

PROVECTUS PHARMACEUTICALS INC

Form 10-Q

August 09, 2011

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2011**

**☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 000-09410**

**PROVECTUS PHARMACEUTICALS, INC.**

(Exact name of registrant as specified in its charter)

Nevada

90-0031917

(State or other jurisdiction of incorporation or  
organization)

(I.R.S. Employer Identification No.)

7327 Oak Ridge Highway, Suite A, Knoxville, Tennessee 37931

(Address of principal executive offices) (Zip Code)

866-594-5999

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☐ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐  
(Do not check if a smaller reporting company)

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

The number of shares outstanding of the registrant's common stock, par value \$.001 per share, as of July 18, 2011 was 108,659,601. The number of shares outstanding of the issuer's 8% convertible preferred stock, par value \$.001 per share, as of July 18, 2011 was 4,293,332.

## TABLE OF CONTENTS

|                                                                                                                  |    |
|------------------------------------------------------------------------------------------------------------------|----|
| <b><u>PART I FINANCIAL INFORMATION</u></b>                                                                       | 1  |
| <u>Item 1. Financial Statements (unaudited)</u>                                                                  | 1  |
| <u>Condensed Consolidated Balance Sheets as of June 30, 2011 and December 31, 2010</u>                           | 1  |
| <u>Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2011 and 2010</u> | 2  |
| <u>Condensed Consolidated Statements of Stockholders' Equity</u>                                                 | 3  |
| <u>Condensed Consolidated Statements of Cash Flow</u>                                                            | 4  |
| <u>Notes to Condensed Consolidated Financial Statements</u>                                                      | 6  |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>             | 10 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>                                        | 12 |
| <u>Item 4. Controls and Procedures</u>                                                                           | 12 |
| <b><u>PART II OTHER INFORMATION</u></b>                                                                          | 13 |
| <u>Item 1. Legal Proceedings</u>                                                                                 | 13 |
| <u>Item 1A. Risk Factors</u>                                                                                     | 13 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>                                       | 13 |
| <u>Item 3. Defaults Upon Senior Securities</u>                                                                   | 13 |
| <u>Item 4. [Removed and Reserved.]</u>                                                                           | 13 |
| <u>Item 5. Other Information</u>                                                                                 | 13 |
| <u>Item 6. Exhibits</u>                                                                                          | 13 |
| <b><u>SIGNATURES</u></b>                                                                                         | 14 |
| <u>EX-31.1</u>                                                                                                   |    |
| <u>EX-31.2</u>                                                                                                   |    |
| <u>EX-32</u>                                                                                                     |    |
| <u>EX-101 INSTANCE DOCUMENT</u>                                                                                  |    |
| <u>EX-101 SCHEMA DOCUMENT</u>                                                                                    |    |
| <u>EX-101 CALCULATION LINKBASE DOCUMENT</u>                                                                      |    |
| <u>EX-101 LABELS LINKBASE DOCUMENT</u>                                                                           |    |
| <u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>                                                                     |    |
| <u>EX-101 DEFINITION LINKBASE DOCUMENT</u>                                                                       |    |

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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

PROVECTUS PHARMACEUTICALS, INC.  
(A Development-Stage Company)  
CONDENSED CONSOLIDATED BALANCE SHEETS

|                                                                                     | <b>June 30,<br/>2011<br/>(Unaudited)</b> | <b>December 31,<br/>2010<br/>(Audited)</b> |
|-------------------------------------------------------------------------------------|------------------------------------------|--------------------------------------------|
| Assets                                                                              |                                          |                                            |
| Current Assets                                                                      |                                          |                                            |
| Cash and cash equivalents                                                           | \$ 14,390,120                            | \$ 8,086,200                               |
| Prepaid expenses and other current assets                                           | 93,665                                   |                                            |
| Total Current Assets                                                                | 14,483,785                               | 8,086,200                                  |
| Equipment and furnishings, less accumulated depreciation of \$413,219 and \$409,442 | 23,690                                   | 21,320                                     |
| Patents, net of amortization of \$5,782,817 and \$5,447,257, respectively           | 5,932,628                                | 6,268,188                                  |
| Other assets                                                                        | 27,000                                   | 27,000                                     |
|                                                                                     | \$ 20,467,103                            | \$ 14,402,708                              |
| Liabilities and Stockholders' Equity                                                |                                          |                                            |
| Current Liabilities                                                                 |                                          |                                            |
| Accounts payable - trade                                                            | \$ 373,043                               | \$ 418,477                                 |
| Accrued compensation and payroll taxes                                              | 168,537                                  | 781,262                                    |
| Accrued consulting expense                                                          | 71,000                                   | 110,000                                    |
| Other accrued expenses                                                              | 40,000                                   | 40,000                                     |
| Total Current Liabilities                                                           | 652,580                                  | 1,349,739                                  |
| Warrant liability                                                                   | 5,039,950                                | 2,353,396                                  |
| Total Liabilities                                                                   | 5,692,530                                | 3,703,135                                  |
| Stockholders' Equity                                                                | 4,218                                    | 5,390                                      |

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Preferred stock; par value \$.001 per share; 25,000,000 shares authorized;  
4,218,332 and 5,389,998 shares issued and outstanding, respectively,  
liquidation preference (in aggregate \$3,227,973 and \$4,122,245,  
respectively)

Common stock; par value \$.001 per share; 150,000,000 authorized;

108,659,601 and 91,297,883 shares issued and outstanding, respectively

Paid-in capital

Deficit accumulated during the development stage

|              |              |
|--------------|--------------|
| 108,660      | 91,298       |
| 110,551,690  | 96,952,908   |
| (95,889,995) | (86,350,023) |

Total Stockholders Equity

|            |            |
|------------|------------|
| 14,774,573 | 10,699,573 |
|------------|------------|

|               |               |
|---------------|---------------|
| \$ 20,467,103 | \$ 14,402,708 |
|---------------|---------------|

See accompanying notes to consolidated financial statements.

1

**Table of Contents**

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

|                                                      |                                                     | <b>Three<br/>Months</b>                                         |                                               | <b>Six Months</b>                                               | <b>Cumulative<br/>Amounts<br/>from<br/>January 17,<br/>2002</b> |
|------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------------------|-----------------------------------------------|-----------------------------------------------------------------|-----------------------------------------------------------------|
|                                                      | <b>Three<br/>Months<br/>Ended<br/>June 30, 2011</b> | <b>Ended<br/>June 30,<br/>2010<br/>(As Restated<br/>Note 8)</b> | <b>Six Months<br/>Ended<br/>June 30, 2011</b> | <b>Ended<br/>June 30,<br/>2010<br/>(As Restated<br/>Note 8)</b> | <b>(Inception)<br/>Through<br/>June 30, 2011</b>                |
| Revenues                                             |                                                     |                                                                 |                                               |                                                                 |                                                                 |
| OTC product revenue                                  | \$                                                  | \$                                                              | \$                                            | \$                                                              | \$ 25,648                                                       |
| Medical device revenue                               |                                                     |                                                                 |                                               |                                                                 | 14,109                                                          |
| Total revenues                                       |                                                     |                                                                 |                                               |                                                                 | 39,757                                                          |
| Cost of sales                                        |                                                     |                                                                 |                                               |                                                                 | 15,216                                                          |
| Gross profit                                         |                                                     |                                                                 |                                               |                                                                 | 24,541                                                          |
| Operating expenses                                   |                                                     |                                                                 |                                               |                                                                 |                                                                 |
| Research and development                             | 2,007,368                                           | 2,130,349                                                       | 3,529,472                                     | 2,923,283                                                       | 32,814,970                                                      |
| General and administrative                           | 3,203,814                                           | 3,223,699                                                       | 5,707,485                                     | 5,131,052                                                       | 51,270,486                                                      |
| Amortization                                         | 167,780                                             | 167,780                                                         | 335,560                                       | 335,560                                                         | 5,782,817                                                       |
| Total operating loss                                 | (5,378,962)                                         | (5,521,828)                                                     | (9,572,517)                                   | (8,389,895)                                                     | (89,843,732)                                                    |
| Gain on sale of fixed<br>assets                      |                                                     |                                                                 |                                               |                                                                 | 55,075                                                          |
| Loss on extinguishment of<br>debt                    |                                                     |                                                                 |                                               |                                                                 | (825,867)                                                       |
| Investment income                                    | 213                                                 | 268                                                             | 369                                           | 318                                                             | 650,712                                                         |
| Gain on change in fair<br>value of warrant liability | 843,271                                             | 2,137,746                                                       | 32,176                                        | 1,502,747                                                       | 2,171,821                                                       |
| Net interest expense                                 |                                                     |                                                                 |                                               |                                                                 | (8,098,004)                                                     |
| Net loss                                             | (4,535,478)                                         | (3,383,814)                                                     | (9,539,972)                                   | (6,886,830)                                                     | \$ (95,889,995)                                                 |

|                                                                        |                |                |                |                 |
|------------------------------------------------------------------------|----------------|----------------|----------------|-----------------|
| Dividends on preferred stock                                           | (64,224)       | (2,244,392)    | (134,158)      | (10,216,635)    |
| Net loss applicable to common shareholders                             | \$ (4,599,702) | \$ (5,628,206) | \$ (9,674,130) | \$ (17,103,465) |
| Basic and diluted loss per common share                                | \$ (0.04)      | \$ (0.07)      | \$ (0.09)      | \$ (0.23)       |
| Weighted average number of common shares outstanding basic and diluted | 105,794,099    | 78,132,005     | 101,914,292    | 73,580,080      |

See accompanying notes to consolidated financial statements.

**Table of Contents**

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

|                                                                                                      | Preferred Stock |       | Common Stock |          | Paid in      | Accumulated    |             |
|------------------------------------------------------------------------------------------------------|-----------------|-------|--------------|----------|--------------|----------------|-------------|
|                                                                                                      | Number of       | Par   | Number of    | Par      | capital      | Deficit        | Total       |
|                                                                                                      | Shares          | Value | Shares       | Value    |              |                |             |
| <b>Balance, at January 17, 2002</b>                                                                  |                 | \$    |              | \$       | \$           | \$             | \$          |
| 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) |
| <b>Balance, at April 23, 2002</b>                                                                    |                 | \$    | 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                                                       |                 |       |              |          | 126,587      |                | 126,587     |

|                                                                                           |        |    |             |             |
|-------------------------------------------------------------------------------------------|--------|----|-------------|-------------|
| debt                                                                                      |        |    |             |             |
| 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       |    |            |    |        |    | 495,480    |    |              |    | 495,480    |

|                                                         |           |       |             |             |
|---------------------------------------------------------|-----------|-------|-------------|-------------|
| services                                                |           |       |             |             |
| Exercise of warrants                                    | 132,608   | 133   | 4,867       | 5,000       |
| Employee compensation from stock options                |           |       | 15,612      | 15,612      |
| Issuance of stock pursuant to Regulation S              | 2,469,723 | 2,469 | 790,668     | 793,137     |
| Issuance of stock and warrants 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 |
|                                                  |    |            |    |        |    | 15,752     |    |              |    | 15,752    |

|                                                         |           |       |              |              |
|---------------------------------------------------------|-----------|-------|--------------|--------------|
| Employee compensation from stock options                |           |       |              |              |
| Issuance of stock and warrants 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    | 3,049,362    |
| 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       |           |       | 39,529       | 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 and warrants pursuant to |    | 10,092,495 |    | 10,092 |    | 4,120,329  |    |              |    | 4,130,421  |

|                                                                                                                                                         |           |       |             |             |           |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-------|-------------|-------------|-----------|
| Regulation D<br>Debt conversion<br>to common stock<br>Beneficial<br>conversion<br>related to interest<br>expense<br>Net loss for the<br>year ended 2006 | 2,377,512 | 2,377 | 1,573,959   |             | 1,576,336 |
|                                                                                                                                                         |           |       | 16,447      |             | 16,447    |
|                                                                                                                                                         |           |       | (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 |
| Issuance of stock<br>for services                                |    | 150,000    | 150       | 298,800       |                 | 298,950       |
| Issuance of stock<br>for interest<br>payable                     |    | 1,141      | 1         | 1,257         |                 | 1,258         |
| Issuance of<br>warrants for<br>services                          |    |            |           | 472,635       |                 | 472,635       |
| Exercise of<br>warrants and<br>stock options                     |    | 3,928,957  | 3,929     | 3,981,712     |                 | 3,985,641     |
| Employee<br>compensation<br>from stock<br>options                |    |            |           | 2,340,619     |                 | 2,340,619     |
| Issuance of stock<br>and warrants<br>pursuant to<br>Regulation D |    | 2,376,817  | 2,377     | 1,845,761     |                 | 1,848,138     |
| Debt conversion<br>to common stock                               |    | 490,000    | 490       | 367,010       |                 | 367,500       |
| Net loss for the<br>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<br>for services       |    | 350,000    | 350       | 389,650       |                 | 390,000       |
| Issuance of<br>warrants for<br>services |    |            |           | 517,820       |                 | 517,820       |
| Exercise of<br>warrants and             |    | 3,267,795  | 3,268     | 2,636,443     |                 | 2,639,711     |

|                  |  |  |           |              |              |
|------------------|--|--|-----------|--------------|--------------|
| stock options    |  |  |           |              |              |
| 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      |    | 796,012    | 796       | 694,204       |                 | 695,000       |
| Issuance of       |    |            |           |               |                 |               |
| warrants for      |    |            |           |               |                 |               |
| services          |    |            |           | 1,064,210     |                 | 1,064,210     |
| Exercise of       |    |            |           |               |                 |               |
| warrants and      |    |            |           |               |                 |               |
| stock options     |    | 3,480,485  | 3,480     | 2,520,973     |                 | 2,524,453     |
| Employee          |    |            |           |               |                 |               |
| compensation      |    |            |           |               |                 |               |
| from stock        |    |            |           |               |                 |               |
| options           |    |            |           | 870,937       |                 | 870,937       |
| Issuance of stock |    |            |           |               |                 |               |
| and warrants      |    |            |           |               |                 |               |
| pursuant to       |    |            |           |               |                 |               |
| Regulation D      |    | 10,116,653 | 10,117    | 6,508,571     |                 | 6,518,688     |
| Net loss for the  |    |            |           |               |                 |               |
| year ended 2009   |    |            |           |               | (12,322,314)    | (12,322,314)  |

**Balance, at  
December 31,  
2009**

|                   |    |            |           |               |                 |              |
|-------------------|----|------------|-----------|---------------|-----------------|--------------|
|                   | \$ | 67,410,226 | \$ 67,410 | \$ 77,137,021 | \$ (67,797,921) | \$ 9,406,510 |
| Issuance of stock |    |            |           |               |                 |              |
| for services      |    | 776,250    | 776       | 855,837       |                 | 856,613      |
| Issuance of       |    |            |           |               |                 |              |
| warrants for      |    |            |           |               |                 |              |
| services          |    |            |           | 1,141,593     |                 | 1,141,593    |
| Exercise of       |    |            |           |               |                 |              |
| warrants and      |    |            |           |               |                 |              |
| stock options     |    | 3,491,014  | 3,491     | 3,100,189     |                 | 3,103,680    |
| Issuance of       |    |            |           |               |                 |              |
| common stock      |    |            |           |               |                 |              |
| pursuant to       |    |            |           |               |                 |              |
| Regulation S      |    | 559,000    | 559       | 418,691       |                 | 419,250      |
| Issuance of       |    | 11,168,067 | 11,169    | 6,335,820     |                 | 6,346,989    |
| common stock      |    |            |           |               |                 |              |
| and warrants      |    |            |           |               |                 |              |
| pursuant to       |    |            |           |               |                 |              |

|                                                                               |             |         |           |       |           |              |              |
|-------------------------------------------------------------------------------|-------------|---------|-----------|-------|-----------|--------------|--------------|
| Regulation D<br>Issuance of<br>preferred stock<br>pursuant to<br>Regulation D | 13,283,324  | 13,283  |           |       | 4,204,107 |              | 4,217,390    |
| Preferred stock<br>conversions into<br>common stock                           | (7,893,326) | (7,893) | 7,893,326 | 7,893 |           |              |              |
| Employee<br>compensation<br>from stock<br>options                             |             |         |           |       | 3,759,650 |              | 3,759,650    |
| Net loss for the<br>year ended 2010                                           |             |         |           |       |           | (18,552,102) | (18,552,102) |

**Balance, at  
December 31,  
2010**

|                                                                            |             |          |            |           |               |                 |               |
|----------------------------------------------------------------------------|-------------|----------|------------|-----------|---------------|-----------------|---------------|
|                                                                            | 5,389,998   | \$ 5,390 | 91,297,883 | \$ 91,298 | \$ 96,952,908 | \$ (86,350,023) | \$ 10,699,573 |
| Issuance of stock<br>for services                                          |             |          | 150,000    | 150       | 147,100       |                 | 147,250       |
| Issuance of<br>warrants for<br>services                                    |             |          |            |           | 389,172       |                 | 389,172       |
| Exercise of<br>warrants and<br>stock options                               |             |          | 6,485,522  | 6,485     | 6,304,724     |                 | 6,311,209     |
| Issuance of<br>common stock<br>and warrants<br>pursuant to<br>Regulation D |             |          | 9,554,532  | 9,555     | 6,757,786     |                 | 6,767,341     |
| Preferred stock<br>conversions into<br>common stock                        | (1,171,666) | (1,172)  | 1,171,664  | 1,172     |               |                 |               |
| Net loss for the<br>six months ended<br>June 30, 2011                      |             |          |            |           |               | (9,539,972)     | (9,539,972)   |

**Balance, at  
June 30, 2011**

|  |           |          |             |            |                |                 |               |
|--|-----------|----------|-------------|------------|----------------|-----------------|---------------|
|  | 4,218,332 | \$ 4,218 | 108,659,601 | \$ 108,660 | \$ 110,551,690 | \$ (95,889,995) | \$ 14,774,573 |
|--|-----------|----------|-------------|------------|----------------|-----------------|---------------|

See accompanying notes to consolidated financial statements.

**Table of Contents**

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

|                                                                            | Six Months<br>Ended<br>June 30,<br>2011 | Six Months<br>Ended<br>June 30,<br>2010<br>(As Restated<br>Note 8) | Cumulative<br>Amounts from<br>January 17, 2002<br>(Inception)<br>through<br>June 30, 2011 |
|----------------------------------------------------------------------------|-----------------------------------------|--------------------------------------------------------------------|-------------------------------------------------------------------------------------------|
| Cash Flows From Operating Activities                                       |                                         |                                                                    |                                                                                           |
| Net loss                                                                   | \$ (9,539,972)                          | \$ (6,886,830)                                                     | \$ (95,889,995)                                                                           |
| Adjustments to reconcile net loss to net cash used in operating activities |                                         |                                                                    |                                                                                           |
| Depreciation                                                               | 3,777                                   | 4,689                                                              | 436,220                                                                                   |
| Amortization of patents                                                    | 335,560                                 | 335,560                                                            | 5,782,817                                                                                 |
| 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 Bills                                  |                                         |                                                                    | (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                             |                                         | 254,149                                                            | 10,845,751                                                                                |
| Compensation through issuance of stock                                     |                                         |                                                                    | 932,000                                                                                   |
| Issuance of stock for services                                             | 147,250                                 | 508,113                                                            | 8,411,511                                                                                 |
| Issuance of warrants for services                                          | 389,172                                 | 999,991                                                            | 4,128,599                                                                                 |
| Issuance of warrants for contractual obligations                           |                                         |                                                                    | 985,010                                                                                   |
| Gain on sale of equipment                                                  |                                         |                                                                    | (55,075)                                                                                  |
| Gain on change in fair value of warrant liability                          | (32,176)                                | (1,502,747)                                                        | (2,171,821)                                                                               |
| Change in assets and liabilities                                           |                                         |                                                                    |                                                                                           |
| Prepaid expenses and other current assets                                  | (93,665)                                | (218,044)                                                          | (93,665)                                                                                  |
| Accounts payable                                                           | (45,434)                                | (153,379)                                                          | 369,398                                                                                   |
| Accrued expenses                                                           | (651,725)                               | 108,922                                                            | 429,167                                                                                   |
| Net cash used in operating activities                                      | (9,487,213)                             | (6,549,576)                                                        | (57,042,042)                                                                              |
| Cash Flows From Investing Activities                                       |                                         |                                                                    |                                                                                           |
| Proceeds from sale of fixed assets                                         |                                         |                                                                    | 180,075                                                                                   |
| Capital expenditures                                                       | (6,147)                                 |                                                                    | (74,035)                                                                                  |
| Proceeds from sales of investments                                         |                                         |                                                                    | 37,010,481                                                                                |
| Purchases of investments                                                   |                                         |                                                                    | (36,637,186)                                                                              |

|                                                         |            |            |             |
|---------------------------------------------------------|------------|------------|-------------|
| Net cash (used in) provided by investing activities     | (6,147)    |            | 479,335     |
| 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 preferred stock and warrants |            | 8,908,131  | 8,908,131   |
| Net proceeds from sales of common stock and warrants    | 9,486,071  | 5,194,589  | 37,750,079  |
| Proceeds from exercises of warrants and stock options   | 6,311,209  | 1,718,150  | 20,765,912  |
| 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               | 15,797,280 | 15,820,870 | 70,952,827  |

**Table of Contents**

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

|                                                   | <b>Six Months<br/>Ended<br/>June 30,<br/>2011</b> | <b>Six Months<br/>Ended<br/>June 30,<br/>2010<br/>(As Restated<br/>Note 8)</b> | <b>Cumulative<br/>Amounts from<br/>January 17, 2002<br/>(Inception)<br/>through<br/>June 30, 2011</b> |
|---------------------------------------------------|---------------------------------------------------|--------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|
| Net change in cash and cash equivalents           | \$ 6,303,920                                      | \$ 9,271,294                                                                   | \$ 14,390,120                                                                                         |
| Cash and cash equivalents, at beginning of period | \$ 8,086,200                                      | \$ 3,237,178                                                                   | \$                                                                                                    |
| Cash and cash equivalents, at end of period       | \$ 14,390,120                                     | \$ 12,508,472                                                                  | \$ 14,390,120                                                                                         |

## Supplemental Disclosure of Noncash Investing and Financing Activities:

During the six months ended June 30, 2011 the Company has reclassified \$485,467 from warrant liability to equity due to exercise of warrants.

See accompanying notes to consolidated financial statements.

**Table of Contents**

NOTES TO CONDENSED 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 six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ended December 31, 2011. The Company has evaluated subsequent events through the date the financial statements were issued.

**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 and convertible preferred stock as they are antidilutive. Potential common shares excluded from the calculation at June 30, 2011 and 2010, respectively, relate to 24,348,302 and 28,170,564 from warrants, 11,290,956 and 8,715,955 from options, and 4,218,332 and 13,283,324 from convertible preferred shares. Included in the weighted average number of shares outstanding are 223,214 and 473,567 common shares committed to be issued but not outstanding at June 30, 2011 and 2010, respectively.

**4. Equity Transactions**

(a) During the three months ended March 31, 2011, the Company issued 75,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$67,000. During the three months ended June 30, 2011, the Company issued 75,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$80,250.

(b) During the three months ended March 31, 2011, the Company issued 641,500 warrants to consultants in exchange for services. Consulting costs charged to operations were \$389,172. During the three months ended March 31, 2011, 1,497,328 warrants were exercised for \$1,400,001 resulting in 1,497,328 common shares being issued. 2,048,671

warrants were exercised in December 2010 and the corresponding cash of \$1,915,509 was received in January 2011 and common shares of 2,048,671 were issued in January 2011. During the three months ended March 31, 2011, 193,333 warrants were forfeited. During the three months ended June 30, 2011, 2,322,857 warrants were exercised for \$2,171,801 resulting in 2,322,857 common shares being issued.

**Table of Contents**

(c) In January 2011, we directed Lincoln Park Capital Fund, LLC to purchase 50,000 shares of our common stock for an aggregate purchase price of \$44,665. The Company issued 2,233 common shares to Lincoln Park at a fair market value of \$1,995 as commitment shares in consideration for Lincoln Park to enter into the purchase agreement. In addition to the foregoing investment, under the purchase agreement, we may, in our sole discretion, direct Lincoln Park to purchase up to an additional \$29,950,000 of our common stock over the 30-month term of the purchase agreement at no less than \$0.75 per share. However, under a securities purchase agreement that we entered into in January 2011, we have agreed not to draw down on the Lincoln Park purchase agreement until on or after November 16, 2011. On January 13, 2011, the Company and certain investors entered into a securities purchase agreement, pursuant to which the Company agreed to sell in a registered direct public offering an aggregate of 5,454,550 shares of its common stock and warrants to purchase a total of 7,527,279 shares of its common stock to such investors for aggregate gross proceeds of \$5,100,004. The warrants consist of the following: Series A Warrants to purchase up to 40% of the shares of common stock, Series B Warrants to purchase up to 70% of the shares of common stock, and Series C Warrants to purchase up to 28% of the common stock. The Series A Warrants and the Series C Warrants have an exercise price of \$1.12 per share, subject to adjustment, and expire five years after their issuance. The Series B Warrants have an exercise price \$0.935 per share, subject to adjustment, and expire 150 days after their issuance. The Series C Warrants are only exercisable to the extent that the Series B Warrants are exercised and only in the same percentage that the Series B Warrants are exercised. At March 31, 2011, 1,497,328 of the Series B Warrants were exercised resulting in 598,931 of the Series C Warrants becoming exercisable. The Series A Warrants and Series C Warrants contain additional anti-dilution provisions such that, subject to customary exceptions, in the event of an issuance or deemed issuance by the Company of common stock or securities convertible into common stock at a price per share less than the then applicable exercise price, the then applicable exercise price will be reduced to the new issuance price. The Company determined that these warrants should be classified as liabilities in accordance with Financial Accounting Standards Board Accounting Standards Codification 815-40-15-5 ( ASC 815 ), Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock, because the warrants in question contain exercise price reset features that require the exercise price of the warrants be adjusted if the Company issues certain other equity related instruments at a lower price per share. The value of the warrant liability was determined based on the Monte-Carlo Simulation model at the date the warrants were issued. The Series B Warrants do not contain exercise reset provisions. However, the Series B Warrants required the Company to deliver registered shares of common stock and if the Company was not in a position to do so when the shares are exercised, it is assumed they would have to settle the shares in cash. As a result, the Series B Warrants were recorded as a liability in accordance with ASC 815 and recorded at fair value on the date of issuance using a Black-Scholes option pricing model. The warrant liability initially recorded on January 13, 2011 for all three series of warrants was \$3,204,197. During the three months ended March 31, 2011, 1,497,328 of the Series B Warrants were exercised. The Company determined the fair value of the warrants exercised on the date of exercise and adjusted the related warrant liability for this amount, resulting in a gain of \$188,509. The adjusted fair value of the Series B Warrants exercised of \$211,569 was reclassified into additional paid-in capital. At March 31, 2011, the warrant liability for the remaining warrants was revalued resulting in a loss on change in fair value of warrant liability of \$10,306. During the three months ended June 30, 2011, the remainder of the Series B Warrants were exercised which was a total of 2,320,857. The Company determined the fair value of the warrants exercised on the date of exercise and adjusted the related warrant liability for this amount, resulting in a gain of \$272,077. The adjusted fair value of the Series B Warrants exercised of \$273,898 was reclassified into additional paid-in capital. At June 30, 2011, the warrant liability for the remaining warrants was revalued resulting in a gain on change in fair value of warrant liability of \$138,995. On April 20, 2011, the Company completed a private offering of common stock and warrants to accredited investors for gross proceeds of \$4,615,300. The Company accepted subscriptions, in the aggregate, for 4,120,803 shares of common stock, one year warrants to purchase 2,060,402 shares of common stock, and five year warrants to purchase 2,060,402 shares of common stock. Investors received one year warrants and five year warrants, in each case, to purchase up to 50% of the number of shares purchased by the investors in the offering. The warrants have an exercise price of \$1.25 per share. The purchase price for each share of common stock together with the warrants was \$1.12. 223,214 of the 4,120,803 common shares sold were committed to be issued but not outstanding at June 30, 2011.

These shares were subsequently issued in July 2011. The Company intends to use the proceeds, after deducting offering expenses estimated to be \$25,000, for working capital and other general corporate purposes. Network 1 Financial Securities, Inc. served as placement agent for the offering. In connection with the offering, the Company issued five year warrants to purchase 649,518 shares of common stock with an exercise price of \$1.12 to Network 1 Financial Securities, Inc., which represents 20% of the total number of shares of common stock sold to investors solicited by Network 1 Financial Securities, Inc.

(d) The Company determined that the warrants issued in March and April, 2010 with the 8% convertible preferred stock should be classified as liabilities in accordance with ASC 815 because the warrants in question contain exercise price reset features that require the exercise price of the warrants be adjusted if the Company issues certain other equity related instruments at a lower price per share. The value of the warrant liability was determined based on the Monte-Carlo Simulation model at the date the warrants were issued. The warrant liability is then revalued at each subsequent quarter end, including at March 31, 2011. At March 31, 2011 there was a loss recognized from the revaluation of the warrant liability of \$989,298. At June 30, 2011 there was a gain recognized from the revaluation of the warrant liability of \$432,199.

Dividends on the 8% Convertible Preferred Stock accrue at an annual rate of 8% of the original issue price and are payable in either cash or common stock. If the dividend is paid in common stock, the number of shares of common stock will equal the quotient of the amount of cash dividends divided by the market price of the stock on the dividend payment date. The dividends are payable quarterly on the 15<sup>th</sup> day after the quarter-end. The Company anticipates paying the dividends in common stock. The Company has a deficit and, as a result, the dividends are recorded against additional paid-in capital. In January 2011, the Company issued 82,169 shares of common stock in dividends on preferred stock in lieu of cash dividends due as of January 15, 2011. At March 31, 2011, the Company recognized dividends of \$69,934 which are included in dividends on preferred stock on the consolidated statement of operations. During the three months ended March 31, 2011 there were 500,001 shares of the Company's redeemable preferred stock that converted into 499,999 shares of the Company's common stock. In April 2011, the Company issued 67,991 shares of common stock in dividends on preferred stock in lieu of cash dividends due as of April 15, 2011. At June 30, 2011, the Company recognized dividends of \$64,224 which are included in dividends on preferred stock on the consolidated statement of operations. During the three months ended June 30, 2011 there were 671,665 shares of the Company's redeemable preferred stock that converted into 671,665 shares of the Company's common stock. In July 2011, the Company issued 63,043 shares of common stock in dividends on preferred stock in lieu of cash dividends due as of July 15, 2011.

#### **5. Stock-Based Compensation**

One employee of the Company exercised 133,333 options at an exercise price of \$0.75 per share of common stock for \$100,000 during the three months ended March 31, 2011. One employee of the Company exercised 350,000 options at an exercise price of \$1.00 per share of common stock for \$350,000 during the three months ended June 30, 2011. Another employee of the Company exercised 133,333 options at an exercise price of \$0.75 per share of common stock for \$100,000 during the three months ended June 30, 2011. There were no options issued for the three and six months ended June 30, 2011 and no stock-based compensation expense recognized for the three and six months ended June 30, 2011 and 2010.

#### **6. Related Party Transaction**

The Company paid one non-employee member of the board \$90,000 for consulting services performed as of June 30, 2011. The Company paid another non-employee member of the board \$12,000 for consulting services performed as of June 30, 2011.

**Table of Contents****7. Fair Value of Financial Instruments**

The FASB's authoritative guidance on fair value measurements establishes a framework for measuring fair value, and expands disclosure about fair value measurements. This guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Under this guidance, assets and liabilities carried at fair value must be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Company performs a detailed analysis of the assets and liabilities that are measured and reported on a fair value basis. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. The fair value of derivative instruments is determined by management with the assistance of an independent third party valuation specialist. The warrant liability is a derivative instrument and is classified as Level 3. The Company used the Monte-Carlo Simulation model to estimate the fair value of the warrants except for the Series B Warrants. Significant assumptions used at March 31, 2011 for the 2010 warrants include a weighted average term of 4.0 years, a 5% probability that the warrant exercise price would be reset, volatility of 70.7% and a risk free interest rate of 2.24%. Significant assumptions used at June 30, 2011 for the 2010 warrants include a weighted average term of 3.7 years, a 5% probability that the warrant exercise price would be reset, volatility of 67.7% and a risk free interest rate of 1.29%. Significant assumptions used at March 31, 2011 for the 2011 warrants include a weighted average term of 4.8 years, a 5% probability that the warrant exercise price would be reset, a volatility range between 70.65% and 70.67% and a risk free interest rate range between 1.99% and 2.24%. Significant assumptions used at June 30, 2011 for the 2011 warrants include a weighted average term of 4.5 years, a 5% probability that the warrant exercise price would be reset, a volatility of 67.7% and a risk free interest rate of 1.76%. For the Series B Warrants the Black-Scholes method was used to estimate the fair value of the warrants resulting in a warrant liability of \$757,542 at March 31, 2011. There was no warrant liability for the Series B Warrants at June 30, 2011 because they had all been exercised at June 30, 2011.

The warrant liability measured at fair value on a recurring basis is as follows:

|                                        | Total       | Level<br>1 | Level<br>2 | Level 3     |
|----------------------------------------|-------------|------------|------------|-------------|
| Derivative instruments:                |             |            |            |             |
| Warrant liability at June 30, 2011     | \$5,039,950 | \$         | \$         | \$5,039,950 |
| Warrant liability at December 31, 2010 | \$2,353,396 | \$         | \$         | \$2,353,396 |

A reconciliation of the warranty liability measured at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) from January 1, 2011 to June 30, 2011 follows:

|                               |              |
|-------------------------------|--------------|
| Balance at January 1, 2011    | \$ 2,353,396 |
| Issuance of warrants          | 3,204,197    |
| Net gain included in earnings | (32,176)     |
| Exercise of warrants          | (485,467)    |
| Balance at June 30, 2011      | \$ 5,039,950 |

**8. Restatement****Restatement of June 30, 2010**

The Company issued warrants to purchase 5,291,654 shares of the Company's common stock in March 2010 and warrants to purchase 1,350,000 shares of the Company's common stock in April 2010 (collectively, the Warrants). The Warrants have an exercise price of \$1.00 per share and expire five years after their issuance. The Warrants contain certain anti-dilution provisions pursuant to which future issuances or deemed issuances of warrants, in certain circumstances as defined in the agreement, without consideration or for consideration per share less than the applicable exercise price in effect immediately prior to such issue, will result in the exercise price of the Warrants being reduced to the consideration per share received by the Company for such deemed issue. The Company originally classified the Warrants as equity in its 2010 quarterly filings.

**Table of Contents**

The Company has determined that the Warrants should be classified as liabilities in accordance with ASC 815 due to the anti-dilution provisions contained in the Warrants. The Company reflected the necessary adjustment in the fourth quarter of 2010 and calculated the impact on its quarterly reports on Form 10-Q for the quarterly periods ending March 31, June 30, and September 30, 2010. The applicable line items on the Form 10-Q Consolidated Statements of Operations have been restated below for the three and six month periods ending June 30, 2010.

The Company determined its quantitative valuation of the Warrants using a Monte-Carlo Simulation model.

Management of the Company believes that the Monte-Carlo Simulation model is appropriate because it is a dynamic model, which accommodates variable inputs.

The impact of the application of ASC 815 on the affected line items of the Company's quarterly financial statement is set forth below:

\* \* \* \* \*

**Consolidated Statement of Operations  
for the Three Months Ended June 30, 2010**

|                                                   | As Previously<br>Reported | Adjustments | As Restated    |
|---------------------------------------------------|---------------------------|-------------|----------------|
| Total operating loss                              | \$ (5,521,828)            | \$          | \$ (5,521,828) |
| Gain on change in fair value of warrant liability |                           | 2,137,746   | 2,137,746      |
| Net loss                                          | (5,521,560)               | 2,137,746   | (3,383,814)    |
| Dividends on preferred stock                      | (2,590,033)               | 345,641     | (2,244,392)    |
| Net loss applicable to common shareholders        | (8,111,593)               | 2,483,387   | (5,628,206)    |
| Basic and diluted loss per common share           | (0.10)                    |             | (0.07)         |

**Consolidated Statement of Operations  
for the Six Months Ended June 30, 2010**

|                                                   | As Previously<br>Reported | Adjustments | As Restated    |
|---------------------------------------------------|---------------------------|-------------|----------------|
| Total operating loss                              | \$ (8,389,895)            | \$          | \$ (8,389,895) |
| Gain on change in fair value of warrant liability |                           | 1,502,747   | 1,502,747      |
| Net loss                                          | (8,389,577)               | 1,502,747   | (6,886,830)    |
| Dividends on preferred stock                      | (10,947,617)              | 730,982     | (10,216,635)   |
| Net loss applicable to common shareholders        | (19,337,194)              | 2,233,729   | (17,103,465)   |
| Basic and diluted loss per common share           | (0.26)                    |             | (0.23)         |

**Table of Contents**

**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 accompanying unaudited financial statements, our Annual Report on Form 10-K/A for the year ended December 31, 2010, which includes additional information about our critical accounting policies and practices and risk factors, and Item 1A of Part II of this report, which updates those risk factors. Historical results and percentage relationships set forth in the statement of operations, including trends which might appear, are not necessarily indicative of future operations.

**Plan of Operation**

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 licensure of our dermatology drug product candidate (PH-10) on the basis of our Phase 2 atopic dermatitis and psoriasis results, which are in process of being further developed. We intend to also 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, imaging, and biotech intellectual property portfolio. Although we believe that there is a reasonable basis for our expectation that we will become profitable due to both the licensure of PH-10 and the asset sale of a majority stake via a spin-out transaction of the wholly-owned subsidiaries that contain the non-core assets and subsequent licensure of our non-core 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 to the two we already had, and anticipate adding additional personnel if necessary 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.

We believe that our prescription drug candidates PV-10 and PH-10 provide us with two products in multiple indications, which have been shown in clinical trials to be safe to treat serious cancers and diseases of the skin. We continue to develop clinical trials for these products to show their safety and efficacy, which we believe will be shown based on data in previous studies. Together with our OTC products, medical device, biotech and other non-core technologies, which we intend to sell or license in the future, we believe this combination represents the foundation for maximizing shareholder value this year and next.

**Results of Operations**

**Comparison of Three and Six Months Ended June 30, 2011 and June 30, 2010**

*Revenues*

We had no revenue during the three and six months ended June 30, 2011 and 2010.

*Research and Development*

Research and development costs of \$2,007,368 for the three months ended June 30, 2011 included payroll of \$1,224,777, consulting and contract labor of \$684,230, legal of \$34,111, insurance of \$12,500, lab supplies and pharmaceutical preparations of \$29,979, rent and utilities of \$19,862, and depreciation expense of \$1,909. Research and development costs of \$2,130,349 for the three months ended June 30, 2010 included payroll of \$1,749,395, consulting and contract labor of \$232,640, legal of \$58,347, insurance of \$12,500, lab supplies and pharmaceutical preparations of \$59,268, rent and utilities of \$16,116, and depreciation expense of \$2,083. The decrease in payroll is the result of a decrease in bonuses and no stock-based compensation expense. The increase in consulting and contract labor is due primarily to the completion of both the Liver Phase 1 study as well as the completion of enrollment for the Psoriasis Phase 2C study.

Research and development costs of \$3,529,472 for the six months ended June 30, 2011 included payroll of \$2,154,524, consulting and contract labor of \$1,216,111, legal of \$56,507, insurance of \$29,247, lab supplies and

pharmaceutical preparations of \$33,864, rent and utilities of \$35,442, and depreciation expense of \$3,777. Research and development costs of \$2,923,283 for the six months ended June 30, 2010 included payroll of \$2,328,835, consulting and contract labor of \$323,250, legal of \$91,156, insurance of \$25,000, lab supplies and pharmaceutical preparations of \$117,500, rent and utilities of \$32,853, and depreciation expense of \$4,689. The decrease in payroll is the result of no stock-based compensation expense. The increase of approximately \$800,000 in consulting and contract labor is primarily the result of an increase in manufacturing preparation, characterization and specifications for PV-10 and PH-10, as well as an increase in intellectual property related consulting expense. Additionally, there was an increase in consulting and contract labor due to the completion of both the Liver Phase 1 study as well as the completion of enrollment for the Psoriasis Phase 2C study.

*General and Administrative*

General and administrative expenses decreased by \$19,885 in the three months ended June 30, 2011 to \$3,203,814 from \$3,223,699 for the three months ended June 30, 2010.

General and administrative expenses increased by \$576,433 in the six months ended June 30, 2011 to \$5,707,485 from \$5,131,052 for the six months ended June 30, 2010. The increase resulted primarily from additional investor relations and conference expenses.

## **Table of Contents**

### *Investment Income*

Investment income was insignificant in both the three and six months ended June 30, 2011 and 2010.

### **Liquidity and Capital Resources**

Our cash and cash equivalents were \$14,390,120 at June 30, 2011, compared with \$8,086,200 at December 31, 2010. The increase of approximately \$6,300,000 was due primarily to proceeds from the sale of common stock as well as the exercise of warrants and stock options.

At our current cash expenditure rate, we believe our cash and cash equivalents on hand at June 30, 2011 will be sufficient to meet our current and planned operating needs until well into 2013 without consideration being given to additional cash inflows that might occur from the exercise of existing warrants or future sales of equity securities. We are seeking to improve our cash flow through both the licensure of PH-10 on the basis of our Phase 2 atopic dermatitis and psoriasis results, and 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 either licensing PH-10 or selling a majority stake of the OTC and other non-core assets via a spin-out transaction and licensing our existing non-core 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 2013 and beyond. We anticipate that these funds will otherwise 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**

Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Management bases its estimates on historical experience and assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe there have been no material changes to the items that we disclosed as our critical accounting policies under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2010 Form 10-K/A.

### *New Accounting Pronouncements*

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 have no lease commitments as of June 30, 2011. We are currently leasing on a month-to-month basis.

### **Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains forward-looking statements as defined under U.S. federal securities laws. These statements reflect management's current knowledge, assumptions, beliefs, estimates, and expectations and express management's current views of future performance, results, and trends and may be identified by their use of terms such as anticipate, believe, could, estimate, expect, intend, may, plan, predict, project, will, or similar terms. Forward-looking statements are subject to a number of risks and uncertainties that could cause our actual results to materially differ from those described in the forward-looking statements. Readers should not place undue reliance on forward-looking statements. Such statements are made as of the date of this Quarterly Report on Form 10-Q, and we undertake no obligation to update such statements after this date.

Risks and uncertainties that could cause our actual results to materially differ from those described in forward-looking statements include those discussed in our filings with the Securities and Exchange Commission (including those described in Item 1A of our Annual Report on Form 10-K/A for the year ended December 31, 2010, and elsewhere in this Quarterly Report on Form 10-Q), and the following:

- our ability to license our dermatology drug product candidate, PH-10, on the basis of our Phase 2 atopic dermatitis and psoriasis results, which are in the process of being further developed;



**Table of Contents**

our determination, based on guidance of the FDA, whether to proceed with or without a partner with a Phase 3 trial of PV-10 to treat metastatic melanoma and the costs associated with such a trial;

our determination whether to license our metastatic melanoma drug product candidate, and other solid tumors such as liver cancer, PV-10, if such licensure is appropriate considering the timing and structure of such a license, or to commercialize PV-10 on our own to treat metastatic melanoma and other solid tumors such as liver cancer; and

our ability to raise additional capital if we determine to commercialize PV-10 on our own.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

We had no holdings of financial or commodity instruments as of June 30, 2011, other than cash and cash equivalents, short-term deposits, money market funds, and interest bearing investments in U.S. governmental debt securities. We have accounted for certain warrants issued in March and April 2010 and January 2011 as liabilities at their fair value upon issuance, which are remeasured at each period end with the change in fair value recorded in the statement of operations. See note 4 of interim financial statements contained in this Quarterly Report on Form 10-Q.

All of our business is transacted in U.S. dollars and, accordingly, foreign exchange rate fluctuations have not had a significant impact on us, and they are not expected to have a significant impact on us in the foreseeable future.

**ITEM 4. 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 June 30, 2011, 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.

(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 other than the following related to properly recording certain complex financial instruments.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2010, using the criteria set forth in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Based on that assessment, we identified a material weakness in our internal controls. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness regarding management's lack of expertise to account for complex financial instruments has been identified by management. Specifically, we did not properly account for the issuance of certain warrants in accordance with Accounting Standards Codification 815-40-15 Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock in its Quarterly filings in 2010. Accordingly, we have restated the previously issued 2010 quarterly financial statements. See Note 12 to our consolidated financial statements contained in our Annual Report on Form 10-K/A for the year ended December 31, 2010, for a full discussion of the effects of this restatement. Subsequent to December 31, 2010, to remediate the material weakness, management hired a consultant to help them analyze and account for complex financial instruments.

**Table of Contents**

**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 on Form 10-Q.

**ITEM 1A. RISK FACTORS**

There have been no material changes to the risk factors listed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K/A for the year ended December 31, 2010. Such risk factors should be considered carefully with the information provided elsewhere in this report.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

During the three months ended March 31, 2011, the Company issued 75,000 shares of common stock to a consultant in exchange for services. Consulting costs charged to operations were \$67,000. During the three months ended March 31, 2011, the Company issued warrants to purchase an aggregate of 641,500 shares of common stock to consultants in exchange for services, consisting of warrants to purchase 200,000 shares at an exercise price of \$2.00 per share with a five year term, warrants to purchase 200,000 shares at an exercise price of \$1.75 per share with a five year term, warrants to purchase 21,500 shares at an exercise price of \$1.12 per share with a three year term, warrants to purchase 110,000 shares at an exercise price of \$1.12 per share with a five year term, warrants to purchase 10,000 shares at an exercise price of \$1.12 per share with a one year term, and warrants to purchase 100,000 shares at an exercise price of \$1.00 per share with a three year term. Consulting costs charged to operations for the warrants were \$389,172.

During the three months ended June 30, 2011, the Company issued 75,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$80,250. On April 20, 2011, the Company completed a private offering of common stock and warrants to accredited investors for gross proceeds of \$4,615,300. The Company accepted subscription, in the aggregate, for 4,120,803 shares of common stock, one year warrants to purchase 2,060,402 shares of common stock, and five year warrants to purchase 2,060,402 shares of common stock. Investors received one year warrants and five year warrants, in each case, to purchase up to 50% of the number of shares purchased by the investors in the offering. The warrants have an exercise price of \$1.25 per share. The purchase price for each share of common stock together with the warrants was \$1.12. 223,214 of the 4,120,803 common shares sold were committed to be issued but not outstanding at June 30, 2011. These shares were subsequently issued in July 2011. The Company intends to use the proceeds, after deducting offering expenses estimated to be \$25,000, for working capital and other general corporate purposes. Network 1 Financial Securities, Inc. served as placement agent for the offering. In connection with the offering, the Company issued five year warrants to purchase 649,518 shares of common stock with an exercise price of \$1.12 to Network 1 Financial Securities, Inc., which represents 20% of the total number of shares of common stock sold to investors solicited by Network 1 Financial Securities, Inc. The issuances of the securities were exempt from the registration requirements of the Securities Act of 1933 by virtue of Section 4(2) and Regulation D.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None.

**ITEM 4. [Removed and Reserved.]**

**ITEM 5. OTHER INFORMATION.**

None.

**ITEM 6. EXHIBITS**

**Exhibit**

| <b>No.</b> | <b>Description</b>                                                                               |
|------------|--------------------------------------------------------------------------------------------------|
| 31.1       | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) (Section 302 Certification). |
| 31.2       | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) (Section 302 Certification). |

32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 (Section 906 Certification).

101 Interactive Data Files.\*

\* The documents formatted in XBRL (Extensible Business Reporting Language) and attached as Exhibit 101 to this report are deemed not filed as part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act, are deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise are not subject to liability under these sections.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PROVECTUS PHARMACEUTICALS, INC.

August 9, 2011

By: /s/ Peter R. Culpepper  
Peter R. Culpepper  
Chief Financial Officer and Chief Operating  
Officer

**Table of Contents**

**EXHIBIT INDEX**

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| 101        | Interactive Data Files.                                                                                                              |