

PROVECTUS PHARMACEUTICALS INC  
Form 10-Q  
August 08, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 2013

.. **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)

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**Nevada**  
(State or other jurisdiction of  
incorporation or organization)

**7327 Oak Ridge Highway, Suite A,**  
**Knoxville, Tennessee**  
(Address of principal executive offices)

**90-0031917**  
(I.R.S. Employer  
Identification No.)

**37931**  
(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  (Do not check if a smaller reporting company) 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 June 30, 2013, was 128,624,615. The number of shares outstanding of the issuer's 8% convertible preferred stock, par value \$.001 per share, as of June 30, 2013, was 1,481,665. The number of shares outstanding of the issuer's Series A 8% convertible preferred stock, par value \$.001 per share, as of June 30, 2013, was 3,400,001.

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**CAUTIONARY NOTE REGARDING 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, plan, predict, project, will, and other 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 for the year ended December 31, 2012, 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;

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, and whether Breakthrough Therapy Designation acceptance is viable;

our determination whether to license PV-10, our metastatic melanoma drug product candidate, and other solid tumors such as liver cancer, 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 PH-10 and/or PV-10 on our own, although our expectation is to be acquired by a prospective pharmaceutical or biotech concern prior to commercialization.

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## PROVECTUS PHARMACEUTICALS, INC.

(A Development-Stage Company)

## CONDENSED CONSOLIDATED BALANCE SHEETS

|  | June 30, 2013<br>(Unaudited) | December 31, 2012 |
|--|------------------------------|-------------------|
| <b>Assets</b>  |                              |                   |
| <b>Current Assets</b>  |                              |                   |
| Cash and cash equivalents  | \$ 4,636,020                 | \$ 1,221,701      |
| Prepaid expenses and other current assets  | 93,034                       |                   |
| <b>Total Current Assets</b>  | 4,729,054                    | 1,221,701         |
| Equipment and furnishings, less accumulated depreciation of \$426,065 and \$422,965  | 26,729                       | 29,829            |
| Patents, net of amortization of \$7,125,057 and \$6,789,497, respectively  | 4,590,388                    | 4,925,948         |
| Other assets   | 27,000                       | 27,000            |
|  | \$ 9,373,171                 | \$ 6,204,478      |
| <b>Liabilities and Stockholders' Equity</b>  |                              |                   |
| <b>Current Liabilities</b>   |                              |                   |
| Accounts payable - trade   | \$ 64,762                    | \$ 243,435        |
| Accrued compensation and payroll taxes   | 175,643                      |                   |
| Accrued consulting expense   | 61,282                       | 61,283            |
| Other accrued expenses   | 112,501                      | 206,706           |
| <b>Total Current Liabilities</b>   | 414,188                      | 511,424           |
| <b>Long-Term Liability</b>   |                              |                   |
| Warrant liability  | 2,611,824                    | 1,299,570         |
| <b>Total Liabilities</b>   | 3,026,012                    | 1,810,994         |
| <b>Stockholders' Equity</b>  |                              |                   |
| Preferred stock; par value \$.001 per share; 25,000,000 shares authorized including; 8% convertible preferred stock, 1,481,665 and 2,478,185 shares issued and outstanding, respectively, liquidation preference \$0.75 (in aggregate \$1,133,413 and \$1,896,117, respectively); Series A 8% convertible preferred stock, 3,400,001 shares issued and outstanding in 2013, liquidation preference \$0.75 (in aggregate \$2,600,861) | 4,882                        | 2,478             |
| Common stock; par value \$.001 per share; 250,000,000 authorized; 128,624,615 and 118,427,925 shares issued and outstanding, respectively  | 128,624                      | 118,428           |
| Paid-in capital  | 131,114,284                  | 122,625,654       |
| Deficit accumulated during the development stage   | (124,900,631)                | (118,353,076)     |
| <b>Total Stockholders' Equity</b>  | 6,347,159                    | 4,393,484         |
|  | \$ 9,373,171                 | \$ 6,204,478      |

See accompanying notes to condensed consolidated financial statements.

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## PROTECTUS PHARMACEUTICALS, INC.

(A Development-Stage Company)

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

|   | Three Months<br>Ended<br>June 30, 2013 | Three Months<br>Ended<br>June 30, 2012 | Six Months<br>Ended<br>June 30, 2013 | Six Months<br>Ended<br>June 30, 2012 | Cumulative<br>Amounts from<br>January 17, 2002<br>(Inception)<br>Through<br>June 30, 2013 |
|---|--|--|--------------------------------------|--------------------------------------|---|
| 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  | 778,349                                | 1,657,586                              | 1,518,865                            | 3,223,019                            | 44,617,718  |
| General and administrative  | 2,340,706                              | 2,459,867                              | 4,679,109                            | 4,931,588                            | 70,864,998  |
| Amortization  | 167,780                                | 167,780                                | 335,560                              | 335,560                              | 7,125,057   |
| Total operating loss  | (3,286,835)                            | (4,285,233)                            | (6,533,534)                          | (8,490,167)                          | (122,583,232)   |
| Gain on sale of fixed assets  |  |  |                                      |                                      | 55,075  |
| Loss on extinguishment of debt  |  |  |                                      |                                      | (825,867)   |
| Investment income   | 256                                    | 495                                    | 283                                  | 1,015                                | 653,500   |
| (Loss) gain on change in fair value of warrant liability                  | 909,206                                | 452,145                                | (14,304)                             | 188,981                              | 5,897,897   |
| Net interest expense  |  |  |                                      |                                      | (8,098,004)   |
| Net loss  | (2,377,373)                            | (3,832,593)                            | (6,547,555)                          | (8,300,171)                          | (124,900,631)   |
| Dividends on preferred stock  | (73,024)                               | (51,194)                               | (1,149,958)                          | (101,825)                            | (11,988,020)  |
| Net loss applicable to common shareholders                                | \$ (2,450,397)                         | \$ (3,833,787)                         | \$ (7,697,513)                       | \$ (8,401,996)                       | \$ (136,888,651)  |
| Basic and diluted loss per common share                                   | \$ (0.02)                              | \$ (0.03)                              | \$ (0.06)                            | \$ (0.08)                            |   |
| Weighted average number of common shares<br>outstanding basic and diluted | 127,114,868                            | 112,267,336                            | 123,926,235                          | 111,521,253                          |   |

See accompanying notes to condensed consolidated financial statements.

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## PROTECTUS PHARMACEUTICALS, INC.

(A Development-Stage Company)

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Unaudited)

|  | Preferred<br>Stock<br>Number of<br>Shares | Par Value | Common Stock<br>Number of<br>Shares | Par Value | Paid in<br>capital | Accumulated<br>Deficit | Total         |
|--|---|-----------|-------------------------------------|-----------|--------------------|------------------------|---------------|
| <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<br>(inception) to April 23, 2002 (date of reverse<br>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<br>Pharmaceuticals  |   |           | 500,007                             | 500       | 12,225,820         |                        | 12,226,320    |
| Exercise of warrants   |   |           | 452,919                             | 453       |                    |                        | 453           |
| Warrants issued in connection with convertible debt  |   |           |                                     |           | 126,587            |                        | 126,587       |
| Stock and warrants issued for acquisition of<br>Pure-ific  |   |           | 25,000                              | 25        | 26,975             |                        | 27,000        |
| Net loss for the period from April 23, 2002 (date of<br>reverse merger) to December 31, 2002               |   |           |                                     |           |                    | (5,749,937)            | (5,749,937)   |
| <b>Balance, at December 31, 2002</b>   |   | \$        | 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)   |
| <b>Balance, at December 31, 2003</b>   |   | \$        | 10,867,509                          | \$ 10,868 | \$ 20,461,632      | \$ (10,221,448)        | \$ 10,251,052 |
| Issuance of stock for services   |   |           | 733,872                             | 734       | 449,190            |                        | 449,923       |
| Issuance of warrants for services  |   |           |                                     |           | 495,480            |                        | 495,480       |
| Exercise of warrants   |   |           | 132,608                             | 133       | 4,867              |                        | 5,000         |
| Employee compensation from stock options   |   |           |                                     |           | 15,612             |                        | 15,612        |
| Issuance of stock pursuant to Regulation S   |   |           | 2,469,723                           | 2,469     | 790,668            |                        | 793,137       |
| Issuance of stock and warrants pursuant to<br>Regulation D   |   |           | 1,930,164                           | 1,930     | 1,286,930          |                        | 1,288,861     |
| Beneficial conversion related to convertible debt  |   |           |                                     |           | 360,256            |                        | 360,256       |



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|  | Preferred<br>Stock           | Common Stock        |           | Paid in<br>capital | Accumulated<br>Deficit | Total        |
|--|------------------------------|---------------------|-----------|--------------------|------------------------|--------------|
|  | Number of<br>SharesPar Value | Number of<br>Shares | Par Value |                    |                        |              |
| 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)  |
| <b>Balance, at December 31, 2004</b>                       | \$                           | 16,133,876          | \$ 16,134 | \$ 23,711,540      | \$ (14,565,973)        | \$ 9,161,701 |
| Issuance of stock for services                             |                              | 226,733             | 227       | 152,058            |                        | 152,285      |
| Issuance of stock for interest payable                     |                              | 263,721             | 264       | 195,767            |                        | 196,031      |
| Issuance of warrants for services                          |                              |                     |           | 1,534,405          |                        | 1,534,405    |
| Issuance of warrants for contractual obligations           |                              |                     |           | 985,010            |                        | 985,010      |
| Exercise of warrants and stock options                     |                              | 1,571,849           | 1,572     | 1,438,223          |                        | 1,439,795    |
| Employee compensation from stock options                   |                              |                     |           | 15,752             |                        | 15,752       |
| Issuance of stock and warrants pursuant to<br>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) |

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|  | Preferred<br>Stock  | Common Stock |                     |           |                    |                        |               |
|--|---------------------|--------------|---------------------|-----------|--------------------|------------------------|---------------|
|  | Number of<br>Shares | Par Value    | Number of<br>Shares | Par Value | Paid in<br>capital | Accumulated<br>Deficit | Total         |
| <b>Balance, at December 31, 2005</b>                           | \$                  |              | 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 Regulation D        |                     |              | 10,092,495          | 10,092    | 4,120,329          |                        | 4,130,421     |
| Debt conversion to common stock                                |                     |              | 2,377,512           | 2,377     | 1,573,959          |                        | 1,576,336     |
| Beneficial conversion related to interest expense              |                     |              |                     |           | 16,447             |                        | 16,447        |
| Net loss for the year ended 2006                               |                     |              |                     |           |                    | (8,870,579)            | (8,870,579)   |
| <b>Balance, at December 31, 2006</b>                           | \$                  |              | 42,452,366          | \$ 42,452 | \$ 50,680,353      | \$ (35,200,405)        | \$ 15,522,400 |
| Issuance of stock for services                                 |                     |              | 150,000             | 150       | 298,800            |                        | 298,950       |
| Issuance of stock for interest payable                         |                     |              | 1,141               | 1         | 1,257              |                        | 1,258         |
| Issuance of warrants for services                              |                     |              |                     |           | 472,635            |                        | 472,635       |
| Exercise of warrants and stock options                         |                     |              | 3,928,957           | 3,929     | 3,981,712          |                        | 3,985,641     |
| Employee compensation from stock options                       |                     |              |                     |           | 2,340,619          |                        | 2,340,619     |
| Issuance of stock and warrants pursuant to Regulation D        |                     |              | 2,376,817           | 2,377     | 1,845,761          |                        | 1,848,138     |
| Debt conversion to common stock                                |                     |              | 490,000             | 490       | 367,010            |                        | 367,500       |
| Net loss for the year ended 2007                               |                     |              |                     |           |                    | (10,005,631)           | (10,005,631)  |
| <b>Balance, at December 31, 2007</b>                           | \$                  |              | 49,399,281          | \$ 49,399 | \$ 59,988,147      | \$ (45,206,036)        | \$ 14,831,510 |
| Issuance of stock for services                                 |                     |              | 350,000             | 350       | 389,650            |                        | 390,000       |
| Issuance of warrants for services                              |                     |              |                     |           | 517,820            |                        | 517,820       |
| Exercise of warrants and stock options                         |                     |              | 3,267,795           | 3,268     | 2,636,443          |                        | 2,639,711     |
| Employee compensation from stock options                       |                     |              |                     |           | 1,946,066          |                        | 1,946,066     |
| Net loss for the year ended 2008                               |                     |              |                     |           |                    | (10,269,571)           | (10,269,571)  |
| <b>Balance, at December 31, 2008</b>                           | \$                  |              | 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)  |
| <b>Balance, at December 31, 2009</b>                           | \$                  |              | 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 common stock and warrants pursuant to Regulation D |                     |              | 11,168,067          | 11,169    | 6,335,820          |                        | 6,346,989     |

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|  | Preferred Stock  |                 | Common Stock       |                   | Paid in capital       | Accumulated Deficit     | Total                |
|--|------------------|-----------------|--------------------|-------------------|-----------------------|-------------------------|----------------------|
|  | Number of Shares | Par Value       | Number of Shares   | Par Value         |                       |                         |                      |
| Issuance of preferred stock and warrants pursuant to Regulation D      | 13,283,324       | 13,283          |                    |                   | 4,204,107             |                         | 4,217,390            |
| Preferred stock conversions into common stock                          | (7,893,326)      | (7,893)         | 7,893,326          | 7,893             |                       |                         |                      |
| Employee compensation from stock options                               |                  |                 |                    |                   | 3,759,650             |                         | 3,759,650            |
| Net loss for the year ended 2010                                       |                  |                 |                    |                   |                       | (18,552,102)            | (18,552,102)         |
| <b>Balance, at December 31, 2010</b>                                   | <b>5,389,998</b> | <b>\$ 5,390</b> | <b>91,297,883</b>  | <b>\$ 91,298</b>  | <b>\$ 96,952,908</b>  | <b>\$ (86,350,023)</b>  | <b>\$ 10,699,573</b> |
| Issuance of stock for services   |                  |                 | 350,000            | 350               | 332,400               |                         | 332,750              |
| Issuance of warrants for services                                      |                  |                 |                    |                   | 945,116               |                         | 945,116              |
| Exercise of warrants and stock options                                 |                  |                 | 7,185,522          | 7,185             | 6,616,126             |                         | 6,623,311            |
| Issuance of common stock and warrants pursuant to Regulation D         |                  |                 | 9,905,062          | 9,905             | 7,031,334             |                         | 7,041,239            |
| Sale of non-controlling interest in Pure-ific Corporation and warrants |                  |                 |                    |                   | 443,500               |                         | 443,500              |
| Preferred stock conversions into common stock                          | (1,858,333)      | (1,859)         | 1,858,331          | 1,859             |                       |                         |                      |
| Employee compensation from stock options                               |                  |                 |                    |                   | 3,368,950             |                         | 3,368,950            |
| Net loss for the year ended 2011                                       |                  |                 |                    |                   |                       | (19,434,699)            | (19,434,699)         |
| <b>Balance, at December 31, 2011</b>                                   | <b>3,531,665</b> | <b>\$ 3,531</b> | <b>110,596,798</b> | <b>\$ 110,597</b> | <b>\$ 115,690,334</b> | <b>\$ (105,784,722)</b> | <b>\$ 10,019,740</b> |
| Issuance of stock for services   |                  |                 | 550,000            | 550               | 455,950               |                         | 456,500              |
| Issuance of warrants for services                                      |                  |                 |                    |                   | 1,512,026             |                         | 1,512,026            |
| Issuance of common stock and warrants pursuant to Regulation D         |                  |                 | 6,227,647          | 6,228             | 4,784,316             |                         | 4,790,544            |
| Preferred stock conversions into common stock                          | (1,053,480)      | (1,053)         | 1,053,480          | 1,053             |                       |                         |                      |
| Employee compensation from stock options                               |                  |                 |                    |                   | 183,028               |                         | 183,028              |
| Net loss for the year ended 2012                                       |                  |                 |                    |                   |                       | (12,568,354)            | (12,568,354)         |
| <b>Balance, at December 31, 2012</b>                                   | <b>2,478,185</b> | <b>\$ 2,478</b> | <b>118,427,925</b> | <b>\$ 118,428</b> | <b>\$ 122,625,654</b> | <b>\$ (118,353,076)</b> | <b>\$ 4,393,484</b>  |
| Issuance of stock for services   |                  |                 | 150,000            | 150               | 98,100                |                         | 98,250               |
| Issuance of warrants for services                                      |                  |                 |                    |                   | 1,341,295             |                         | 1,341,295            |
| Exercise of warrants and stock options                                 |                  |                 | 43,750             | 44                | 20,956                |                         | 21,000               |
| Issuance of common stock and warrants pursuant to Regulation D         |                  |                 | 9,006,420          | 9,006             | 5,808,692             |                         | 5,817,698            |
| Issuance of preferred stock and warrants pursuant to Regulation D      | 3,400,001        | 3,400           |                    |                   | 1,248,650             |                         | 1,252,050            |
| Preferred stock conversions into common stock                          | (996,520)        | (996)           | 996,520            | 996               |                       |                         |                      |
| Dividends on preferred stock   |                  |                 |                    |                   | (29,063)              |                         | (29,063)             |
| Net loss for the six months ended June 30, 2013                        |                  |                 |                    |                   |                       | (6,547,555)             | (6,547,555)          |
| <b>Balance, at June 30, 2013</b>                                       | <b>4,881,666</b> | <b>\$ 4,882</b> | <b>128,624,615</b> | <b>\$ 128,624</b> | <b>\$ 131,114,284</b> | <b>\$ (124,900,631)</b> | <b>\$ 6,347,159</b>  |

See accompanying notes to condensed consolidated financial statements.



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## PROTECTUS PHARMACEUTICALS, INC.

(A Development-Stage Company)

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited)

|  | Six Months<br>Ended<br>June<br>30, 2013 | Six Months<br>Ended<br>June 30, 2012 | Cumulative<br>Amounts from<br>January 17, 2002<br>(Inception) through<br>June 30, 2013 |
|--|---|--------------------------------------|--|
| <b>Cash Flows From Operating Activities</b>                                |   |                                      |  |
| Net loss   | \$ (6,547,555)                          | \$ (8,300,171)                       | \$ (124,900,631)   |
| Adjustments to reconcile net loss to net cash used in operating activities |   |                                      |  |
| Depreciation   | 3,100                                   | 2,953                                | 449,066  |
| Amortization of patents  | 335,560                                 | 335,560                              | 7,125,057  |
| 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                             |   | 183,028                              | 14,397,729   |
| Compensation through issuance of stock                                     |   |                                      | 932,000  |
| Issuance of stock for services   | 98,250                                  | 224,500                              | 9,151,761  |
| Issuance of warrants for services  | 1,341,295                               | 659,576                              | 7,537,864  |
| Issuance of warrants for contractual obligations                           |   |                                      | 985,010  |
| Gain on sale of equipment  |   |                                      | (55,075)   |
| Loss (gain) on change in fair value of warrant liability                   | 14,304                                  | (188,981)                            | (5,897,897)  |
| Change in assets and liabilities   |   |                                      |  |
| Prepaid expenses and other current assets                                  | (93,034)                                | (72,534)                             | (93,034)   |
| Accounts payable   | (178,673)                               | 88,220                               | 61,117   |
| Accrued expenses   | 81,437                                  | 1,371,936                            | 499,056  |
| Net cash used in operating activities                                      | (4,945,316)                             | (5,695,913)                          | (80,959,936)   |
| <b>Cash Flows From Investing Activities</b>                                |   |                                      |  |
| Proceeds from sale of fixed assets   |   |                                      | 180,075  |
| Capital expenditures   |   | (15,885)                             | (89,920)   |
| Proceeds from sales of investments   |   |                                      | 37,010,481   |
| Purchases of investments   |   |                                      | (36,637,186)   |
| Net cash (used in) provided by investing activities                        |   | (15,885)                             | 463,450  |
| <b>Cash Flows From Financing Activities</b>                                |   |                                      |  |
| Net proceeds from loans from stockholder                                   |   |                                      | 174,000  |
| Proceeds from convertible debt   |   |                                      | 6,706,795  |
| Net proceeds from sales of preferred stock and warrants                    | 2,550,000                               |                                      | 11,458,131   |
| Net proceeds from sales of common stock and warrants                       | 5,817,698                               | 2,077,796                            | 48,632,219   |
| Proceeds from exercises of warrants and stock options                      | 21,000                                  |                                      | 21,099,014   |

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|   |              |                |              |
|---|--------------|----------------|--------------|
| Cash paid for preferred dividends   | (29,063)     |                | (29,063)     |
| 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 proceeds from sale of non-controlling interest in Pure-ific Corporation |              |                | 443,500      |
| Net cash provided by financing activities                                   | 8,359,635    | 2,077,796      | 85,132,506   |
| Net change in cash and cash equivalents                                     | \$ 3,414,319 | \$ (3,634,002) | \$ 4,636,020 |
| Cash and cash equivalents, at beginning of period                           | 1,221,701    | 7,705,773      |              |
| Cash and cash equivalents, at end of period                                 | \$ 4,636,020 | \$ 4,071,771   | \$ 4,636,020 |

See accompanying notes to condensed consolidated financial statements.

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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, 2013 are not necessarily indicative of the results that may be expected for the year ended December 31, 2013. The Company has evaluated subsequent events through the date the condensed consolidated 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, 2013 and 2012, respectively, relate to 50,358,525 and 24,432,814 from warrants, 15,097,206 and 15,140,956 from options, and 4,881,666 and 3,431,665 from convertible preferred shares.

**4. Equity Transactions**

(a) During the three months ended March 31, 2013, the Company issued 75,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$48,750. During the three months ended March 31, 2012, the Company issued 175,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$160,000.

During the three months ended June 30, 2013, the Company issued 75,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$49,500. During the three months ended June 30, 2012, the Company issued 75,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$64,500.

As the fair market value of these services was not readily determinable, these services were valued based on the fair market value, determined using the Black-Scholes option-pricing model.

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(b) During the three months ended March 31, 2013, the Company issued 1,924,973 warrants to consultants in exchange for services. Consulting costs charged to operations were \$409,640. During the three months ended March 31, 2013, 859,833 warrants were forfeited. During the three months ended March 31, 2012, the Company issued 1,003,000 warrants to consultants in exchange for services. Consulting costs charged to operations were \$475,668. During the three months ended March 31, 2012, 1,500 warrants were forfeited.



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During the three months ended June 30, 2013, the Company issued 2,605,000 warrants to consultants in exchange for services. Consulting costs charged to operations were \$931,655. During the three months ended June 30, 2013, 1,051,500 warrants were forfeited. During the three months ended June 30, 2012, the Company issued 454,500 warrants to consultants in exchange for services. Consulting costs charged to operations were \$183,908. During the three months ended June 30, 2012, 4,368,644 warrants were forfeited.

As the fair market value of these services was not readily determinable, these services were valued based on the fair market value, determined using the Black-Scholes option-pricing model.

(c) The Company determined that warrants issued January 13, 2011 and referred to as Series A Warrants and Series C Warrants 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. For the three months ended March 31, 2013 and 2012, there was a loss recognized from the revaluation of the warrant liability of \$311,062 and \$148,364, respectively. For the three months ended June 30, 2013 and 2012, there was a gain recognized from the revaluation of the warrant liability of \$221,149 and \$222,546, respectively.

During the three months ended March 31, 2013 the Company completed a private offering of common stock and warrants to accredited investors for gross proceeds of \$4,045,510. The Company accepted subscriptions, in the aggregate, for 5,394,013 shares of common stock, and five year warrants to purchase 7,277,264 shares of common stock. Investors received five year fully vested warrants to purchase up to 100% to 150% of the number of shares purchased by the investors in the offering. The warrants have an exercise price of \$1.00 per share. The purchase price for each share of common stock together with the warrants was \$0.75. The Company used the proceeds 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 paid \$522,640 and issued five year fully vested warrants to purchase 539,401 shares of common stock with an exercise price of \$1.00 to Network 1 Financial Securities, Inc., which represents 10% of the total number of shares of common stock sold to investors solicited by Network 1 Financial Securities, Inc.

During the three months ended June 30, 2013 the Company completed a private offering of common stock and warrants to accredited investors for gross proceeds of \$2,641,501. The Company accepted subscriptions, in the aggregate, for 3,522,001 shares of common stock, and five year warrants to purchase 5,283,003 shares of common stock. Investors received five year fully vested warrants to purchase up to 150% of the number of shares purchased by the investors in the offering. The warrants have an exercise price of \$1.00 per share. The purchase price for each share of common stock together with the warrants was \$0.75. The Company used the proceeds 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 paid \$314,173, accrued \$32,500 at June 30, 2013 which was paid in July 2013 and issued five year fully vested warrants to purchase 352,200 shares of common stock with an exercise price of \$1.00 to Network 1 Financial Securities, Inc., which represents 10% of the total number of shares of common stock sold to investors solicited by Network 1 Financial Securities, Inc.

(d) In March and April 2010, the Company had an issuance of 8% Convertible Preferred Stock with warrants. The Company determined that warrants issued 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. For the three months ended March 31, 2013 and 2012, there was a loss recognized from the revaluation of the warrant liability of \$446,698 and \$114,800, respectively. For the three months ended June 30, 2013 and 2012, there was a gain recognized from the revaluation of the warrant liability of \$399,057 and \$229,599, respectively.

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 15th 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 2013, the Company issued 61,022 shares of common stock in dividends on preferred stock in lieu of cash dividends due as of January 15, 2013. At March 31, 2013, the Company recognized dividends of \$21,921 which are included in dividends on preferred stock on the consolidated statement of operations. During the three months ended March 31, 2013 there were 593,000 shares of the Company's redeemable preferred stock that converted into 593,000 shares of the Company's common stock. In April 2013, the Company issued 29,384 shares of common stock in dividends on preferred stock in lieu of cash dividends due as of April 15, 2013. At June 30, 2013, the Company recognized dividends of \$22,164 which are included in dividends on preferred stock on the consolidated statement of operations. During the three months ended June 30, 2013 there were 403,520 shares of the Company's redeemable preferred stock that converted into 403,520 shares of the Company's common stock.



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(e) On February 22, 2013, the Company entered into a Securities Purchase Agreement with certain accredited investors for the issuance and sale in a private placement of an aggregate of \$2,550,000 of Units at a purchase price of \$0.75 per Unit. Each Unit consists of one share of Series A 8% Convertible Preferred Stock, par value \$.001 per share, and a warrant to purchase one and one-quarter shares of the Company's common stock, par value \$.001 per share (subject to adjustment) at an exercise price of \$1.00 per whole share (subject to adjustment). The total Series A 8% Convertible Preferred Stock issued was 3,400,001 shares, and the total warrants were 4,250,000. The Company will use the net proceeds of the private placement for working capital, FDA trials, securing licensing partnerships, and general corporate purposes.

The Company determined that warrants issued in February, 2013 with the Series A 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 preferred stock was determined to have characteristics more akin to equity than debt. As a result, the conversion option was determined to be clearly and closely related to the preferred stock and therefore does not need to be bifurcated and classified as a liability. The proceeds received from the issuance of the preferred stock were first allocated to the fair value of the warrants with the remainder allocated to the preferred stock. The fair value of the preferred stock if converted on the date of issuance was greater than the value allocated to the preferred stock. As a result, a beneficial conversion amount was recorded upon issuance. The fair value of the warrants recorded from the February 2013 issuance was \$1,297,950 resulting in a beneficial conversion amount of \$1,025,950. The beneficial conversion has been recorded as a deemed dividend as of March 31, 2013 and is included in dividends on preferred stock on the consolidated statements of operations. 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. For the three months ended March 31, 2013 there was a loss recognized from the revaluation of the warrant liability of \$165,750. For the three months ended June 30, 2013 there was a gain recognized from the revaluation of the warrant liability of \$289,000.

Dividends on the Series A 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 15th day after the quarter-end. The Company anticipates paying the dividends in common stock although is required to pay the initial dividends due in cash. The Company has a deficit and, as a result, the dividends are recorded against additional paid-in capital. At March 31, 2013, the Company recognized dividends of \$29,063 which are included in dividends on preferred stock on the consolidated statement of operations and were paid in April 2013. At June 30, 2013, the Company recognized dividends of \$50,860 which are included in dividends on preferred stock on the consolidated statement of operations.

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

One employee of the Company exercised 18,750 options at an exercise price of \$0.32 per share of common stock for \$6,000 and 25,000 options at an exercise price of \$0.60 per share of common stock for \$15,000 during the three months ended June 30, 2013.

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

The Company paid one non-employee member of the board \$12,000 for consulting services performed as of June 30, 2013.

### **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 certain of the Company's financial instruments, including Cash and cash equivalents and Accounts payable, approximates the carrying value due to the relatively short maturity of such instruments. The fair value of derivative

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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. Significant assumptions used at March 31, 2013 for the 2010 warrants

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include a weighted average term of 2.0 years, a 5% probability that the warrant exercise price would be reset, volatility range of 58.0% to 59.1% and a risk free interest rate of 0.25%. Significant assumptions used at June 30, 2013 for the 2010 warrants include a weighted average term of 1.7 years, a 5% probability that the warrant exercise price would be reset, volatility range of 55.7% to 56.5% and a risk free interest rate of 0.36%. Significant assumptions used at March 31, 2013 for the 2011 warrants include a weighted average term of 2.8 years, a 5% probability that the warrant exercise price would be reset, volatility range of 58.0% to 59.1% and a risk free interest rate of 0.25%. Significant assumptions used at June 30, 2013 for the 2011 warrants include a weighted average term of 2.5 years, a 5% probability that the warrant exercise price would be reset, volatility of 59.1% and a risk free interest rate of 0.66%. Significant assumptions used at March 31, 2013 for the 2013 warrants include a weighted average term of 4.9 years, a 5% probability that the warrant exercise price would be reset, volatility range of 58.0% to 66.7% and a risk free interest rate range of 0.25% to 0.77%. Significant assumptions used at June 30, 2013 for the 2013 warrants include a weighted average term of 4.7 years, a 5% probability that the warrant exercise price would be reset, volatility of 64.6% and a risk free interest rate range of 0.77% to 1.41%.

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

|  | Total        | Level 1 | Level 2 | Level 3      |
|--|--------------|---------|---------|--------------|
| Derivative instruments:                |              |         |         |              |
| Warrant liability at June 30, 2013     | \$ 2,611,824 | \$      | \$      | \$ 2,611,824 |
| Warrant liability at December 31, 2012 | \$ 1,299,570 | \$      | \$      | \$ 1,299,570 |

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, 2013 to June 30, 2013 follows:

|                               |              |
|-------------------------------|--------------|
| Balance at January 1, 2013    | \$ 1,299,570 |
| Issuance of warrants          | 1,297,950    |
| Net loss included in earnings | 14,304       |
| Exercise of warrants          |              |
| Balance at June 30, 2013      | \$ 2,611,824 |

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### **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 for the year ended December 31, 2012, 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.

Our current plans include continuing to operate with our four employees during the immediate future, as well as four primary consultants and various vendor relationships, 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, and important immunologic data has been corroborated and characterized by institutions such as Moffitt Cancer Center in Tampa, Florida and another leading research facility. We continue to develop clinical trials for these products to show their safety and efficacy, which we believe will continue to be shown based on data in previous studies, and which will result in one or more license transactions with pharmaceutical and or biotech partners. Together with our 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 beyond.

#### **Results of Operations**

##### **Comparison of Three and Six Months Ended June 30, 2013 and June 30, 2012**

###### *Revenues*

We had no revenue during the three and six months ended June 30, 2013 and 2012.

###### *Research and Development*

Research and development costs of \$778,349 for the three months ended June 30, 2013 included payroll of \$389,821, consulting and contract labor of \$291,055, legal of \$54,460, insurance of \$12,500, lab supplies and pharmaceutical preparations of \$10,810, rent and utilities of \$18,153, and depreciation expense of \$1,550. Research and development costs of \$1,657,586 for the three months ended June 30, 2012 included payroll of \$1,018,980, consulting and contract labor of \$517,160, legal of \$85,548, insurance of \$12,500, lab supplies and pharmaceutical preparations of \$4,053, rent and utilities of \$17,670, and depreciation expense of \$1,675. The decrease in payroll is the result of no bonuses being paid during the quarter ended June 30, 2013. The decrease in consulting and contract labor is due to decreased costs of current preclinical and clinical trial activity.

Research and development costs of \$1,518,865 for the six months ended June 30, 2013 included payroll of \$723,976, consulting and contract labor of \$555,025, legal of \$81,024, insurance of \$87,500, lab supplies and pharmaceutical preparations of \$32,165, rent and utilities of \$36,075, and depreciation expense of \$3,100. Research and development costs of \$3,223,019 for the six months ended June 30, 2012 included payroll of \$1,956,558, consulting and contract labor of \$1,066,927, legal of \$115,668, insurance of \$25,000, lab supplies and pharmaceutical preparations of \$19,442, rent and utilities of \$36,471, and depreciation expense of \$2,953. The decrease in payroll is the result of no bonuses being paid during the six months ended June 30, 2013. The decrease in consulting and contract labor is due to decreased costs of current preclinical and clinical trial activity.

###### *General and Administrative*

General and administrative expenses decreased by \$119,161 in the three months ended June 30, 2013 to \$2,340,706 from \$2,459,867 for the three months ended June 30, 2012. General and administrative expenses were very similar for both periods, although payroll expense was lower for the three months ended June 30, 2013 versus the three months ended June 30, 2012 as a result of no bonuses being paid during the quarter

ended June 30, 2013, offset by an increase in investor relations expense.

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General and administrative expenses decreased by \$252,479 in the six months ended June 30, 2013 to \$4,679,109 from \$4,931,588 for the six months ended June 30, 2012. General and administrative expenses were very similar for both periods, although payroll expense was lower for the six months ended June 30, 2013 versus the six months ended June 30, 2012 as a result of no bonuses being paid during the quarter ended June 30, 2013, offset by an increase in investor relations expense.

### *Investment Income*

Investment income was insignificant in both the three and six months ended June 30, 2013 and 2012.

### *Loss on change in fair value of warrant liability*

Gain on change in fair value of warrant liability increased by \$457,061 in the three months ended June 30, 2013 to \$909,206 from \$452,145 for the three months ended June 30, 2012. This activity results from accounting for the warrant liability described in Footnotes 4(c), 4(d), 4(e) and Footnote 7 to the financial statements.

Loss on change in fair value of warrant liability increased by \$203,285 in the six months ended June 30, 2013 to \$14,304 from gain on change of \$188,981 for the six months ended June 30, 2012. This activity results from accounting for the warrant liability described in Footnotes 4(c), 4(d), 4(e) and Footnote 7 to the financial statements.

## **Liquidity and Capital Resources**

Our cash and cash equivalents were \$4,636,020 at June 30, 2013, compared with \$1,221,701 at December 31, 2012. The increase of approximately \$3.4 million was due primarily to sales of common stock, preferred stock and warrants to purchase common stock in the six months ended June 30, 2013.

By managing variable cash expenses due to minimal fixed costs, we believe our cash and cash equivalents on hand at June 30, 2013 will be sufficient to meet our current and planned operating needs until well into 2014 without consideration being given to additional cash inflows that might occur from the exercise of existing warrants or future sales of equity securities, although we may, in our sole discretion, direct Alpha Capital Anstalt ( Investor ) to purchase up to \$30,000,000 of our common stock per an existing agreement with Investor.

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 primarily the geographic licensure of PV-10 on the basis of our Phase 2 metastatic melanoma and Phase 1 liver results in certain areas of the world, as well as pursuing a strategic investment strategy, including equity sales to potential pharmaceutical and/or biotech partners. In addition, the data now available and forthcoming from Moffitt Cancer Center in Tampa, Florida has been and is expected to be particularly helpful in supporting our development plans with both the FDA and prospective partners. The geographic areas of interest for PV-10 principally include China, India, Japan and Middle East and North Africa (MENA). We are encouraged by the interest in both PV-10 and PH-10 on a geographic basis and are continuing discussions with potential partners.

We are also considering the global licensure of PV-10 as well since it has come to our attention that this is of interest to potential partners. We also expect to continue with the majority stake asset sale and licensure of our non-core assets. However, the primary objective of ours is to strategically monetize the core value of PV-10 and PH-10 through various transactions, leveraging value creation up to and including an appropriate Merger and Acquisition transaction. We believe regulatory clarity insofar as the expected approval pathways of both PV-10 and PH-10, including potential for breakthrough therapy designation as appropriate for PV-10, will help facilitate transactions with potential partners.

However, we cannot assure you that we will be successful in either licensing of PH-10 or PV-10, any equity transaction, 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 2014 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**



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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 2012 Form 10-K.

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*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, 2013. We are currently leasing on a month-to-month basis.

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

We had no holdings of financial or commodity instruments as of June 30, 2013, 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, January 2011 and February 2013 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 notes 4 and 7 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, 2013, 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.

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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS.**

Except as described below, we are not involved in any legal proceedings nor are we party to any pending claims that we believe could reasonably be expected to have a material adverse effect on our business, financial condition, or results of operations.

On January 2, 2013, Glenn Kleba, derivatively on behalf of the Company as a nominal defendant (the Plaintiff), filed a shareholder derivative complaint in the Circuit Court for the State of Tennessee, Knox County, against H. Craig Dees, Timothy C. Scott, Eric A. Wachter, Stuart Fuchs, Kelly M. McMasters, Alfred E. Smith, IV and Peter R. Culpepper, and against the Company as a nominal defendant (the Shareholder Derivative Complaint). The Shareholder Derivative Complaint alleges (i) breach of fiduciary duties, (ii) waste of corporate assets, and (iii) unjust enrichment, all three claims based on the Plaintiff's allegations that the defendants authorized and/or accepted stock option awards in violation of the terms of the Company's 2002 Stock Plan (the Plan) by issuing stock options in excess of the amounts authorized under the Plan and delegated to defendant H. Craig Dees the sole authority to grant himself and other executive officers of the Company cash bonuses that the Plaintiff alleges to be excessive.

In April 2013, the Company's Board of Directors established a special litigation committee to investigate the allegations of the Shareholder Derivative Complaint and make a determination as to how the matter should be resolved. In view of the inherent uncertainties of litigation and the early stage of this litigation, the outcome of this case cannot be predicted at this time. Likewise, the amount of any potential loss cannot be reasonably estimated.

**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 for the year ended December 31, 2012. 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 June 30, 2013, the Company issued 2,605,000 warrants to consultants in exchange for services.

During the three months ended June 30, 2013 the Company completed a private offering of common stock and warrants to accredited investors for gross proceeds of \$2,641,501. The Company accepted subscriptions, in the aggregate, for 3,522,001 shares of common stock, and five year warrants to purchase 5,283,003 shares of common stock. Investors received five year fully vested warrants to purchase up to 150% of the number of shares purchased by the investors in the offering. The warrants have an exercise price of \$1.00 per share. The purchase price for each share of common stock together with the warrants was \$0.75. Network 1 Financial Securities, Inc. served as placement agent for the offering. In connection with the offering, the Company paid \$314,172, accrued \$32,500 at June 30, 2013 which was paid in July 2013 and issued five year fully vested warrants to purchase 352,200 shares of common stock with an exercise price of \$1.00 to Network 1 Financial Securities, Inc., which represents 10% 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 thereunder as transactions not involving a public offering.

The Company has used and intends to use the net proceeds of these issuances for working capital, FDA trials, securing licensing partnerships, and general corporate purposes.

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

None.



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**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

**ITEM 5. OTHER INFORMATION.**

None.

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**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.

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**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 8, 2013

By: /s/ Peter R. Culpepper  
Peter R. Culpepper  
On behalf of the registrant and as Chief Financial Officer and  
Chief Operating Officer (Principal Financial Officer)

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