

PROVECTUS PHARMACEUTICALS INC  
Form 10-Q  
May 15, 2009

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United States  
Securities And Exchange Commission  
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009

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 Registrant as Specified in its Charter)

Nevada  
(State or other jurisdiction of incorporation or  
organization)

90-0031917  
(I.R.S. Employer Identification Number)

7327 Oak Ridge Highway Suite A, Knoxville, TN 37931  
(Address of Principal Executive Offices)

866/594-5999  
(Issuer's Telephone Number, Including Area Code)

N/A  
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (Check one):

|                         |                                  |                   |
|-------------------------|----------------------------------|-------------------|
| Large Accelerated Filer | <input type="radio"/>            | Accelerated       |
| Filer                   | <input type="radio"/>            |                   |
| Non-Accelerated Filer   | <input type="radio"/>            | Smaller reporting |
| company                 | <input checked="" type="radio"/> |                   |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

The number of shares outstanding of the issuer's stock, \$0.001 par value per share, as of April 24, 2009 was 54,051,728.

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

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## Item 1. Financial Statements

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

CONSOLIDATED BALANCE SHEETS

|  | March 31,<br>2009<br>(Unaudited) | December<br>31, 2008<br>(Audited) |
|--|----------------------------------|-----------------------------------|
| <b>Assets</b>  |                                  |                                   |
| <b>Current Assets</b>  |                                  |                                   |
| Cash and cash equivalents  | \$ 1,498,668                     | \$ 2,796,020                      |
| Prepaid expenses and other current assets  | 82,989                           | 50,691                            |
| <b>Total Current Assets</b>  | <b>1,581,657</b>                 | <b>2,846,711</b>                  |
| Equipment and furnishings, less accumulated depreciation of \$393,547 and \$391,233, respectively  | 31,376                           | 33,690                            |
| Patents, net of amortization of \$4,272,797 and \$4,105,017, respectively  | 7,442,648                        | 7,610,428                         |
| Other assets   | 27,000                           | 27,000                            |
|  | <b>\$ 9,082,681</b>              | <b>\$ 10,517,829</b>              |
| <b>Liabilities and Stockholders' Equity</b>  |                                  |                                   |
| <b>Current Liabilities</b>   |                                  |                                   |
| Accounts payable – trade   | \$ 134,621                       | \$ 267,093                        |
| Accrued compensation and payroll taxes   | 107,692                          | 79,955                            |
| Accrued consulting expense   | 144,287                          | 66,250                            |
| Cash received in advance for pending stock transaction   | 144,000                          | --                                |
| Other accrued expenses   | 119,737                          | 48,995                            |
| <b>Total Current Liabilities</b>   | <b>650,337</b>                   | <b>462,293</b>                    |
| <b>Stockholders' Equity</b>  |                                  |                                   |
| Preferred stock; par value \$.001 per share; 25,000,000 shares authorized; no shares issued and outstanding                                    | --                               | --                                |
| Common stock; par value \$.001 per share; 100,000,000 shares authorized; 53,384,188 and 53,017,076 shares issued and outstanding, respectively | 53,384                           | 53,017                            |
| Paid-in capital  | 66,236,530                       | 65,478,126                        |
| Deficit accumulated during the development stage   | (57,857,570)                     | (55,475,607)                      |

|                            |              |               |
|----------------------------|--------------|---------------|
| Total Stockholders' Equity | 8,432,344    | 10,055,536    |
|                            | \$ 9,082,681 | \$ 10,517,829 |

See accompanying notes to consolidated financial statements.

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

|   | Three<br>Months<br>Ended<br>March 31,<br>2009 | Three<br>Months<br>Ended<br>March 31,<br>2008 | Cumulative<br>Amounts<br>from January<br>17, 2002<br>(Inception)<br>Through<br>March 31,<br>2009 |
|---|---|---|--|
| <b>Revenues</b>   |   |   |  |
| OTC product revenue   | \$ --   | \$ --   | \$ 25,648  |
| Medical device revenue  | --  | --  | 14,109   |
| <b>Total revenues</b>   | <b>--</b>                                     | <b>--</b>                                     | <b>39,757</b>  |
| <b>Cost of sales</b>  | <b>--</b>                                     | <b>--</b>                                     | <b>15,216</b>  |
| <b>Gross profit</b>   | <b>--</b>                                     | <b>--</b>                                     | <b>24,541</b>  |
| <b>Operating expenses</b>   |   |   |  |
| Research and development  | 915,933                                       | 1,063,116                                     | 16,874,714   |
| General and administrative  | 1,299,424                                     | 1,164,994                                     | 28,512,302   |
| Amortization  | 167,780                                       | 167,780                                       | 4,272,797  |
| <b>Total operating loss</b>   | <b>(2,383,137)</b>                            | <b>(2,395,890)</b>                            | <b>(49,635,272)</b>  |
| Gain on sale of fixed assets  | --  | --  | 55,075   |
| Loss on extinguishment of debt  | --  | --  | (825,867)  |
| Investment income   | 1,174   | 39,905  | 646,498  |
| Interest expense  | --  | --  | (8,098,004)  |
| <b>Net loss</b>   | <b>\$ (2,381,963)</b>                         | <b>\$ (2,355,985)</b>                         | <b>\$ (57,857,570)</b>   |
| <b>Basic and diluted loss per common share</b>                                  | <b>\$ (0.04)</b>                              | <b>\$ (0.05)</b>                              |  |
| <b>Weighted average number of common shares outstanding - basic and diluted</b> | <b>53,263,059</b>                             | <b>49,885,162</b>                             |  |

See accompanying notes to consolidated financial statements.

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

|  | Common Stock        |           |                    |                        |               |
|--|---------------------|-----------|--------------------|------------------------|---------------|
|  | Number of<br>shares | Par value | Paid-in<br>capital | Accumulated<br>deficit | Total         |
| Balance, at January 17, 2002   | --                  | \$ --     | \$ --              | \$ --                  | \$ --         |
| Issuance to founding shareholders  | 6,000,000           | 6,000     | (6,000)            | --                     | --            |
| Sale of stock  | 50,000              | 50        | 24,950             | --                     | 25,000        |
| Issuance of stock to employees   | 510,000             | 510       | 931,490            | --                     | 932,000       |
| Issuance of stock for services   | 120,000             | 120       | 359,880            | --                     | 360,000       |
| Net loss for the period from January 17, 2002 (inception) to April 23, 2002 (date of reverse merger) | --                  | --        | --                 | (1,316,198)            | (1,316,198)   |
| Balance, at April 23, 2002   | 6,680,000           | \$ 6,680  | \$ 1,310,320       | \$ (1,316,198)         | \$ 802        |
| Shares issued in reverse merger  | 265,763             | 266       | (3,911)            | --                     | (3,645)       |
| Issuance of stock for services   | 1,900,000           | 1,900     | 5,142,100          | --                     | 5,144,000     |
| Purchase and retirement of stock   | (400,000)           | (400)     | (47,600)           | --                     | (48,000)      |
| Stock issued for acquisition of Valley Pharmaceuticals   | 500,007             | 500       | 12,225,820         | --                     | 12,226,320    |
| Exercise of warrants   | 452,919             | 453       | --                 | --                     | 453           |
| Warrants issued in connection with convertible debt  | --                  | --        | 126,587            | --                     | 126,587       |
| Stock and warrants issued for acquisition of Pure-ific   | 25,000              | 25        | 26,975             | --                     | 27,000        |
| Net loss for the period from April 23, 2002 (date of reverse merger) to December 31, 2002            | --                  | --        | --                 | (5,749,937)            | (5,749,937)   |
| Balance, at December 31, 2002  | 9,423,689           | \$ 9,424  | \$ 18,780,291      | \$ (7,066,135)         | \$ 11,723,580 |
| Issuance of stock for services   | 764,000             | 764       | 239,036            | --                     | 239,800       |
| Issuance of warrants for services  | --                  | --        | 145,479            | --                     | 145,479       |
| Stock to be issued for services  | --                  | --        | 281,500            | --                     | 281,500       |
| Employee compensation from stock options   | --                  | --        | 34,659             | --                     | 34,659        |
| Issuance of stock pursuant to Regulation S   | 679,820             | 680       | 379,667            | --                     | 380,347       |
| Beneficial conversion related to convertible debt  | --                  | --        | 601,000            | --                     | 601,000       |
| Net loss for the year ended December 31, 2003  | --                  | --        | --                 | (3,155,313)            | (3,155,313)   |
| Balance, at December 31, 2003  | 10,867,509          | \$ 10,868 | \$ 20,461,632      | \$ (10,221,448)        | \$ 10,251,052 |
| Issuance of stock for services   | 733,872             | 734       | 449,190            | --                     | 449,923       |
| Issuance of warrants for services  | --                  | --        | 495,480            | --                     | 495,480       |
| Exercise of warrants   | 132,608             | 133       | 4,867              | --                     | 5,000         |
| Employee compensation from stock options   | --                  | --        | 15,612             | --                     | 15,612        |

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|   |            |           |               |                 |               |
|---|------------|-----------|---------------|-----------------|---------------|
| Issuance of stock pursuant to Regulation S        | 2,469,723  | 2,469     | 790,668       | --              | 793,137       |
| Issuance of stock pursuant to Regulation D        | 1,930,164  | 1,930     | 1,286,930     | --              | 1,288,861     |
| Beneficial conversion related to convertible debt | --         | --        | 360,256       | --              | 360,256       |
| Issuance of convertible debt with warrants        | --         | --        | 105,250       | --              | 105,250       |
| Repurchase of beneficial conversion feature       | --         | --        | (258,345)     | --              | (258,345)     |
| Net loss for the year ended December 31, 2004     | --         | --        | --            | (4,344,525)     | (4,344,525)   |
| Balance, at December 31, 2004                     | 16,133,876 | \$ 16,134 | \$ 23,711,540 | \$ (14,565,973) | \$ 9,161,701  |
| Issuance of stock for services                    | 226,733    | 227       | 152,058       | --              | 152,285       |
| Issuance of stock for interest payable            | 263,721    | 264       | 195,767       | --              | 196,031       |
| Issuance of warrants for services                 | --         | --        | 1,534,405     | --              | 1,534,405     |
| Issuance of warrants for contractual obligations  | --         | --        | 985,010       | --              | 985,010       |
| Exercise of warrants and stock options            | 1,571,849  | 1,572     | 1,438,223     | --              | 1,439,795     |
| Employee compensation from stock options          | --         | --        | 15,752        | --              | 15,752        |
| Issuance of stock pursuant to Regulation D        | 6,221,257  | 6,221     | 6,506,955     | --              | 6,513,176     |
| Debt conversion to common stock                   | 3,405,541  | 3,405     | 3,045,957     | --              | 3,049,795     |
| Issuance of warrants with convertible debt        | --         | --        | 1,574,900     | --              | 1,574,900     |
| Beneficial conversion related to convertible debt | --         | --        | 1,633,176     | --              | 1,633,176     |
| Beneficial conversion related to interest expense | --         | --        | 39,259        | --              | 39,529        |
| Repurchase of beneficial conversion feature       | --         | --        | (144,128)     | --              | (144,128)     |
| Net loss for the year ended 2005                  | --         | --        | --            | (11,763,853)    | (11,763,853)  |
| Balance, at December 31, 2005                     | 27,822,977 | \$ 27,823 | \$ 40,689,144 | \$ (26,329,826) | \$ 14,387,141 |
| Issuance of stock for services                    | 719,246    | 719       | 676,024       | --              | 676,743       |
| Issuance of stock for interest payable            | 194,327    | 195       | 183,401       | --              | 183,596       |
| Issuance of warrants for services                 | --         | --        | 370,023       | --              | 370,023       |
| Exercise of warrants and stock options            | 1,245,809  | 1,246     | 1,188,570     | --              | 1,189,816     |
| Employee compensation from stock options          | --         | --        | 1,862,456     | --              | 1,862,456     |
| Issuance of stock pursuant to Regulation D        | 10,092,495 | 10,092    | 4,120,329     | --              | 4,130,421     |
| Debt conversion to common stock                   | 2,377,512  | 2,377     | 1,573,959     | --              | 1,576,336     |
| Beneficial conversion related to interest expense | --         | --        | 16,447        | --              | 16,447        |
| Net loss for the year ended 2006                  | --         | --        | --            | (8,870,579)     | (8,870,579)   |
| Balance, at December 31, 2006                     | 42,452,366 | \$ 42,452 | \$ 50,680,353 | \$ (35,200,405) | \$ 15,522,400 |



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|  |            |           |               |                 |               |
|--|------------|-----------|---------------|-----------------|---------------|
| Issuance of stock for services                     | 150,000    | 150       | 298,800       | --              | 298,950       |
| Issuance of stock for interest payable             | 1,141      | 1         | 1,257         | --              | 1,258         |
| Issuance of warrants for services                  | --         | --        | 472,635       | --              | 472,635       |
| Exercise of warrants and stock options             | 3,928,957  | 3,929     | 3,981,712     | --              | 3,985,641     |
| Employee compensation from stock options           | --         | --        | 2,340,619     | --              | 2,340,619     |
| Issuance of stock pursuant to Regulation D         | 2,376,817  | 2,377     | 1,845,761     | --              | 1,848,138     |
| Debt conversion to common stock                    | 490,000    | 490       | 367,010       | --              | 367,500       |
| Net loss for the year ended 2007                   | --         | --        | --            | (10,005,631)    | (10,005,631)  |
| Balance, at December 31, 2007                      | 49,399,281 | \$ 49,399 | \$ 59,988,147 | \$ (45,206,036) | \$ 14,831,510 |
| Issuance of stock for services                     | 350,000    | 350       | 389,650       | --              | 390,000       |
| Issuance of warrants for services                  | --         | --        | 517,820       | --              | 517,820       |
| Exercise of warrants and stock options             | 3,267,795  | 3,268     | 2,636,443     | --              | 2,639,711     |
| Employee compensation from stock options           | --         | --        | 1,946,066     | --              | 1,946,066     |
| Net loss for the year ended 2008                   | --         | --        | --            | (10,269,571)    | (10,269,571)  |
| Balance, at December 31, 2008                      | 53,017,076 | \$ 53,017 | \$ 65,478,126 | \$ (55,475,607) | \$ 10,055,536 |
| Issuance of stock for services                     | 75,000     | 75        | 70,175        | --              | 70,250        |
| Issuance of warrants for services                  | --         | --        | 149,437       | --              | 149,437       |
| Exercise of warrants and stock options             | 292,112    | 292       | 218,792       | --              | 219,084       |
| Employee compensation from stock options           | --         | --        | 320,000       | --              | 320,000       |
| Net loss for the three months ended March 31, 2009 | --         | --        | --            | (2,381,963)     | (2,381,963)   |
| Balance, at March 31, 2009                         | 53,384,188 | \$ 53,384 | \$ 66,236,530 | \$ (57,857,570) | \$ 8,432,344  |

See accompanying notes to consolidated financial statements.

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

|  | Three<br>Months<br>Ended<br>March 31,<br>2009 | Three<br>Months<br>Ended<br>March 31,<br>2008 | Cumulative<br>Amounts<br>from January<br>17, 2002<br>(Inception)<br>through<br>March 31,<br>2009 |
|--|---|---|--|
| <b>Cash Flows From Operating Activities</b>                                |   |   |  |
| Net loss   | \$ (2,381,963)                                | \$ (2,355,985)                                | \$ (57,857,570)  |
| Adjustments to reconcile net loss to net cash used in operating activities |   |   |  |
| Depreciation   | 2,314   | 2,314   | 416,548  |
| Amortization of patents  | 167,780                                       | 167,780                                       | 4,272,797  |
| Amortization of original issue discount                                    | --  | --  | 3,845,721  |
| Amortization of commitment fee   | --  | --  | 310,866  |
| Amortization of prepaid consultant expense                                 | --  | --  | 1,295,226  |
| Amortization of deferred loan costs  | --  | --  | 2,261,584  |
| Accretion of United States Treasury Notes                                  | --  | (12,805)                                      | (373,295)  |
| Loss on extinguishment of debt   | --  | --  | 825,867  |
| Loss on exercise of warrants   | --  | --  | 236,146  |
| Beneficial conversion of convertible interest                              | --  | --  | 55,976   |
| Convertible interest   | --  | --  | 389,950  |
| Compensation through issuance of stock options                             | 320,000                                       | 494,231                                       | 6,535,164  |
| Compensation through issuance of stock                                     | --  | --  | 932,000  |
| Issuance of stock for services   | 70,250  | 93,833  | 6,782,898  |
| Issuance of warrants for services  | 149,437                                       | 45,467  | 1,683,061  |
| Issuance of warrants for contractual obligations                           | --  | --  | 985,010  |
| Gain on sale of equipment  | --  | --  | (55,075)   |
| (Increase) decrease in assets  |   |   |  |
| Prepaid expenses and other current assets                                  | (32,298)                                      | 26,723  | (82,989)   |
| Increase (decrease) in liabilities   |   |   |  |
| Accounts payable   | (132,472)                                     | (321,469)                                     | 130,976  |
| Accrued expenses   | 176,516                                       | (182,236)                                     | 521,346  |
| <b>Net cash used in operating activities</b>                               | <b>(1,660,436)</b>                            | <b>(2,042,147)</b>                            | <b>(26,887,793)</b>  |
| <b>Cash Flows from Investing Activities</b>                                |   |   |  |
| Proceeds from sale of fixed assets   | --  | --  | 180,075  |
| Capital expenditures   | --  | --  | (62,049)   |
| Proceeds from investments  | --  | 4,820,000                                     | 37,010,481   |
| Purchases of investments   | --  | (3,101,282)                                   | (36,637,186)   |
| <b>Net cash provided by investing activities</b>                           | <b>--</b>                                     | <b>1,718,718</b>                              | <b>491,321</b>   |

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| Cash Flows from Financing Activities                   |                |              |              |
|--|----------------|--------------|--------------|
| Net proceeds from loans from stockholder               | --             | --           | 174,000      |
| Proceeds from convertible debt                         | --             | --           | 6,706,795    |
| Net proceeds from sales of common stock                | --             | --           | 14,979,081   |
| Proceeds from exercises of warrants and stock options  | 219,084        | 184,402      | 9,243,354    |
| Cash received in advance for pending stock transaction | 144,000        | --           | 144,000      |
| Cash paid to retire convertible debt                   | --             | --           | (2,385,959)  |
| Cash paid for deferred loan costs                      | --             | --           | (747,612)    |
| Premium paid on extinguishments of debt                | --             | --           | (170,519)    |
| Purchase and retirement of common stock                | --             | --           | (48,000)     |
| Net cash provided by financing activities              | 363,084        | 184,402      | 27,895,140   |
| Net change in cash and cash equivalents                | \$ (1,297,352) | \$ (139,027) | \$ 1,498,668 |
| Cash and cash equivalents, at beginning of period      | \$ 2,796,020   | \$ 352,389   | \$ --        |
| Cash and cash equivalents, at end of period            | \$ 1,498,668   | \$ 213,362   | \$ 1,498,668 |

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information pursuant to Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ended December 31, 2009.

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 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 and warrants as they are antidilutive. Potential common shares excluded from the calculation at March 31, 2009 and 2008 relate to 20,976,672 and 22,718,776 from warrants, and 8,848,427 and 8,903,169 from options.

4. Equity and Debt Transactions

(a) During the three months ended March 31, 2009, the Company issued 75,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$70,250.

(b) During the three months ended March 31, 2009, the Company issued 243,612 warrants to consultants in exchange for services. Consulting costs charged to operations were \$131,476. During the three months ended March 31, 2009, 292,112 warrants were exercised for \$219,084 resulting in 292,112 shares being issued. 292,112 of the warrants exercised had an exercise price of \$0.935 that was reduced to \$0.75. Additional consulting costs of \$17,961 were charged to operations as a result of the reduction of the exercise price of the 292,112 warrants.

## 5. Stock-Based Compensation

Effective January 1, 2006, the Company adopted FASB 123R. This change in accounting replaces existing requirements under FASB 123 and eliminates the ability to account for share-based compensation transaction using APB 25. The compensation cost relating to share-based payment transactions is measured based on the fair value of the equity or liability instruments issued. For purposes of estimating the fair value of each stock option on the date of grant, the Company utilized the Black-Scholes option-pricing model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected volatility factor of the market price of the company's common stock (as determined by reviewing its historical public market closing prices). Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. Included in the results for the three months ended March 31, 2009 and 2008, is \$320,000 and \$494,231, respectively, of stock-based compensation expense which relates to the fair value of stock options.

## 6. Subsequent Events

Approximately \$3,200,000 in cash has been received in April and thus far in May 2009 due primarily to warrant exercises and sales of equity securities. The Company has received \$1,500,000 from warrant exercises and \$700,000 received in advance for pending stock transactions. The Company has also received \$1,000,000 from sales of equity securities which resulted in 1,001,663 shares of common stock and 500,837 additional warrants issued.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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-Q. Historical results and percentage relationships set forth in the statement of operations, including trends which might appear, are not necessarily indicative of future operations.

### Capital Structure

Our ability to continue as a going concern is reasonably assured due to our financing completed thus far in 2009 which includes an additional \$3,200,000 in cash that has been received in April and thus far in May 2009 due primarily to warrant exercises and an immaterial amount of sales of equity securities. Given our current rate of expenditures, we expect to raise additional capital in 2009 to ensure we continue as a going concern. However, our existing funds are sufficient to meet minimal necessary expenses during 2009.

We have implemented our integrated business plan, including execution of the current and next phases in clinical development of our pharmaceutical products and continued execution of research programs for new research initiatives.

We intend to proceed as rapidly as possible with a majority stake asset sale and subsequent licensure of our OTC products that can be sold with a minimum of regulatory compliance and with the further development of revenue sources through a majority stake asset sale and subsequent licensing of our existing medical device and biotech intellectual property portfolio. Although we believe that there is a reasonable basis for our expectation that we will become profitable due to the asset sale of a majority stake via a spin-out transaction of the wholly-owned subsidiary that contains the OTC assets and subsequent licensure of our OTC products, 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 have added two additional consultants and anticipate adding two more consultants in the next 12 months. Our current plans also include minimal purchases of new property, plant and equipment, and increased research and development for additional clinical trials.

### 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 core intellectual properties and OTC and other non-core products. This combination represents the foundation for an operating company that we believe will provide both profitability and long-term growth. In 2008 and the first quarter of 2009, we continued to carefully control expenditures in preparation for the asset sale and licensure or spin out of our OTC products, medical device and biotech technologies, and we will issue equity only when it makes sense and primarily for purposes of attracting strategic investors.

In the short term, we intend to develop our business by licensing our existing OTC products, principally Pure-Stick, GloveAid and Pure-ific, and selling a majority stake of the OTC assets. We are planning the majority sale of the OTC assets via a spin-out transaction of the wholly-owned subsidiary that contains the OTC assets. We also plan to license our medical device and biotech technologies and sell a majority stake via a spin-out transaction of those non-core wholly-owned subsidiaries. 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 for prescription drugs in particular. Additionally, we have restarted our research programs that will identify additional conditions that our intellectual properties may be used to treat as well as additional treatments for those and other conditions.

We have continued to make significant progress with the major research and development projects expected to be ongoing in the next 12 months. The Phase 2 trial in metastatic melanoma has been significantly completed which is expected to cost approximately \$362,000 during the remainder of 2009 and has cost approximately \$2,638,000 through March 31, 2009. Additionally, we planned \$675,000 of expenditures in 2007 and 2008 to substantially advance our work with other oncology indications which included the third group of our expanded Phase 1 breast carcinoma clinical trial. The third group of our expanded Phase 1 breast carcinoma clinical trial was completed in September 2008. Our Phase 2 psoriasis trial commenced in November 2007 and is expected to cost approximately \$1,725,000, of which approximately \$1,508,000 has been expended thus far. Our Phase 2 atopic dermatitis trial commenced in May 2008 and the cost is included in the psoriasis trial budget and actual figures. Our Phase 1 liver cancer trial is expected to commence in the first half of 2009 and is expected to cost approximately \$600,000, of which approximately \$501,000 has been expended thus far. We anticipate expending \$678,000 during the remainder of 2009 for direct clinical trial expense. This includes the remaining 2009 expenditures for all projects currently planned. The table below summarizes our projects, the actual costs expended to date and costs expected after March 31, 2009.

| Projects     | Planned<br>Project Cost | Expenditures<br>through<br>March 31,<br>2009 | Expected<br>after<br>March 31,<br>2009 |
|--------------|-------------------------|--|--|
| Melanoma     | \$ 3,000,000            | \$ 2,638,000                                 | \$ 362,000                             |
| Breast/Other | \$ 675,000              | \$ 675,000                                   | \$ -0-                                 |
| Psoriasis/AD | \$ 1,725,000            | \$ 1,508,000                                 | \$ 217,000                             |
| Liver        | \$ 600,000              | \$ 501,000                                   | \$ 99,000                              |

### Comparison of Three Months Ended March 31, 2009 and March 31, 2008

#### Revenues

OTC Product Revenue was \$-0- in both the three months ended March 31, 2009 and 2008. We discontinued our proof-of-concept program in November 2006 and have therefore ceased selling our OTC products. There was no medical device revenue in both the three months ended March 31, 2009 and 2008. The lack of medical device revenue resulted due to no emphasis on selling. The Company has designated the OTC and medical device products as non-core and is considering the sale of the underlying assets in conjunction with the planned spin-out of the respective wholly-owned subsidiaries.

#### Research and development

Research and development costs of \$915,933 for the three months ended March 31, 2009 included payroll of \$517,437, consulting and contract labor of \$272,083, legal of \$51,789, insurance of \$32,328, lab supplies and pharmaceutical preparations of \$22,175, rent and utilities of \$17,807, and depreciation expense of \$2,314. Research and development costs of \$1,063,116 for the three months ended March 31, 2008 included payroll of \$734,001, consulting and contract labor of \$176,045, legal of \$91,948, insurance of \$18,523, lab supplies and pharmaceutical preparations of \$19,492, rent and utilities of \$20,793, and depreciation expense of \$2,314. The decrease in payroll is the result of lower stock-based compensation expense and less pension expense due to quarterly versus annual allocation, offset partially by an increase in salaries. The increase in consulting and contract labor is primarily the result of expense necessary to manage the Phase 2 metastatic melanoma clinical trial which is operating at full speed.

#### General and administrative

General and administrative expenses increased by \$134,430 in the three months ended March 31, 2009 to \$1,299,424 from \$1,164,994 for the three months ended March 31, 2008. The increase resulted primarily from approximately \$260,000 of additional investor relations and conference expenses. This increase was partially offset by approximately \$170,000 of lower payroll expenses for general corporate purposes as a result of lower stock-based compensation expense and less pension expense due to quarterly versus annual allocation, offset partially by an increase in salaries.

#### Investment income

Investment income decreased by \$38,731 in the three months ended March 31, 2009 to \$1,174 from \$39,905 in the three months ended March 31, 2008. The decrease resulted due to lower interest rates on cash and cash equivalents as well as lower balances in 2009 versus 2008.



Cash Flow

Our cash and cash equivalents were \$1,500,000 at March 31, 2009, compared with \$2,800,000 at December 31, 2008. The decrease of \$1,300,000 was due primarily to cash of \$1,519,000 used in operating activities, partially offset by \$219,000 from the exercises of warrants and stock options during the three months ended March 31, 2009. We have maintained our expenditure rate in 2009 primarily with our clinical trial projects and our investor relations efforts to communicate the progress of the Company. In addition, approximately \$3,200,000 in cash has been received in April and thus far in May 2009 due primarily to warrant exercises and sales of equity securities. The Company has received \$1,500,000 from warrant exercises and \$700,000 received in advance for pending stock transactions. The Company has also received \$1,000,000 from sales of equity securities which resulted in 1,001,663 shares of common stock and 500,837 additional warrants issued.

At our current cash expenditure rate, our cash and cash equivalents will be sufficient to meet our current and planned needs in 2009 since we expect additional cash inflows from the exercise of existing warrants and sales of equity securities. If we do not have sufficient cash inflows from the exercise of existing warrants and sales of equity securities, then we will reduce administrative expenses including management salaries which will enable us to meet minimum expenditures planned during the remainder of 2009. Since we plan for \$678,000 of direct clinical trial expense and \$650,000 of fixed expenses to operate during the remainder of 2009, we have enough cash to fund the remainder of the 2009 operations with the cash on hand at March 31, 2009 and the \$3,200,000 of additional proceeds received in April and thus far in May 2009.

We are seeking to improve our cash flow through the majority stake asset sale and licensure of our OTC products as well as other non-core assets. However, we cannot assure you that we will be successful in selling a majority stake of the OTC and other non-core assets via a spin-out transaction and licensing our existing OTC products. Moreover, even if we are successful in improving our current cash flow position, we nonetheless plan to seek additional funds to meet our long-term requirements in 2010 and beyond. We anticipate that these funds will come from the proceeds of private placements, the exercise of existing warrants outstanding, or public offerings of debt or equity securities. We also intend to license our dermatology drug product candidate portfolio once we have completed our Phase 2 psoriasis and atopic eczema studies later in 2009.

#### 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 any required funds for our operating and development needs beyond 2009 will come from the proceeds of private placements, the exercise of existing warrants outstanding, 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.

#### Critical Accounting Policies

##### Long-Lived Assets

We review the carrying values of our long-lived assets for possible impairment whenever an event or change in circumstances indicates that the carrying amount of the assets may not be recoverable. Any long-lived assets held for disposal are reported at the lower of their carrying amounts or fair value less cost to sell. Management has determined there to be no impairment.

##### Patent Costs

Internal patent costs are expensed in the period incurred. Patents purchased are capitalized and amortized over their remaining lives, which range from 8-13 years. Annual amortization of the patents is expected to be approximately \$671,000 for the next year.

##### Stock-Based Compensation

We adopted Financial Accounting Standards Board ("FASB") Statement No. 123 (revised 2004), "Share-Based Payment" (FASB 123R), effective January 1, 2006 under the modified prospective method, which recognizes compensation cost beginning with the effective date (a) based on the requirements of FASB 123R for all share-based payments granted after the effective date and to awards modified, repurchased, or cancelled after that date and (b) based on the requirements of FASB 123 for all awards granted to employees prior to the effective date of FASB 123R that remain unvested on the effective date.

The compensation cost relating to share-based payment transactions is measured based on the fair value of the equity or liability instruments issued and is expensed on a straight-line basis. For purposes of estimating the fair value of each stock option, on the date of grant, we utilized the Black-Scholes option-pricing model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected volatility factor of the market price of the company's common stock (as determined by reviewing its historical public market closing prices). Because our employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The Company records the fair value of warrants granted to non-employees in exchange for services in accordance with EITF 96-18 "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." Warrants to non-employees are generally vested and nonforfeitable upon the date of the grant. Accordingly fair value is determined on the grant date.

## Research and Development

Research and development costs are charged to expense when incurred. An allocation of payroll expenses to research and development is made based on a percentage estimate of time spent. The research and development costs include the following: consulting - IT, depreciation, lab equipment repair, lab supplies and pharmaceutical preparations, insurance, legal - patents, office supplies, payroll expenses, rental - building, repairs, software, taxes and fees, and utilities.

## Accounting Pronouncement

None.

## Contractual Obligations - Leases

We lease office and laboratory space in Knoxville, Tennessee, on an annual basis, renewable for one year at our option. We are committed to pay a total of \$13,500 in lease payments over three months, which is the remainder of our current lease term at March 31, 2009.

## Forward-Looking Statements

This Quarterly Report on Form 10-Q 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 below under the heading "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. We caution investors that these discussions of 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-Q 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. Quantitative and Qualitative Disclosures About Market Risk.

### Item 4T. 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, 2009, the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q. 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-Q 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-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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-Q.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

31.1 Certification Pursuant to Rule 13a-14(a) (Section 302 Certification), dated May 15, 2009, 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 15, 2009, 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 15, 2009, executed by H. Craig Dees, Ph.D., Chief Executive Officer of the Company, and Peter R. Culpepper, Chief Financial Officer of the Company.

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.

Date: May 15, 2009

By: /s/ H. Craig Dees, Ph.D.  
H. Craig Dees, Ph.D.  
Chief Executive Officer

EXHIBIT INDEX

| Exhibit No. | Description   |
|-------------|---|
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