

Edgar Filing: PROVECTUS PHARMACEUTICALS INC - Form 10QSB

PROVECTUS PHARMACEUTICALS INC  
Form 10QSB  
May 16, 2005

United States Securities And Exchange Commission  
Washington, DC 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 March 31, 2005

OR

Transition Report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 0-9410

Provectus Pharmaceuticals, Inc.  
(Exact Name of Small Business Issuer as Specified in Its Charter)  
Nevada 90-0031917

-----  
(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification Number)

7327 Oak Ridge Highway Suite A, Knoxville, TN

37931

-----  
(Address of Principal Executive Offices)

-----  
(Zip Code)

865/769-4011

-----  
(Issuer's Telephone Number, Including Area Code)

N/A

-----  
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

The number of shares outstanding of the issuer's stock, \$0.001 par value per share, as of April 13, 2005 was 16,644,275.

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

PROVECTUS PHARMACEUTICALS, INC.  
(A Development-Stage Company)

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CONSOLIDATED BALANCE SHEETS

March 31,  
2005

|  | (Unaudited) |              |
|--|-------------|--------------|
| <hr/>  |             |              |
| Assets   |             |              |
| Current Assets   |             |              |
| Cash   | \$          | 58,980       |
| Inventory  |             | 89,960       |
| Prepaid expenses and other current assets  |             | 1,827        |
| Prepaid consulting expense   |             | 180,602      |
| Prepaid commitment fee, net of amortization of<br>\$114,978 and \$38,326   |             | 195,888      |
| <hr/>  |             |              |
| Total Current Assets   |             | 527,257      |
| <hr/>  |             |              |
| Equipment and Furnishings, less accumulated depreciation of<br>\$366,571 and \$366,571   |             | 10,472       |
| Patents, net of amortization of \$1,588,317 and \$1,420,537  |             | 10,127,128   |
| Deferred loan costs, net of amortization of \$102,054 and \$35,922   |             | 249,446      |
| Other Assets   |             | 27,000       |
| <hr/>  |             |              |
|  | \$          | 10,941,303   |
| <hr/>  |             |              |
| Liabilities and Stockholders' Equity   |             |              |
| Current Liabilities  |             |              |
| Accounts payable - trade   | \$          | 151,071      |
| Accrued compensation   |             | 238,078      |
| Accrued expenses   |             | 75,540       |
| Accrued interest   |             | 83,290       |
| Gryffindor convertible debt, net of debt discount of<br>\$71,368 and \$95,157  |             | 1,114,591    |
| <hr/>  |             |              |
| Total Current Liabilities  |             | 1,662,570    |
| <hr/>  |             |              |
| Loan From Stockholder  |             | 199,000      |
| <hr/>  |             |              |
| Cornell convertible debt, net of debt discount of \$233,425 and \$316,053  |             | 416,575      |
| <hr/>  |             |              |
| Network 1 convertible debt, net of debt discount of \$438,425 and \$-0-  |             | 11,575       |
| <hr/>  |             |              |
| Stockholders' Equity   |             |              |
| Common stock; par value \$.001 per share; 100,000,000 shares authorized;<br>16,440,209 and 16,133,876 shares issued and<br>outstanding, respectively |             | 16,440       |
| Paid-in capital  |             | 24,572,699   |
| Deficit accumulated during the development stage   |             | (15,937,556) |
| <hr/>  |             |              |
| TOTAL STOCKHOLDERS' EQUITY   |             | 8,651,583    |
| <hr/>  |             |              |

\$ 10,941,303 \$

See accompanying notes to financial statements.

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PROVECTUS PHARMACEUTICALS, INC.  
(A Development-Stage Company)  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

|  | Ended<br>March 31, 2005 | Ended<br>March 31, 2004 | Cumulative<br>Amounts from<br>January 17,<br>2002 (Inception)<br>Through<br>March 31, 2005 |
|--|-------------------------|-------------------------|--|
| <hr/>  |                         |                         |  |
| Revenues   |                         |                         |  |
| OTC Product Revenue  | \$ 2,394                | \$ 1,776                | \$ 21,122  |
| Medical Device Revenue                                       | 984                     | 13,125                  | 14,109   |
| <hr/>  |                         |                         |  |
| Total revenues   | 3,378                   | 14,901                  | 35,231   |
| <hr/>  |                         |                         |  |
| Cost of Sales  | 1,540                   | 1,136                   | 12,321   |
| <hr/>  |                         |                         |  |
| Gross Profit   | 1,838                   | 13,765                  | 22,910   |
| <hr/>  |                         |                         |  |
| Operating Expenses   |                         |                         |  |
| Research and development                                     | 293,027                 | 187,954                 | 2,360,482  |
| General and administrative                                   | 582,751                 | 483,678                 | 10,778,788   |
| Amortization   | 167,780                 | 167,780                 | 1,588,317  |
| <hr/>  |                         |                         |  |
| Total operating loss   | (1,041,720)             | (825,647)               | (14,704,677)   |
| Gain on sale of equipment                                    | -                       | -                       | 55,000   |
| Loss on extinguishment of debt                               | (36,968)                | -                       | (138,380)  |
| Interest expense   | (292,895)               | (214,726)               | (1,149,499)  |
| <hr/>  |                         |                         |  |
| Net Loss Applicable to Common<br>Stockholders                | \$ (1,371,583)          | \$ (1,040,373)          | \$ (15,937,556)  |
| <hr/>  |                         |                         |  |
| Basic and Diluted Loss Per<br>Common Share                   | (0.08)                  | (0.08)                  |  |
| <hr/>  |                         |                         |  |
| Weighted Average Number of<br>Common Shares<br>Outstanding - |                         |                         |  |

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Basic and Diluted 16,277,074 12,241,172

See accompanying notes to financial statements.

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PROVECTUS PHARMACEUTICALS, INC.  
 (A Development-Stage Company)  
 CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
 (Unaudited)

|  | Common Stock        |           |                    |
|--|---------------------|-----------|--------------------|
|  | Number<br>of Shares | Par Value | Paid-in<br>Capital |
| Balance, at January 17, 2002   | -                   | \$ -      | \$ -               |
| Issuance to founding shareholders  | 6,000,000           | 6,000     | (6,000)            |
| Sale of stock  | 50,000              | 50        | 24,95              |
| Issuance of stock to employees   | 510,000             | 510       | 931,49             |
| Issuance of stock for services   | 120,000             | 120       | 359,88             |
| Net loss for the period from January 17,<br>2002 (inception) to April 23, 2002<br>(date of reverse merger) | -                   | -         |                    |
| Balance, at April 23, 2002   | 6,680,000           | 6,680     | 1,310,32           |
| Shares issued in reverse merger  | 265,763             | 266       | (3,911)            |
| Issuance of stock for services   | 1,900,000           | 1,900     | 5,142,100          |
| Purchase and retirement of stock   | (400,000)           | (400)     | (47,60)            |
| Stock issued for acquisition of Valley<br>Pharmaceuticals  | 500,007             | 500       | 12,225,82          |
| Exercise of warrants   | 452,919             | 453       |                    |
| Warrants issued in connection with<br>convertible debt   | -                   | -         | 126,58             |
| Stock and warrants issued for acquisition<br>of Pure-ific  | 25,000              | 25        | 26,97              |
| Net loss for the period from April 23, 2002<br>(date of reverse merger) to December<br>31, 2002            | -                   | -         |                    |
| Balance, at December 31, 2002  | 9,423,689           | 9,424     | 18,780,29          |
| Issuance of stock for services   | 764,000             | 764       | 239,03             |
| Issuance of warrants for services  | -                   | -         | 145,47             |
| Stock to be issued for services  | -                   | -         | 281,50             |
| Employee compensation from stock options   | -                   | -         | 34,65              |
| Issuance of stock pursuant to Regulation S   | 679,820             | 680       | 379,66             |
| Beneficial conversion related to<br>convertible debt   | -                   | -         | 601,00             |
| Net loss for the year ended<br>December 31, 2003   | -                   | -         |                    |

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|  |            |    |        |    |           |
|--|------------|----|--------|----|-----------|
| Balance, at December 31, 2003                      | 10,867,509 | \$ | 10,868 | \$ | 20,461,63 |
| Issuance of stock for services                     | 733,872    |    | 734    |    | 449,19    |
| Issuance of warrants for services                  | -          |    | -      |    | 495,48    |
| Exercise of warrants                               | 132,608    |    | 133    |    | 4,86      |
| Employee compensation from stock options           | -          |    | -      |    | 15,61     |
| Issuance of stock pursuant to Regulation S         | 2,469,723  |    | 2,469  |    | 790,66    |
| Issuance of stock pursuant to Regulation D         | 1,930,164  |    | 1,930  |    | 1,286,93  |
| Beneficial conversion related to convertible debt  | -          |    | -      |    | 360,25    |
| Issuance of convertible debt with warrants         | -          |    | -      |    | 105,25    |
| Repurchase of beneficial conversion feature        | -          |    | -      |    | (258,34)  |
| Net loss for the year ended December 31, 2004      | -          |    | -      |    | -         |
| Balance, at December 31, 2004                      | 16,133,876 | \$ | 16,134 | \$ | 23,711,54 |
| Issuance of stock for services                     | 15,000     |    | 15     |    | 12,50     |
| Issuance of warrants for services                  | -          |    | -      |    | 88,98     |
| Issuance of warrants for contractual obligations   | -          |    | -      |    | 117,56    |
| Exercise of warrants                               | 10,000     |    | 10     |    | 9,99      |
| Employee compensation from stock options           | -          |    | -      |    | 3,93      |
| Issuance of stock pursuant to Regulation D         | 214,666    |    | 214    |    | 144,68    |
| Debt conversion to common stock                    | 66,667     |    | 67     |    | 49,93     |
| Issuance of convertible debt with warrants         | -          |    | -      |    | 254,32    |
| Beneficial conversion related to convertible debt  | -          |    | -      |    | 195,67    |
| Repurchase of beneficial conversion feature        | -          |    | -      |    | (16,44)   |
| Net loss for the three months ended March 31, 2005 | -          |    | -      |    | -         |
| Balance, at March 31, 2005                         | 16,440,209 | \$ | 16,440 | \$ | 24,572,69 |

See accompanying notes to financial statements.

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PROVECTUS PHARMACEUTICALS, INC.  
(A Development-Stage Company)  
CONSOLIDATED STATEMENTS OF CASH FLOW  
(Unaudited)

|  |    | Three Months Ended<br>March 31, 2005 |    | Three Months Ended<br>March 31, 2004 |
|--|----|--------------------------------------|----|--------------------------------------|
| Cash Flows From Operating Activities                                       |    |                                      |    |                                      |
| Net loss   | \$ | (1,371,583)                          | \$ | (1,040,3                             |
| Adjustments to reconcile net loss to net cash used in operating activities |    |                                      |    |                                      |
| Depreciation   |    | -                                    |    | 53,6                                 |
| Amortization of patents  |    | 167,780                              |    | 167,7                                |
| Amortization of original issue discount                                    |    | 90,277                               |    | 140,1                                |
| Amortization of commitment fee   |    | 76,652                               |    |                                      |

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|   |           |        |
|---|-----------|--------|
| Amortization of prepaid consultant expense          | 93,735    | 137,1  |
| Amortization of deferred loan costs                 | 45,430    | 42,6   |
| Loss on extinguishment of debt                      | 36,968    |        |
| Compensation through issuance of stock options      | 3,938     | 3,9    |
| Compensation through issuance of stock              | -         |        |
| Issuance of stock for services                      | 12,524    | 11,5   |
| Issuance of warrants for services                   | 20,074    |        |
| Issuance of warrants for contractual obligations    | 117,568   |        |
| Gain on sale of equipment                           | -         |        |
| Increase (decrease) in assets                       |           |        |
| Prepaid expenses                                    | 18,755    | (2,5   |
| Inventory   | 4,182     | 3,5    |
| Increase (decrease) in liabilities                  |           |        |
| Accounts payable                                    | (3,143)   | 41,8   |
| Accrued expenses                                    | 190,621   | (64,3  |
| -----   |           |        |
| Net cash used in operating activities               | (496,222) | (505,1 |
| -----   |           |        |
| Cash Flows From Investing Activities                |           |        |
| Proceeds from sale of fixed asset                   | -         |        |
| Capital expenditures                                | (10,472)  | (3     |
| -----   |           |        |
| Net cash (used in) provided by investing activities | (10,472)  | (3     |
| -----   |           |        |
| Cash Flows From Financing Activities                |           |        |
| Proceeds from loans from stockholder                | 50,000    |        |
| Proceeds from convertible debt                      | 450,000   |        |
| Proceeds from sale of common stock                  | 144,900   | 788,6  |
| Proceeds from exercise of warrants                  | 10,000    | 5,0    |
| Cash paid to retire convertible debt                | (50,000)  |        |
| Cash paid for deferred loan costs                   | (45,000)  |        |
| Premium paid on extinguishments of debt             | (5,000)   |        |
| Purchase and retirement of common stock             | -         |        |
| -----   |           |        |
| Net cash provided by financing activities           | 554,900   | 793,6  |
| -----   |           |        |

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PROTECTUS PHARMACEUTICALS, INC.  
(A Development-Stage Company)  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

|                              | Three Months<br>Ended<br>March 31, 2005 | Three Months<br>Ended<br>March 31, 2004 |
|------------------------------|---|---|
| Net Change in Cash           | \$ 48,206                               | \$ 288,084                              |
| Cash, at beginning of period | \$ 10,774                               | \$ 164,145                              |
| -----                        |   |   |
| Cash, at end of period       | \$ 58,980                               | \$ 452,229                              |

Supplemental Disclosure of Noncash Investing and  
Financing Activities

March 31, 2005

Issuance of warrants in exchange for  
prepaid services of \$68,910

Debt converted to common stock of \$50,000 Beneficial conversion on  
convertible debt of \$195,672 Discount on convertible debt with warrants of  
\$254,328

March 31, 2004

Issuance of stock for services of \$11,500  
and commitment to issue stock for  
prepaid services of \$62,500

Stock subscription receivable recorded of \$41,192

See accompanying notes to financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information pursuant to Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles 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 months ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ended December 31, 2005.

2. RECAPITALIZATION AND MERGER

Provectus Pharmaceuticals, Inc., formerly known as "Provectus Pharmaceutical, Inc." and "SPM Group, Inc.," was incorporated under Colorado law on May 1, 1978. SPM Group ceased operations in 1991, and became a development-stage company effective January 1, 1992, with the new corporate purpose of seeking out acquisitions of properties, businesses, or merger candidates, without limitation as to the nature of the business operations or geographic location of the acquisition candidate.

On April 1, 2002, SPM Group changed its name to "Provectus Pharmaceutical, Inc." and reincorporated in Nevada in preparation for a transaction with Provectus Pharmaceuticals, Inc., a privately-held Tennessee corporation ("PPI"). On April 23, 2002, an Agreement and Plan of reorganization between Provectus Pharmaceutical and PPI was approved by the written consent of a majority of the outstanding shares of Provectus Pharmaceutical. As a result, Provectus Pharmaceuticals, Inc. issued 6,680,000 shares of common stock in exchange for

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all of the issued and outstanding shares of PPI. As part of the acquisition, Provectus Pharmaceutical changed its name to "Provectus Pharmaceuticals, Inc." and PPI became a wholly owned subsidiary of Provectus. This transaction was recorded as a recapitalization of PPI.

On November 19, 2002, the Company acquired Valley Pharmaceuticals, Inc., a privately-held Tennessee corporation formerly known as Photogen, Inc., by merging PPI with and into Valley and naming the surviving corporation "Xantech Pharmaceuticals, Inc." Photogen, Inc. was separated from Photogen Technologies, Inc. in a non-pro rata split-off to some of its shareholders. The assets of Photogen, Inc. consisted primarily of the equipment and intangibles related to its therapeutic activity and were recorded at their fair value. The majority shareholders of Valley were also the majority shareholders of Provectus. Valley had no revenues prior to the transaction with the Company. By acquiring Valley, the Company acquired its intellectual property, including issued U.S. patents and patentable inventions.

### 3. BASIC AND DILUTED LOSS PER COMMON SHARE

Basic and diluted loss per common share is computed based on the weighted average number of common shares outstanding. Loss per share excludes the impact of outstanding options, warrants, and convertible debt as they are antidilutive. Potential common shares excluded from the calculation at March 31, 2005 are 5,798,893

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warrants, 2,925,000 options and 3,487,937 shares issuable upon conversion of convertible debt and interest. Additionally, the Company is committed to issue 10,000 warrants.

### 4. EQUITY AND DEBT TRANSACTIONS

(a) In January 2005, the Company issued 7,500 shares to consultants in exchange for services rendered. Consulting costs charged to operations were \$4,950. In February 2005, the Company issued 7,500 shares to consultants in exchange for services. Consulting costs charged to operations were \$7,574.

(b) In January 2005, the Company issued 16,000 warrants to consultants in exchange for services rendered. Consulting costs charged to operations were \$6,944. In February 2005, the Company issued 13,000 warrants to consultants in exchange for services rendered. Consulting costs charged to operations were \$13,130. In March 2005, the Company issued 100,000 warrants to consultants in exchange for services rendered. At March 31, 2005, \$11,485 of these costs have been charged to operations with the remaining \$57,425 recorded as prepaid consulting expense as it represents payments for future services and the warrants are fully-vested and non-forfeitable. In March 2005 the Company issued 175,000 warrants to Gryffindor Capital Partners I, L.L.C. pursuant to the terms of the Second Amended and Restated Note dated November 26, 2004. Interest costs charged to operations were \$117,568.

(c) In February 2005, the Company entered into a redemption agreement with Cornell Capital Partners to pay \$50,000 of the Cornell convertible debt. As a result, the unamortized portion of the debt discount of \$27,715 and deferred loan costs of \$20,702, which related to this amount at the date of extinguishments, were recorded as a loss on extinguishment of debt. The Company also paid a \$5,000 prepayment penalty which has been recorded as loss on extinguishment of debt. As part of this redemption, the Company has repurchased the beneficial conversion feature related to the redeemed amount of \$16,449.

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In March 2005, the Company entered into a debt conversion agreement with Cornell Capital Partners for \$50,000 of its convertible debt which was converted into 66,667 shares of common stock at \$0.75 per share. As a result of this conversion, the unamortized portion of the debt discount of \$24,890 and deferred loan costs of \$18,779, which related to this amount at the date of conversion, have been recorded as additional interest expense.

At March 31, 2005, there was \$650,000 outstanding related to the Cornell convertible debt.

(d) During the three months ended March 31, 2005, the Company completed a private placement transaction with 8 accredited investors, pursuant to which the Company sold 214,666 shares of common stock at a purchase price of \$0.75 per share, for an aggregate purchase price of \$161,000. In connection with the sale of common stock, the Company also issued warrants to the investors to purchase up to 322,000 shares of common stock at an exercise price of \$1.00 per share. The Company paid \$16,100 and issued 80,500 warrants to Venture Catalyst, LLC as placement agent for this transaction. The cash costs have been off-set against the proceeds received.

(e) In March 2005, the Company entered into agreements to issue Senior Convertible Debentures to 2 accredited investors with Network 1 Financial Securities, Inc. in the aggregate amount of \$450,000 which is due together with interest in March 2007. This debt has a security interest in the assets of the Company. The Senior Convertible Debenture in the amount of \$400,000 has a maturity date of March 10, 2007 and the Senior Convertible Debenture in the amount of \$50,000 has a maturity date of March 30, 2007, and are convertible into shares of the Company's common stock at a per share conversion price of \$0.75. Interest at the greater of (i) the prime rate (adjust monthly), plus 4% and (ii) 8% is due on a quarterly basis with the first installment due June 30, 2005. At the time the interest is payable, upon certain conditions, the Company has the option to pay all or any portion of accrued interest in either cash or shares of the Company's common stock valued at 85% multiplied by the market price as of the third trading date immediately preceding the interest payment date. Under the senior convertible debentures, for purposes of determining market price as of any date, market price means: (i) the average of the last reported sale prices for the shares on the National Association of Securities Dealers Inc.'s Over-the-Counter Bulletin Board, for the five days immediately preceding such date; (ii) if the OTCBB is not the principal trading market for the shares, the average of the last reported sale prices on the principal trading market for the common stock during the same period as reported by Bloomberg, L.P., or (iii) if unable to calculate on any of the foregoing bases, as reasonable determined in good faith by the Board or an independent investment back of nationally recognized standing in the valuation businesses similar to the business of the Company.

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The Company may prepay the Senior Convertible Debentures in full by paying the holders the greater of (i) 125% multiplied by the sum of the total outstanding principal, plus accrued and unpaid interest, plus default interest, if any or (ii) the highest number of shares of common stock issuable upon conversion of the total amount calculated pursuant to (i) multiplied by the highest market price for the common stock during the period beginning on the date until prepayment.

On or after any event or series of events which constitutes a fundamental change, the holder may, in its sole discretion, require the Company to purchase the debentures, from time to time, in whole or in part, at a purchase price equal to 110% multiplied by the sum of the total outstanding principal, plus accrued and unpaid interest, plus any other obligations otherwise due under the debenture. Under the senior convertible debentures, fundamental change means (i)

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any person becomes a beneficial owner of securities representing 50% or more of the (a) outstanding shares of common stock or (b) the combined voting power of the then outstanding securities; (ii) a merger or consolidation whereby the voting securities outstanding immediately prior thereto fail to continue to represent at least 50% of the combined voting power of the voting securities immediately after such merger or consolidation; (iii) the sale or other disposition of all or substantially all or the Company's assets; (iv) a change in the composition of the Board within two years which results in fewer than a majority of directors are directors as of the date of the debenture; (v) the dissolution or liquidation of the Company; or (vi) any transaction or series of transactions that has the substantial effect of any of the foregoing.

The Purchaser of the \$400,000 debenture also purchased Class A Warrants and Class B Warrants under the Securities Purchase Agreement. Class A Warrants are exercisable at any time between March 10, 2005 through and including March 10, 2010. Class B Warrants are exercisable for a period through and including 175 days after an effective registration of the common stock underlying the warrants. The per share exercise price of a Class A Warrant is \$0.99 and the per share exercise price of the Class B Warrant is \$0.945.

The Purchaser of the \$50,000 debenture also purchased Class A Warrants and Class B Warrants under the Securities Purchase Agreement. Class A Warrants are exercisable at any time between March 30, 2005 through and including March 30, 2010. Class B Warrants are exercisable for a period through and including 175 days after an effective registration of the common stock underlying the warrants. The per share exercise price of a Class A Warrant is \$0.935 and the per share exercise price of the Class B Warrant is \$0.8925.

The \$450,000 proceeds received was allocated between the debt and the warrants on a pro-rata basis. The value of the warrants was determined using a Black-Scholes option-pricing model. The allocated fair value of these warrants was \$254,328 and was recorded as a discount to the related debt. In addition, the conversion prices were lower than the market value of the Company's common stock on the date of issue. As a result, an additional discount of \$195,672 was recorded for this beneficial conversion feature. The combined debt discount of \$450,000 is being amortized over the life of the debt using the effective interest method. At March 31, 2005, \$11,575 has been amortized and has been recorded as additional interest expense.

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### 5. STOCK-BASED COMPENSATION

On January 7, 2005, the Company issued 1,200,000 stock options to employees. The options vest over four years with no options vesting on the date of grant. The exercise price is the fair market price on the date of issuance, and all options were outstanding at March 31, 2005.

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation" (SFAS No. 123), but applies the intrinsic value method where compensation expense, if any, is recorded as the difference between the exercise price and the market price, as set forth in Accounting Principles Board Opinion No. 25 for stock options granted to employees and directors. In 2003, the Company issued stock options to employees in which the exercise price was less than the market price on the date of grant. These options vest over three years and accordingly, \$3,938 of expense was recorded for the three months ended March 31, 2005. If the Company had elected to recognize compensation expense based on the fair value at the grant dates, consistent with the method prescribed by SFAS No. 123, net loss per share would have been changed to the pro forma amount

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indicated below:

|  | Three Months<br>Ended<br>March 31,<br>2004 | Three Months<br>Ended<br>March 31,<br>2003 |
|--|--|--|
|  | -----                                      | -----                                      |
| Net loss, as reported  | \$ (1,371,583)                             | \$ (1,040,373)                             |
| Add stock-based employee compensation expense included in reported net loss                                      | 3,938                                      | 3,903                                      |
| Less total stock-based employee compensation expense determined under the fair value based method for all awards | (144,500)                                  | (283,438)                                  |
|  | -----                                      | -----                                      |
| Pro forma net loss   | \$ (1,512,145)                             | \$ (1,319,908)                             |
|  | =====                                      | =====                                      |
| Basic and diluted loss per common share, as reported   | \$ (0.08)                                  | \$ (0.08)                                  |
| Basic and diluted loss per common share, pro forma   | \$ (0.09)                                  | \$ (0.11)                                  |

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### 6. Loan From Shareholder

During 2002, a shareholder who is also an employee and member of the Company's board of directors, loaned the Company \$109,000. During 2003, the same shareholder loaned the Company an additional \$40,000. During 2005, the same shareholder loaned the Company an additional \$50,000. Interest on the loan is 5%, compounded monthly. Principal is due on December 31, 2009 and interest is payable quarterly in arrears beginning on June 30, 2003. Accrued interest was \$17,779 and \$9,384 at March 31, 2005 and 2004, respectively. Interest expense was \$2,345 and \$1,953 at March 31, 2005 and 2004, respectively.

### 7. SUBSEQUENT EVENTS

On April 1, 2005, the Company entered into agreements to issue Senior Convertible Debentures to accredited investors in the aggregate amount of \$2,700,000 which is due together with interest in March 2007. This debt has a security interest in the assets of the Company. The Senior Convertible Debentures have a maturity date of March 30, 2007, are convertible into shares of our common stock at a per share conversion price of \$0.75, and have the same terms as those described more fully in Note 4(e). Additionally, the Company entered into a redemption agreement for \$650,000 of its convertible debt with Cornell Capital Partners.

### Item 2. Management's Discussion and Analysis or Plan of Operation.

The following discussion is intended to assist in the understanding and assessment of significant changes and trends related to our results of operations and our financial condition together with our consolidated subsidiaries. This discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-QSB. Historical results and percentage relationships set forth in the statement of operations, including trends which might appear, are not necessarily indicative of future operations.

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### CAPITAL STRUCTURE

Our ability to continue as a going concern continues to be reasonably assured due to our financing in March and April 2005. However, our long-term ongoing operations continue to be dependent upon our ability to raise capital.

We plan to implement our integrated business plan, including execution of the next phases in clinical development of our pharmaceutical products and full resumption of research programs for new research initiatives.

We intend to proceed as rapidly as possible with the development of OTC products that can be sold with a minimum of regulatory compliance and with the further development of revenue sources through licensing of our existing intellectual property portfolio. Although we believe that there is a reasonable basis for our expectation that we will become profitable due to revenues from OTC product sales, we cannot assure you that we will be able to achieve, or maintain, a level of profitability sufficient to meet our operating expenses.

Our current plans include continuing to operate with our four employees during the immediate future, but we anticipate adding some part-time employees during the year. Our current plans also include minimal purchases of new property, plant and equipment, and significantly increased research and development.

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### PLAN OF OPERATION

With the reorganization of Provectus and PPI and the acquisition and integration into the company of Valley and Pure-ific, we believe we have obtained a unique combination of OTC products and core intellectual properties. This combination represents the foundation for an operating company that we believe will provide both profitability and long-term growth. In 2005, through careful control of expenditures, increasing sales of OTC products, and issuance of debt and equity, we plan to build on that foundation to increase shareholder value.

In the short term, we intend to develop our business by marketing, manufacturing, and distributing our existing OTC products, principally GloveAid and Pure-ific. In the longer term, we expect to continue the process of developing, testing and obtaining the approval of the U. S. Food and Drug Administration of prescription drugs and medical devices. Additionally, we have restarted our research programs that will identify additional conditions that our intellectual properties may be used to treat and additional treatments for those and other conditions.

Comparison of Three Months Ended March 31, 2005 and March 31, 2004.

Revenues. OTC Product Revenue increased by \$618 in the three months ended March 31, 2005 to \$2,394 from \$1,776 in the three months ended March 31, 2004. The increase in OTC Product Revenue resulted primarily from sales of Pure-ific in retail stores. Medical Device Revenue decreased by \$12,141 in the three months ended March 31, 2005 to \$984 from \$13,125 in the three months ended March 31, 2004. The decrease in Medical Device Revenue resulted primarily due to a large beta unit sale in the three months ended March 31, 2004 that was not repeated in the three months ended March 31, 2005, partially offset by sales of three smaller devices in the three months ended March 31, 2005.

Research and development. The Company is in the planning phase for the major research and development projects, and therefore does not have estimated completion dates, completion costs and capital requirements for these projects. The reason the Company does not have this information available is because it

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has not completed the planning process. Since there is no defined schedule for completing these development projects, there are no defined consequences if they are not completed timely. Research and development costs comprising the total of \$293,027 for the three months ending March 31, 2005 include consulting of \$89,083, insurance of \$23,592, legal of \$44,821, payroll of \$129,931, and rent and utilities of \$5,600. Research and development costs comprising the total of \$187,954 for the three months ending March 31, 2004 included consulting expense of \$26,843, lab expense of \$2,500, insurance of \$20,138, legal of \$29,048, payroll of \$103,825, and rent and utilities of \$5,600.

General and administrative. General and administrative expenses increased by \$105,073 in the three months ended March 31, 2005 to \$582,751 from \$483,678 in the three months ended March 31, 2004. The increase resulted primarily from higher consulting expenses for general corporate purposes.

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### CASH FLOW

As of April 1, 2005, we held approximately \$1,600,000 in cash. At our current cash expenditure rate, this amount will be sufficient to meet our needs. We already have begun to increase our expenditure rate by accelerating some of our research programs for new research initiatives; in addition, we are seeking to improve our cash flow by increasing sales of OTC products. However, we cannot assure you that we will be successful in increasing sales of OTC products. Moreover, even if we are successful in improving our current cash flow position, we nonetheless will require additional funds to meet our long-term needs. We anticipate these funds will come from the proceeds of private placements or public offerings of debt or equity securities.

### CAPITAL RESOURCES

As noted above, our present cash flow is currently sufficient to meet our short-term operating needs. Excess cash will be used to finance the next phases in clinical development of our pharmaceutical products. We anticipate that the majority of the funds for our operating and development needs beyond 2005 will come from the proceeds of private placements or public offerings of debt or equity securities. While we believe that we have a reasonable basis for our expectation that we will be able to raise additional funds, we cannot assure you that we will be able to complete additional financing in a timely manner. In addition, any such financing may result in significant dilution to shareholders. For further information on funding sources, please see Note 7 of the notes to our financial statements included in this report.

### FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-QSB contains forward-looking statements regarding, among other things, our anticipated financial and operating results. Forward-looking statements reflect our management's current assumptions, beliefs, and expectations. Words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," and similar expressions are intended to identify forward-looking statements. While we believe that the expectations reflected in our forward-looking statements are reasonable, we can give no assurance that such expectations will prove correct. Forward-looking statements are subject to risks and uncertainties that could cause our actual results to differ materially from the future results, performance, or achievements expressed in or implied by any forward-looking statement we make. Some of the relevant risks and uncertainties that could cause our actual performance to differ materially from the forward-looking statements contained in this report are discussed under the heading "Risk Factors" and elsewhere in our Annual Report on Form 10-KSB for the year ended December 31, 2003. We caution investors that these discussions of

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important risks and uncertainties are not exclusive, and our business may be subject to other risks and uncertainties which are not detailed there. Investors are cautioned not to place undue reliance on our forward-looking statements. We make forward-looking statements as of the date on which this Quarterly Report on Form 10-QSB is filed with the SEC, and we assume no obligation to update the forward-looking statements after the date hereof whether as a result of new information or events, changed circumstances, or otherwise, except as required by law.

### Item 3. Controls and Procedures.

- (a) Evaluation of Disclosure Controls and Procedures. Our chief executive officer and chief financial officer have evaluated the effectiveness of the design and operation of our "disclosure controls and procedures" (as that term is defined in Rule 13a-15(e) under the Exchange Act) as of March 31, 2005, the end of the fiscal quarter covered by this Quarterly Report on Form 10-QSB. Based on that evaluation, the chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective to ensure that material information relating to the Company and the Company's consolidated subsidiaries is made known to such officers by others within these entities, particularly during the period this Quarterly Report on Form 10-QSB was prepared, in order to allow timely decisions regarding required disclosure.
- (b) Changes in Internal Controls. There has been no change in our internal control over financial reporting that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-QSB that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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## PART II OTHER INFORMATION

### Item 1. Legal Proceedings.

The Company was not involved in any legal proceedings during the fiscal quarter covered by this Quarterly Report of Form 10-QSB.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

#### Recent Sales of Unregistered Securities

During the three months ended March 31, 2005, the Company completed a private placement transaction with 8 accredited investors, pursuant to which the Company sold 214,666 shares of common stock at a purchase price of \$0.75 per share, for an aggregate purchase price of \$161,000. In connection with the sale of common stock, the Company also issued warrants to the investors to purchase up to 322,000 shares of our common stock at an exercise price of \$1.00 per share. The Company paid \$16,100 and issued 80,500 warrants to Venture Catalyst, LLC as placement agent for this transaction. The cash costs have been off-set against the proceeds received. Proceeds were used for general corporate purposes.

### Item 3. Defaults Upon Senior Securities.

None.

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

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None.

### Item 5. Other Information.

None.

### Item 6. Exhibits and Reports on Form 8-K.

#### (a) Exhibits

- 4.1 Form of Secured Convertible Debenture related to the Securities Purchase Agreement (as defined below), incorporated herein by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-2, as filed with the SEC on May 16, 2005
- 4.2 Form of Class A Warrant related to the Securities Purchase Agreement (as defined below), incorporated herein by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-2, as filed with the SEC on May 16, 2005
- 4.3 Form of Class B Warrant related to the Securities Purchase Agreement (as defined below), incorporated herein by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-2, as filed with the SEC on May 16, 2005
- 4.4 Registration Rights Agreement dated as of March 30, 2005 by and among the Company and the initial investors named therein related to the Securities Purchase Agreement (as defined below), incorporated herein by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-2, as filed with the SEC on May 16, 2005
- 4.5 Second Amended and Restated Senior Secured Convertible Note dated November 26, 2004 related to Gryffindor Capital Partners I, LLC, incorporated herein by reference to Exhibit 4.5 to the Company's Registration Statement on Form S-2, as filed with the SEC on May 16, 2005
- 4.6 Common Stock Purchase Warrant dated November 26, 2004 issued to Gryffindor Capital Partners I, L.L.C., incorporated herein by reference to Exhibit 4.6 to the Company's Registration Statement on Form S-2, as filed with the SEC on May 16, 2005
- 4.7 Advisory Agreement with Duncan Capital Group, LLC dated March 1, 2005, incorporated herein by reference to Exhibit 4.8 to the Company's Registration Statement on Form S-2, as filed with the SEC on May 16, 2005
- 4.8 Form of Warrant issued to Duncan Capital Group, LLC designees, incorporated herein by reference to Exhibit 4.9 to the Company's Registration Statement on Form S-2, as filed with the SEC on May 16, 2005
- 4.9 Financial Advisory and Investment Agreement with Network 1 Financial Securities, Inc. dated August 15, 2004, incorporated herein by reference to Exhibit 4.10 to the Company's Registration Statement on Form S-2, as filed with the SEC on May 16, 2005
- 4.10 Form of Warrant issued to Damon D. Testaverde and Network 1 Financial Securities, Inc., incorporated herein by reference to Exhibit 4.11 to the Company's Registration Statement on Form S-2, as filed with the SEC on May 16, 2005

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4.11 Form of Warrant issued to Selling Securityholders other than the Purchasers, incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K dated November 19, 2004, as filed with the SEC on November 19, 2004.

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4.12 Finders Fee Agreement with Centre Capital Advisors, LLC dated April 19, 2004

4.13 Form of Warrant issued to Centre Capital Advisors, LLC

4.14 Advisory Agreement with Hunter Wise Securities, LLC dated January 19, 2005

4.15 Form of Warrant issued to Hunter Wise Securities, LLC and Daniel J. McCory

10.1 Securities Purchase Agreement dated as of March 30, 2005 by and among the Company and the buyers named therein ("Securities Purchase Agreement"), incorporated herein by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-2, as filed with the SEC on May 16, 2005

10.2 Amendment No. 1 to Transaction Documents with Gryffindor Capital Partners I, L.L.C. dated November 26, 2004, incorporated herein by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-2, as filed with the SEC on May 16, 2005

31.1 Certification Pursuant to Rule 13a-14(a) (Section 302 Certification), dated May 16, 2005, executed by H. Craig Dees, Ph.D., Chief Executive Officer of the Company.

31.2 Certification Pursuant to Rule 13a-14(a) (Section 302 Certification), dated May 16, 2005, executed by Peter R. Culpepper, Chief Financial Officer of the Company.

32.1 Certification Pursuant to 18 U.S.C. ss. 1350 (Section 906 Certification), dated May 16, 2005, executed by H. Craig Dees, Ph.D., Chief Executive Officer of the Company, and Peter R. Culpepper, Chief Financial Officer of the Company.

(b) Current Reports on Form 8-K.

None

Signatures

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Provectus Pharmaceuticals, Inc.

By: /s/ H. Craig Dees, Ph.D.

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H. Craig Dees, Ph.D. Chief Executive Officer

Date: May 16, 2005

EXHIBIT INDEX

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|-------------|---|
| -----       | -----   |
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| 4.3         | Form of Class B Warrant related to the Securities Purchase Agreement (as defined below), incorporated herein by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-2, as filed with the SEC on May 16, 2005   |
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