,000 reduction in the Phase II DAVANAT[®]/5-FU colorectal cancer trial, which has concluded. Other R&D costs increased approximately \$74,000 due principally to the addition of the Company's chief scientist in January 2006 and, to a lesser degree, stock-based compensation expense under the fair value method as required by SFAS 123R. General and administrative (G&A) expenses were \$1.1 million during the second quarter, a 23% increase from \$897,000 incurred during the three months ended June 30, 2005. G&A expenses consist primarily of salaries (including stock-based compensation), legal and accounting fees, insurance, investor relations, business development, and other office-related expenses. The increase in G&A expense is due principally to the implementation of SFAS 123R under which the Company now expenses the fair value of employee stock options.

Year-To-Date Results

For the year-to-date period ended June 30, 2006, Pro-Pharmaceuticals reported a net loss of \$8.5 million or (\$0.31) per share (basic and fully diluted) versus a net loss of \$3.1 million or (\$0.11) per share (basic and fully diluted) for the same period in 2005. The principal reasons for the increase in net loss were \$4.7 million of non-cash charges related to fair value accounting and interest expense associated with the Company's Convertible Debenture financing.

R&D expenses for the six months ended June 30, 2006 were \$1.5 million versus \$1.4 million for the year-ago period. G&A costs for the six months ended June 30, 2006 increased 36% to \$2.4 million versus \$1.8 million for the same period in 2005. The increase consists primarily of legal expense, the result of expensing stock options under the fair value method, and expenses associated with Pro-Pharmaceuticals' Convertible Debenture financing.

At June 30, 2006, the Company had cash, cash equivalents, and a certificate of deposit of \$9.7 million.

Recent Highlights

During the quarter and to date, the Company announced a series of events, which are highlighted below and more fully detailed in the Company's press releases, found at www.pro-pharmaceuticals.com.

- On September 28, 2006, Pro-Pharmaceuticals announced several new corporate initiatives and developments.
 - The Company notified its Convertible Debenture holders that it will make the next monthly payment of principal and interest in cash. Pro-Pharmaceuticals is also implementing several initiatives that enables the Company to consider making future Debenture payments in cash or to extend its current cash runway.
 - Clinical sites have been added in Israel and Europe to accelerate patient enrollment for the Phase II colorectal cancer and biliary cancer trials. The Company has temporarily delayed dosing patients in its Europe-based Phase III colorectal cancer trial to focus its resources on the Phase II trials as they present an opportunity to provide results more quickly and more cost effectively.

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- The kickoff meeting was held to launch the Phase II clinical trial of DAVANAT[®] with Avastin[®], 5-FU, and leucovorin for front-line therapy of patients with metastatic colorectal cancer. The Phase II clinical trial of DAVANAT[®] with 5-FU is for front line therapy of patients with biliary cancer.
 - Both the CEO and the chief scientist have terminated their Rule 10b5-1 pre-arranged stock sales plan.
 - On September 15, 2006, the Company announced the resignation of David H. Smith from the Board of Directors, effective immediately. Mr. Smith was a member of Pro-Pharmaceuticals' Compensation Committee.
 - On August 30, 2006, Pro-Pharmaceuticals updated its clinical trials progress. The positive results from Pro-Pharmaceuticals' Phase I and Phase II trials of end-stage patients, who were refractory to chemotherapy, have led the Company to initiate three clinical trials with front-line and second-line patients.
 - On July 25, 2006, the Company announced an open-label, up to 50-patient, multi-center Phase II study of DAVANAT[®] with Avastin[®], 5-Fluorouracil (5-FU), and leucovorin as a front-line treatment for locally advanced and unresectable or metastatic colorectal cancer in patients unable to tolerate intensive chemotherapy. The purpose of this study is to determine if the addition of DAVANAT[®] to the current standard of care may improve patient outcomes. The goal of this study is to assess the clinical benefit by determining the percentage of patients exhibiting an objective response using Response Evaluation Criteria in Solid Tumors (RECIST) guidelines.
 - On June 5, 2006, Pro-Pharmaceuticals announced that its abstract, "A Bio-distribution Study of DAVANAT[®]" was published in The American Society of Cancer Oncology's (ASCO) 2006 Annual Meeting Proceedings. The abstract refers to Pro-Pharmaceuticals' research program to better understand the interaction of DAVANAT[®] and its effect on the pharmacokinetic profile of 5-FU. The study used mice xenographic models with human colon tumor and used radio-labeled 5-FU to analyze the bio-distribution of 5-FU in the blood, liver, lungs, and other organs, as well as in the tumor, when co-administered with DAVANAT[®].
 - On June 5, 2006, the Company also updated its Phase II colorectal clinical trial progress. Results to date show one patient with an objective partial tumor response and six with stabilized disease in a Phase II trial for third- and fourth-line treatment of colorectal cancer patients. Based on this data and the fact that the current standard of care for colorectal cancer now consists of combination therapies, the Company will not continue to enroll additional patients.
 - On May 31, 2006, Pro-Pharmaceuticals announced that three of its executives and a member of its Scientific Advisory Board made significant contributions to a new book "Carbohydrate Drug Design" and authored six chapters. Contributing to the book was David Platt, Ph.D., chief executive officer, Pro-Pharmaceuticals; Anatole Klyosov, Ph.D., D.Sc., chief scientist, Pro-Pharmaceuticals; Eliezer Zomer, executive vice president of manufacturing and product development, Pro-Pharmaceuticals, and Zbigniew J. Witczak, a member of Pro-Pharmaceuticals Scientific Advisory Board, associate professor at the Nesbitt School of Pharmacy, Wilkes University, and former chair of the American Chemical Society's Division of Carbohydrate Chemistry.

Company Background

Pro-Pharmaceuticals, Inc. (“Pro-Pharmaceuticals”) is a development stage company engaged in the discovery, development, and commercialization of carbohydrate-based therapeutic compounds. The Company’s expertise in carbohydrates offers opportunities to provide advanced treatment of cancer, liver, infectious, cardiovascular, and inflammatory disease, as well as viral infections. Pro-Pharmaceuticals’ work has initially concentrated on target delivery of chemotherapy drugs for the treatment of cancer. DAVANAT[®], the Company’s lead product candidate in this area, when used in combination with existing U.S. Food and Drug Administration (FDA)-approved cancer drugs, may increase the efficacy and decrease the toxicity of current chemotherapy treatment.

DAVANAT[®] in combination with 5-Fluorouracil (5-FU), a widely used chemotherapy, has successfully completed a Phase I clinical trial for all solid tumors and a Phase II colorectal cancer trial. The Company has also initiated a Europe-based Phase III trial for second-line treatment of colorectal cancer as well as a U.S.-based Phase II trial for front-line treatment of colorectal cancer and a U.S.-based Phase II biliary cancer trial. Furthermore, the Company has undertaken preclinical work with DAVANAT[®] in combination with other chemotherapy drugs and has evidence that DAVANAT[®] works effectively with a wide range of approved chemotherapy drugs. The Company also has entered into a research collaboration with Mount Sinai School of Medicine to evaluate the anti-fibrotic effects of some of the Company’s novel, carbohydrate compounds. Pro-Pharmaceuticals’ product candidates are in the development stage with one, DAVANAT[®], in Phase II/III clinical trials. To date, the Company has utilized this technology for a variety of cancers through a diverse development pipeline, illustrated in Figure 1. In addition to chemotherapeutic agents, Pro-Pharmaceuticals may also extend its carbohydrate compounds to address other serious diseases. Below is an introduction to this technology, with more comprehensive details provided within the Executive Informational Overview[®] (EIO[®]), dated April 27, 2005.

Figure 1
Pro-Pharmaceuticals, Inc.
PRODUCT DEVELOPMENT PIPELINE

PRODUCT	INDICATION	DEVELOP	PRE-CLINICAL	PHASE 1	PHASE 2	PHASE 3
DAVANAT [®] / 5-FU	Colorectal Cancer	→				
DAVANAT [®] / 5-FU	Biliary Cancer	→				
DAVANAT [®] / 5-FU/ LV Irinotecan/ Oxaliplatin	Colorectal Cancer	→				
DAVANAT [®] / 5-FU/LV/ Bevacizumab	Colorectal Cancer	→				
PRO-GR 300	Liver Disease	→				
PRO-NAC 050	Microbial Disease	→				

Source: Pro-Pharmaceuticals, Inc.

The Company employs drug delivery technologies with two unique formulation approaches: (1) Carbosome[™], in which its carbohydrate compound essentially encapsulates the chemotherapy drug, and (2) Universal Carbohydrate Linker Technology[™] (UCLT[™]), which covalently binds the carbohydrate compound to the chemotherapy drug. DAVANAT[®] employs the Carbosome[™] technology. Pro-Pharmaceuticals’ carbohydrate compounds also may have applications to address other diseases.

DAVANAT[®]

DAVANAT[®], the Company's lead candidate in development, is a complex sugar derived from plant sources with a precisely defined chemical structure. DAVANAT[®]'s mechanism of action is based upon the management of lectins, protein receptors found on the surface of all cells that bind only to a particular kind of carbohydrate. The product is formulated to attach to specific lectins (galectins) found on tumor cells, while selectively avoiding surrounding healthy tissue.

When combined with an anti-cancer treatment, DAVANAT[®] recognizes and binds to the lectin receptor and target delivers the chemotherapy directly to the tumor site, reducing the drug's toxicity and possibly increasing its efficacy. Pro-Pharmaceuticals is conducting a Phase II clinical trial for DAVANAT[®], 5-FU, Avastin[®], and leucovorin for front-line metastatic colorectal cancer and DAVANAT with 5-FU for front-line biliary cancer. The Company initiated a Europe-based Phase III clinical trial for DAVANAT[®] as a second-line treatment of metastatic colorectal cancer patients. A Phase I trial in all solid tumors was completed in 2005 and a Phase II colorectal cancer trial was completed in 2006. Details of these studies are summarized below.

- **Phase II Trial for Third- and Fourth-Line Metastatic Colorectal Cancer.** In May 2005, Pro-Pharmaceuticals began dosing patients in a Phase II clinical trial to evaluate DAVANAT[®]/5-FU for patients with third- and fourth-line metastatic colorectal cancer. Preliminary data shows one patient with an objective partial tumor response and six with stabilized disease.
- **Phase II Trial for Front-Line Treatment of Biliary Cancer Patients.** Pro-Pharmaceuticals initiated a U.S.-based Phase II trial for the front-line treatment of biliary cancer. The goal of the trial is a complete or partial tumor response (RECIST) and progression-free survival. Treatment of biliary cancer may represent an opportunity for Orphan Drug status approval. Clinical sites were added in Israel and Europe to accelerate patient enrollment.
- **Phase II Trial for Front-Line Treatment of Metastatic Colorectal Cancer.** The Company initiated an open-label, up to 50-patient, multi-center U.S.-based Phase II study of DAVANAT[®] with Avastin[®], 5-FU, and leucovorin as a front-line treatment for locally advanced and unresectable or metastatic colorectal cancer in patients unable to tolerate chemotherapy. Clinical sites have been added in Israel and Europe to accelerate patient enrollment in this trial.
- **Phase III for Second-Line Treatment of Metastatic Colorectal Cancer.** Pro-Pharmaceuticals initiated a Europe-based Phase III clinical trial for second-line treatment of patients with metastatic colorectal cancer. This is a multi-center, randomized, clinical trial of 120 patients to evaluate the safety and efficacy of DAVANAT[®] in combination with 5-FU in standard-of-care regimens with either irinotecan and/or oxaliplatin. The Company has temporarily delayed dosing patients in its Europe-based Phase III colorectal cancer trial to focus its resources on the Phase II trials.
- **Phase I Trial for All Solid Tumors.** Pro-Pharmaceuticals evaluated DAVANAT[®]'s ability to treat solid tumors in a trial of 40 patients with advanced solid malignancies, which have failed chemotherapy (including 5-FU), radiation therapy, and/or surgical treatments. The open-label study was designed to evaluate the safety and tolerability of escalating doses of DAVANAT[®] (30-280mg/m²) when administered alone, and with a constant dose of 5-FU (500mg/m²). Seventy percent of the patients at the highest dose level were stabilized.

Additional Carbohydrate-Based Cancer Drug Formulations

In addition to DAVANAT[®], Pro-Pharmaceuticals is testing a library of products that are carbohydrate derivatives of doxorubicin, irinotecan, oxaliplatin, cisplatin, paclitaxel, and bevacizumab in a series of preclinical efficacy studies on cancer-carrying animals and toxicity studies on healthy animals. Research for these studies is being conducted at facilities in the U.S., Russia, England, and Italy.

Headquarters and Employees

Located in Newton, Massachusetts, the Company has nine full-time employees. The Company employs part-time contractors and consultants on an as-needed basis.

Key Points to Consider

- Pro-Pharmaceuticals, Inc. is a development stage company engaged in the discovery, development, and commercialization of novel, carbohydrate-based therapeutic compounds. The Company's expertise in carbohydrates offers opportunities to provide advanced treatment of cancer, liver, infectious, cardiovascular, and inflammatory disease, as well as viral infections.
- Pro-Pharmaceuticals' work has initially concentrated on target delivery of chemotherapy drugs for the treatment of cancer. DAVANAT[®], the Company's lead product candidate in this area, when used in combination with existing U.S. Food and Drug Administration (FDA)-approved cancer drugs, may increase the efficacy and decrease the toxicity of current chemotherapy treatment.
 - The Company initiated an open-label, up to 50-patient, multi-center Phase II study of DAVANAT[®] with Avastin[®], 5-FU, and leucovorin as a front-line treatment for locally advanced and unresectable or metastatic colorectal cancer in patients unable to tolerate chemotherapy.
 - The Company initiated a Phase III clinical trial for second-line treatment of metastatic colorectal cancer patients. The Company also has a Phase II metastatic colorectal cancer study at six clinical sites in the U.S. and Israel. Phase I results have demonstrated that DAVANAT[®] is well tolerated and disease stabilized in 70% of patients at the highest dose level.
- The Company reported preliminary data that shows one patient with an objective partial tumor response and six with stabilized disease in a Phase II trial for third- and fourth-line treatment of colorectal cancer patients.
- The Company announced that the FDA approved a request for a "compassionate use" Investigational New Drug application for the use of DAVANAT[®] with 5-FU to treat another patient who has biliary cancer (cancer associated with the bile duct).
- By focusing on active agents that are already FDA-approved, the Company anticipates reduced approval times and a shorter path to commercialization. Pending favorable clinical data, Pro-Pharmaceuticals could be eligible for FDA Fast Track designation, which expedites the development and review of investigational drugs that address serious, life-threatening conditions.
- The Company has five U.S. patents issued and patent applications pending in the U.S. and internationally.
- In 2004, the top 20 cancer drugs in each of the seven major pharmaceutical markets generated combined sales exceeding \$27 billion, with the U.S. accounting for roughly 66% of this total, Japan approximately 13%, and the five EU countries about 21% (Midas, IMS Health, April 2004). Collective sales in these markets represent approximately 77% of global oncology revenues. These figures could increase to greater than \$45 billion by 2011.
- At June 30, 2006, Pro-Pharmaceuticals had cash, cash equivalents, and a certificate of deposit of \$9.7 million.
- On February 14, 2006, the Company completed a private placement of Convertible Debentures and Warrants with institutional investors and raised net proceeds of approximately \$9.3 million. With the addition of these funds, the Company believes it has adequate cash to fund its operations through at least June 2007.

Risks

Some of the information in this Quarterly Update relates to future events or future business and financial performance. Such statements can only be predictions and the actual events or results may differ from those discussed due to, among other things, the risks described in Pro-Pharmaceuticals' reports on Forms 10-K, 10-Q, 8-K, and other forms filed from time to time. The content of this Quarterly Update with respect to Pro-Pharmaceuticals has been compiled primarily from information available to the public released by Pro-Pharmaceuticals through news releases and through SEC filings. Pro-Pharmaceuticals, Inc. is solely responsible for the accuracy of that information. Information as to other companies has been prepared from publicly available information and has not been independently verified by Pro-Pharmaceuticals. Certain summaries of scientific activities and outcomes have been condensed to aid the reader in gaining a general understanding. For more complete information about Pro-Pharmaceuticals, please refer to the Company's website at www.pro-pharmaceuticals.com.

Investors should carefully consider the risks and the information about Pro-Pharmaceuticals' business described below. Investors should not interpret the order in which these considerations are presented as an indication of their relative importance. The risks and uncertainties described below are not the only risks that Pro-Pharmaceuticals faces. Additional risks and uncertainties not presently known to Pro-Pharmaceuticals or that Pro-Pharmaceuticals currently believes to be immaterial may also adversely affect its business. If any of the following risks and uncertainties develop into actual events, the business, financial condition, and results of operations could be materially and adversely affected, and the trading price of its shares could decline.

Pro-Pharmaceuticals is at an Early Stage of Development with Limited Operating History. The Company is a development stage company with a limited operating history, and has not generated any revenues to date. The Company has no therapeutic products available for sale, and none are expected to be commercially available for several years, if at all. Pro-Pharmaceuticals may never generate revenue or become profitable, even if they are able to commercialize products.

The Company has Incurred Net Losses to Date and Depends on Outside Capital. Pro-Pharmaceuticals' accumulated deficit as of June 30, 2006 was \$34.9 million. The Company will need to continue to conduct significant research, development, testing, and regulatory compliance activities that, together with projected general and administrative expenses, could result in substantial operating losses for the next several years. Accordingly, the Company will not be generating sales or other revenue and will remain dependent on outside sources of financing during that time. If unable to raise funds from outside sources for continuing operations, Pro-Pharmaceuticals may be adversely affected.

The Company may raise such capital through public or private equity financings, partnerships, debt financings, bank borrowings, or other sources. Additional funding may not be available on favorable terms or at all. If adequate funds are not otherwise available, the Company may need to significantly curtail operations. To obtain additional funding, Pro-Pharmaceuticals may need to enter into arrangements that require it to relinquish rights to certain technologies, products, and/or potential markets. To the extent that additional capital is raised through the sale of equity, or securities convertible into equity, the Company's equity holders may experience dilution of their proportionate ownership of the Company.

Based on cash, cash equivalents, and a certificate of deposit of \$9.7 million as of June 30, 2006, the Company believes that it has sufficient capital to fund its operations through at least June 2007.

The Company's Product Candidates Will Be Based on Novel Unproven Technologies. Pro-Pharmaceuticals' product candidates will be based on novel unproven technologies using proprietary carbohydrate compounds in combination with FDA-approved drugs currently used in the treatment of cancer and other diseases. Carbohydrates are difficult to synthesize, and the Company may not be able to synthesize carbohydrates that would be usable as delivery vehicles for the anti-cancer drugs with which it plans to work.

Pro-Pharmaceuticals Drug Candidates are in Clinical Trials and Results Are Uncertain. The Company has one product candidate in human clinical trials. Preclinical results in animal studies are not necessarily predictive of outcomes in human clinical trials. Clinical trials are costly, time-consuming, and may not be successful. They involve the testing of potential therapeutic agents, or effective treatments in humans, typically in three phases, to determine the safety and efficacy of the product candidates necessary for an approved drug. Many products in human clinical trials fail to demonstrate the desired safety and efficacy characteristics. Even if the Company's products progress successfully through initial human testing, they may fail in later stages of development. Pro-Pharmaceuticals will be dependent on others to conduct its clinical trials, including clinical research organizations (CROs) and, possibly, government-sponsored agencies. These trials may not start or be completed as the Company forecasts, or may be unsuccessful.

The Company's Product Candidates May Not Be Successfully Commercialized. Even if its product candidates are successful in clinical trials, they may not be successfully commercialized. Potential products may fail to receive necessary regulatory approvals, be difficult to manufacture on a large scale, be uneconomical to produce, fail to achieve market acceptance, or be precluded from commercialization by proprietary rights of third parties.

Lack of Operating Experience May Cause the Company Difficulty in Managing its Growth. The Company has limited experience in manufacturing or procuring products in commercial quantities, conducting other later-stage phases of the regulatory approval process, selling pharmaceutical products, or negotiating, establishing, and maintaining strategic relationships. Any growth in the Company will require it to expand its management and operational and financial systems and controls. If unable to do so, Pro-Pharmaceuticals' business and financial condition would be materially harmed. If rapid growth occurs, it may strain operational, managerial, and financial resources.

The Company Will Depend on Third Parties to Manufacture and Market its Products. The Company does not have, and does not now intend to develop, facilities for the manufacture of any of its products for clinical or commercial production. Accordingly, the Company will need to develop relationships with manufacturers and enter into collaborative arrangements with licensees or have others manufacture its products on a contract basis. The Company expects to depend on such collaborators to supply it with products manufactured in compliance with standards imposed by the FDA and foreign regulators. In addition, Pro-Pharmaceuticals has limited experience in marketing, sales, or distribution, and does not intend to develop a sales and marketing infrastructure to commercialize its pharmaceutical products. If the Company develops commercial products, it will need to rely on licensees, collaborators, joint venture partners, or independent distributors to market and sell those products.

Pro-Pharmaceuticals Depends on Key Individuals to Develop its Products and Pursue Collaborations. The Company is highly dependent on David Platt, Ph.D., president and chief executive officer; Anatole Klyosov, Ph.D., chief scientist; and Eliezer Zomer, Ph.D., executive vice president, manufacturing and product development. The loss of any of these persons, or failure to attract or retain other key personnel, could prevent the Company from pursuing collaborations or developing its products and core technologies.

Pro-Pharmaceuticals is a Counterclaim Defendant in a Lawsuit Instituted by Dr. Platt. Dr. Platt filed a lawsuit in Massachusetts in January 2004 against GlycoGenesys, Inc. for claims including breach of contract. In its answer, GlycoGenesys named Pro-Pharmaceuticals as a counterclaim defendant alleging tortious interference and misappropriation of proprietary rights, and seeks monetary damages and injunctive relief related to Pro-Pharmaceuticals' intellectual property. In March 2004, the Company answered the counterclaim and denied any liability. The Company and Dr. Platt intend to contest these counterclaims vigorously. If Pro-Pharmaceuticals does not prevail, there could be a material adverse impact on its financial position, results of operations, or cash flows. On February 2, 2006, GlycoGenesys filed a voluntary petition in bankruptcy for protection under Chapter 11 of the U.S. Bankruptcy Code as a result of which the counterclaim litigation is stayed.

Pro-Pharmaceuticals Cannot Take Certain Actions Without the Consent of the Debenture Holders. For as long as at least \$1 million of its 7% Convertible Debentures remains outstanding, the Company cannot take certain actions, including, among others, incurrence of indebtedness beyond a stated amount, amendments of its charter or governance documents, repurchase or other acquisition of more

than a de minimis number of the shares of the Company's Common Stock or securities exercisable, convertible, or exchangeable for shares of its Common Stock. These negative covenants may limit actions, such as a finance transaction that requires an amendment of its certificate of organization, that the Company believes are in the best interests of Pro-Pharmaceuticals but which cannot complete if the holders of the Debentures do not consent.

RISKS RELATED TO THE DRUG DEVELOPMENT INDUSTRY

The Company Will Need Regulatory Approvals to Commercialize its Products. The Company currently does not have products approved for sale in the U.S. or any foreign market. Pro-Pharmaceuticals is required to obtain approval from the FDA in order to sell its products in the U.S. and from foreign regulatory authorities in order to sell its products in other countries. The FDA's review and approval process is lengthy, expensive, and uncertain. Extensive preclinical and clinical data and supporting information must be submitted to the FDA for each indication for each product candidate in order to secure FDA approval. The FDA could reject an application or require the Company to conduct additional clinical or other studies as part of the regulatory review process. Delays in obtaining or failure to obtain FDA approvals would prevent or delay the commercialization of its products, which would prevent, defer, or decrease receipt of revenues. If the Company receives initial regulatory approval, its product candidates will be subject to extensive and rigorous ongoing domestic and foreign government regulation.

Pro-Pharmaceuticals' Competitive Position Depends on Protection of its Intellectual Property. Development and protection of the Company's intellectual property is critical to its business. If the Company does not adequately protect its intellectual property, competitors may be able to practice its technologies. The Company's success depends in part on its ability to obtain patent protection for its products or processes in the U.S. and other countries, protect trade secrets, and prevent others from infringing on its proprietary rights.

Since patent applications in the U.S. are maintained in secrecy for at least portions of their pendency periods (published on U.S. patent issuance or, if earlier, 18 months from earliest filing date for most applications) and since other publication of discoveries in the scientific or patent literature often lags behind actual discoveries, the Company cannot be certain that it is the first to make the inventions to be covered by its patent applications. The patent position of biopharmaceutical firms generally is highly uncertain and involves complex legal and factual questions. The U.S. Patent and Trademark Office (USPTO) has not established a consistent policy regarding the breadth of claims that it will allow in biotechnology patents.

The Company cannot assure investors that all of its patent applications will issue as patents or that the claims of any issued patents will afford meaningful protection for its technologies or products. In addition, patents issued to Pro-Pharmaceuticals or its licensors may be challenged and subsequently narrowed, invalidated, or circumvented. Patent litigation is widespread in the biotechnology industry and could harm the Company's business. Litigation might be necessary to protect its patent position or to determine the scope and validity of third-party proprietary rights, and the Company may not have the required resources to pursue such litigation or to protect its patent rights. Although the Company requires its scientific and technical employees and consultants to enter into broad assignment of inventions agreements, and all of its employees, consultants, and corporate partners with access to proprietary information to enter into confidentiality agreements, these agreements may not be honored. The Company is a counterclaim defendant in a lawsuit instituted by Dr. Platt.

Products Developed by Pro-Pharmaceuticals Could Be Subject to Infringement Claims Asserted by Others. The Company cannot assure that products based on its patents or intellectual property that it licensed from others will not be challenged by a third party claiming infringement of its proprietary rights. If not able to successfully defend its patents or licensed rights, the Company may have to pay substantial damages, possibly including treble damages, for past infringement.

The Company Faces Intense Competition in the Biotechnology and Pharmaceutical Industries. The biotechnology and pharmaceutical industries are intensely competitive. The Company faces direct competition from U.S. and foreign companies focusing on drug delivery technologies, which are rapidly evolving. Competitors include major, multinational pharmaceutical and chemical companies, specialized

biotechnology firms and universities, and other research institutions. Many of these competitors have greater financial and other resources, larger research and development staffs, and more effective marketing and manufacturing organizations, than Pro-Pharmaceuticals does. In addition, academic and government institutions are increasingly likely to enter into exclusive licensing agreements with commercial enterprises, including its competitors, to market commercial products based on technology developed at such institutions. Competitors may succeed in developing or licensing technologies and products that are more effective or less costly than Pro-Pharmaceuticals, or succeed in obtaining FDA or other regulatory approvals for product candidates before the Company does.

Healthcare Cost Containment Initiatives and the Growth of Managed Care May Limit Returns. The Company's ability to commercialize its products successfully will be affected by the ongoing efforts of governmental and third-party payors to contain the cost of healthcare. These entities are challenging prices of healthcare products and services, denying or limiting coverage and reimbursement amounts for new therapeutic products, and for FDA-approved products considered experimental or investigational, or which are used for disease indications without FDA marketing approval.

Even if successful in bringing any products to the market, they may not be considered cost-effective and third-party reimbursement might not be available or sufficient. If adequate third-party coverage is not available, the Company may not be able to maintain price levels sufficient to realize an appropriate return on its investment in research and product development. In addition, legislation and regulations affecting the pricing of pharmaceuticals may change in ways adverse to the Company before or after any of its proposed products are approved for marketing.

Pro-Pharmaceuticals' Insurance Coverage May Not Be Adequate In All Circumstances. In the future, the Company may, in the ordinary course of business, be subject to claims by, and liability to, persons alleging injury as a result of taking products the Company has under development. If successful in having products approved by the FDA, the sale of such products would expose the Company to additional potential product liability and other claims resulting from their use. This liability may result from claims made directly by consumers or by pharmaceutical companies or others selling such products. Although the Company currently has insurance coverage for both product liability and professional liability, it is possible that it will not be able to maintain such insurance on acceptable terms. Any inability to maintain insurance coverage on acceptable terms could prevent or limit the commercialization of any products developed by Pro-Pharmaceuticals.

RISKS RELATED TO THE STOCK

Stock Prices for Biopharmaceutical and Biotechnology Companies Are Volatile. The market price for securities of biopharmaceutical and biotechnology companies historically has been highly volatile, and the market from time-to-time has experienced significant price and volume fluctuations that are unrelated to the operating performance of such companies. Fluctuations in the trading price or liquidity of the Company's Common Stock may adversely affect the Company's ability to raise capital through future equity financings.

Large Sales Could Reduce the Trading Price of Pro-Pharmaceuticals' Common Stock. Pro-Pharmaceuticals listed its Common Stock on the American Stock Exchange (AMEX) in September 2003, prior to which its stock traded on the Over-the-Counter (OTC) Bulletin Board. Based on varying trading volume to date, the Company's stock could be considered "thinly traded." In 2003 and 2004, on behalf of existing stockholders, the Company registered for re-sale approximately 14.7 million shares of its Common Stock, and approximately 3.6 million shares of stock issuable upon exercise of immediately exercisable Warrants. On behalf of the holders of its 7% Convertible Debentures and Common Stock purchase Warrants, the Company is registering an additional 7.3 million shares of Common Stock issuable upon conversion or redemption of, or as interest payments on, the Debentures and exercise of the Warrants. The interest and principal are payable monthly commencing July 1, and August 1, 2006, respectively, in shares of Common Stock, subject to some restrictions. In general, shares of registered Common Stock may be re-sold into the public markets without volume or other restrictions. Large sales of the Company's registered shares could place downward pressure on the trading price of the Company's Common Stock, particularly if the amount sold significantly exceeds the then-current trading volume of its stock.

Downward Pressure on the Company's Stock Price Could Result if Certain Stockholders Become Short-Term Investors. Provided the Company meets certain requirements, all outstanding principal and interest under the Debentures may be paid in shares of Company Common Stock. Within six months after issuance, the Warrants the Company concurrently sold become exercisable. In connection with the sale of these securities, Pro-Pharmaceuticals agreed to promptly register the shares of its Common Stock issuable under the Debentures, and upon exercise of the Warrant, for re-sale into the public markets. The Company may enter into similar financing transactions in the future with the same or different investors. Because such investors typically receive registered shares well in advance of the expiration of the holding periods under Rule 144 of the Securities Act, they may choose to sell their shares after a short period of holding Company stock. If sufficient quantities of stock are sold during a brief interval of time, this could result in downward pressure on the market price for shares of the Company's publicly traded Common Stock.

Four Principal Stockholders Own Enough Shares to Control The Company. Four of the Company's principal stockholders, David Platt, James Czirr, Offer Binder, and Anatole Klyosov own or control approximately 42% of the outstanding shares of the Company's Common Stock, and Dr. Platt and Mr. Czirr together own approximately 34%. Some or all of these stockholders, acting in concert, may be able to substantially influence the election of the Board of Directors and other corporate actions requiring stockholder approval, such as recapitalization or other fundamental corporate action, as well as the direction and policies of the Company. Such concentration of ownership also could have the effect of delaying, deterring, or preventing a change in control of the Company that might otherwise be beneficial to stockholders.

Changes in Laws, Regulations, and Financial Accounting Standards May Affect the Company's Reported Results of Operations. The Sarbanes-Oxley Act of 2002 and related regulations may result in changes in accounting standards or accepted practices within the Company's industry and could add significant new costs to being a public company. New laws, regulations, and accounting standards, as well as changes to currently accepted accounting practices, including the expensing of stock options, could adversely affect its reported financial results and negatively affect its stock price. Additional unanticipated expenses incurred to comply with new requirements could also negatively impact results of operations.

Pro-Pharmaceuticals Could Be Required to Make Substantial Cash Payments Upon an Event of Default Under Its Debentures. The Company's 7% Convertible Debentures provide for events of default including, without limitation, failure to make timely payments of principal, interest, or other amounts due thereunder, failure to observe or perform any covenant or agreement set forth in the Debentures or other material agreements to which the Company is a party, default on another credit agreement or facility evidencing of obligations, ineligibility of Pro-Pharmaceuticals' stock for listing or quotation on a trading market, lapse of effectiveness of the registration statement registering the shares underlying the Debentures and Warrants, or inability of selling stockholders to offer and sell their shares in excess of certain "blackout" periods. If an event of default occurs, the outstanding principal, plus accrued and unpaid interest due thereon, and all other amounts due under each Debenture may become, at the holder's election, immediately due and payable in cash in an amount that is not less than the sum of (i) 130% of the outstanding principal plus accrued and unpaid interest and (ii) other amounts due to such holder. The Company would not be able to repay this amount without raising additional capital.

Crystal Research

a s s o c i a t e s

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