PROVECTUS PHARMACEUTICALS INC
Form 10-Q
May 10, 2013
Table of Contents

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 March 31, 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)

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. x 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). x 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	x
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 x No

The number of shares outstanding of the registrant s common stock, par value $.001 per share, as of April 30, 2013 was 126,397,398. The number of shares outstanding of the issuer s 8% convertible preferred stock, par value $.001 per share, as of April 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 April 30, 2013 was 3,400,001.

TABLE OF CONTENTS

Table of Contents

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, r 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.

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PROVECTUS PHARMACEUTICALS, INC.

(A Development-Stage Company)

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2013 (Unaudited)	December 31, 2012
Assets		
Current Assets		
Cash and cash equivalents	$ 4,318,150	$ 1,221,701
Prepaid expenses and other current assets	140,784	
Total Current Assets	4,458,934	1,221,701
Equipment and furnishings, less accumulated depreciation of $424,515 and $422,965	28,279	29,829
Patents, net of amortization of $6,957,277 and $6,789,497, respectively	4,758,168	4,925,948
Other assets	27,000	27,000
	$ 9,272,381	$ 6,204,478
Liabilities and Stockholders Equity		
Current Liabilities		
Accounts payable trade	$ 49,891	$ 243,435
Accrued compensation and payroll taxes	79,635	
Accrued consulting expense	61,282	61,283
Other accrued expenses	103,932	206,706
Total Current Liabilities	294,740	511,424
Long-Term Liability		
Warrant liability	3,521,030	1,299,570
Total Liabilities	3,815,770	1,810,994
Stockholders Equity		
Preferred stock; par value $.001 per share; 25,000,000 shares authorized including; 8% convertible preferred stock, 1,885,185 and 2,478,185 shares issued and outstanding, respectively, liquidation preference $0.75 (in aggregate $1,435,810 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 $2,579,064)	5,285	2,478
Common stock; par value $.001 per share; 200,000,000 authorized; 124,550,960 and 118,427,925 shares issued and outstanding, respectively	124,551	118,428
Paid-in capital	127,850,033	122,625,654
Deficit accumulated during the development stage	(122,523,258)	(118,353,076)
Total Stockholders Equity	5,456,611	4,393,484
	$ 9,272,381	$ 6,204,478

See accompanying notes to condensed consolidated financial statements.

Table of Contents

PROVECTUS PHARMACEUTICALS, INC.

(A Development-Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Cumulative Amounts from January 17, 2002 (Inception) Through March 31, 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	740,516	1,565,433	43,839,369
General and administrative	2,338,403	2,471,721	68,524,292
Amortization	167,780	167,780	6,957,277
Total operating loss	(3,246,699)	(4,204,934)	(119,296,397)
Gain on sale of fixed assets			55,075
Loss on extinguishment of debt			(825,867)
Investment income	27	520	653,244
(Loss) gain on change in fair value of warrant liability	(923,510)	(263,164)	4,988,691
Net interest expense			(8,098,004)
Net loss	(4,170,182)	(4,467,578)	(122,523,258)
Dividends on preferred stock	(1,076,934)	(50,631)	(11,914,996)
Net loss applicable to common shareholders	$ (5,247,116)	$ (4,518,209)	$ (134,438,254)
Basic and diluted loss per common share	$ (0.04)	$ (0.04)	
Weighted average number of common shares outstanding basic and diluted	120,702,172	110,775,171	

See accompanying notes to condensed consolidated financial statements.

3

Table of Contents

PROVECTUS PHARMACEUTICALS, INC.

(A Development-Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Unaudited)

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

Table of Contents

	Preferred Stock Number of Shares	Preferred Stock Par Value	Common Stock Number of Shares	Common Stock Par Value	Paid in capital	Accumulated Deficit	Total
Issuance of convertible debt with warrants					105,250		105,250
Repurchase of beneficial conversion feature					(258,345)		(258,345)
Net loss for the year ended December 31, 2004						(4,344,525)	(4,344,525)
Balance, at December 31, 2004		$	16,133,876	$ 16,134	$ 23,711,540	$ (14,565,973)	$ 9,161,701
Issuance of stock for services			226,733	227	152,058		152,285
Issuance of stock for interest payable			263,721	264	195,767		196,031
Issuance of warrants for services					1,534,405		1,534,405
Issuance of warrants for contractual obligations					985,010		985,010
Exercise of warrants and stock options			1,571,849	1,572	1,438,223		1,439,795
Employee compensation from stock options					15,752		15,752
Issuance of stock 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)

Table of Contents

	Preferred Stock Number of Shares	Preferred Stock Par Value	Common Stock Number of Shares	Common Stock Par Value	Paid in capital	Accumulated Deficit	Total
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 Regulation D			10,092,495	10,092	4,120,329		4,130,421
Debt conversion to common stock			2,377,512	2,377	1,573,959		1,576,336
Beneficial conversion related to interest expense					16,447		16,447
Net loss for the year ended 2006						(8,870,579)	(8,870,579)
Balance, at December 31, 2006		$	42,452,366	$ 42,452	$ 50,680,353	$ (35,200,405)	$ 15,522,400
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)
Balance, at December 31, 2007		$	49,399,281	$ 49,399	$ 59,988,147	$ (45,206,036)	$ 14,831,510
Issuance of stock for services			350,000	350	389,650		390,000
Issuance of warrants for services					517,820		517,820
Exercise of warrants and stock options			3,267,795	3,268	2,636,443		2,639,711
Employee compensation from stock options					1,946,066		1,946,066
Net loss for the year ended 2008						(10,269,571)	(10,269,571)
Balance, at December 31, 2008		$	53,017,076	$ 53,017	$ 65,478,126	$ (55,475,607)	$ 10,055,536
Issuance of stock for services			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 common stock and warrants pursuant to Regulation D			11,168,067	11,169	6,335,820		6,346,989

Table of Contents

	Preferred Stock		Common Stock				
	Number of Shares	Par Value	Number of Shares	Par Value	Paid in capital	Accumulated Deficit	Total
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)
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 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)
Balance, at December 31, 2011	3,531,665	$ 3,531	110,596,798	$ 110,597	$ 115,690,334	$ (105,784,722)	$ 10,019,740
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)
Balance, at December 31, 2012	2,478,185	$ 2,478	118,427,925	$ 118,428	$ 122,625,654	$ (118,353,076)	$ 4,393,484
Issuance of stock for services			75,000	75	48,675		48,750
Issuance of warrants for services					409,640		409,640
Issuance of common stock and warrants pursuant to Regulation D			5,455,035	5,455	3,517,414		3,522,869
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	(593,000)	(593)	593,000	593			
Net loss for the three months ended March 31, 2013						(4,170,182)	(4,170,182)
Balance, at March 31, 2013	5,285,186	$ 5,285	124,550,960	$ 124,551	$ 127,850,033	$ (122,523,258)	$ 5,456,611

See accompanying notes to condensed consolidated financial statements.

7

Table of Contents

PROVECTUS PHARMACEUTICALS, INC.

(A Development-Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Cumulative Amounts from January 17, 2002 (Inception) through March 31, 2013
Cash Flows From Operating Activities			
Net loss	$ (4,170,182)	$ (4,467,578)	$ (122,523,258)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation	1,550	1,278	447,516
Amortization of patents	167,780	167,780	6,657,277
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			14,397,729
Compensation through issuance of stock			932,000
Issuance of stock for services	48,750	160,000	9,102,261
Issuance of warrants for services	409,640	475,668	6,606,209
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	923,510	263,164	(4,988,691)
Change in assets and liabilities			
Prepaid expenses and other current assets	(140,784)	(53,784)	(140,784)
Accounts payable	(193,544)	211,856	46,246
Accrued expenses	(23,140)	452,013	394,479
Net cash used in operating activities	(2,976,420)	(2,789,603)	(78,991,040)
Cash Flows From Investing Activities			
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
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	2,550,000		11,458,131
Net proceeds from sales of common stock and warrants	3,522,869		46,337,390
Proceeds from exercises of warrants and stock options			21,078,014

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	6,072,869		82,845,740
Net change in cash and cash equivalents	$ 3,096,449	$ (2,805,488)	$ 4,318,150
Cash and cash equivalents, at beginning of period	1,221,701	7,705,773	
Cash and cash equivalents, at end of period	$ 4,318,150	$ 4,900,285	$ 4,318,150

See accompanying notes to condensed consolidated financial statements.

8

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 three months ended March 31, 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 March 31, 2013 and 2012, respectively, relate to 43,169,822 and 26,120,747 from warrants, 15,140,956 and 14,890,956 from options, and 5,285,186 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. 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. 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.

(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. 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. 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.

(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.

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.

(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.

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.

(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.

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

10

Table of Contents

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.

5. **Related Party Transaction**

The Company paid one non-employee member of the board $6,000 for consulting services performed as of March 31, 2013 and 2012.

6. **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 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 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 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 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%.

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 March 31, 2013	$ 3,521,030	$	$	$ 3,521,030
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 March 31, 2013 follows:

Balance at January 1, 2013	$ 1,299,570
Issuance of warrants	1,297,950
Net loss included in earnings	923,510
Exercise of warrants	
Balance at March 31, 2013	$ 3,521,030

11

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 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. 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 Months Ended March 31, 2013 and March 31, 2012

Revenues

We had no revenue during the three months ended March 31, 2013 and 2012.

Research and Development

Research and development costs of $740,516 for the three months ended March 31, 2013 included payroll of $334,155, consulting and contract labor of $263,970, legal of $26,564, insurance of $75,000, lab supplies and pharmaceutical preparations of $21,355, rent and utilities of $17,922, and depreciation expense of $1,550. Research and development costs of $1,565,433 for the three months ended March 31, 2012 included payroll of $937,578, consulting and contract labor of $549,767, legal of $30,120, insurance of $12,500, lab supplies and pharmaceutical preparations of $15,389, rent and utilities of $18,801, and depreciation expense of $1,278. The decrease in payroll is the result of no bonuses being paid during the quarter ended March 31, 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 $133,318 in the three months ended March 31, 2013 to $2,338,403 from $2,471,721 for the three months ended March 31, 2012. General and administrative expenses were very similar for both periods, although payroll expense was lower for the three months ended March 31, 2013 versus the three months ended March 31, 2012 as a result of no bonuses being paid during the quarter ended March 31, 2013.

Investment Income

Investment income was insignificant in both the three months ended March 31, 2013 and 2012.

12

Table of Contents

Loss on change in fair value of warrant liability

Loss on change in fair value of warrant liability increased by $660,346 in the three months ended March 31, 2013 to $923,510 from $263,164 for the three months ended March 31, 2012. This activity results from accounting for the warrant liability described in Footnotes 4(c), 4(d) and Footnote 6 to the financial statements.

Liquidity and Capital Resources

Our cash and cash equivalents were $4,318,150 at March 31, 2013, compared with $1,221,701 at December 31, 2012. The increase of approximately $3,100,000 was due primarily to sales of common stock, preferred stock and warrants to purchase common stock in the quarter ended March 31, 2013.

By managing variable cash expenses due to minimal fixed costs, we believe our cash and cash equivalents on hand at March 31, 2013 and additionally in 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 Lincoln Park Capital Fund, LLC (the Fund) to purchase up to an additional $29,950,000 of our common stock per an existing agreement with the Fund.

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 from Moffitt Cancer Center in Tampa, Florida has been 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 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.

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

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.

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 March 31, 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 March 31, 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 note 4 of interim financial statements contained in this Quarterly Report on Form 10-Q.

Table of Contents

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 March 31, 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.

Table of Contents

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.

The Company intends to defend vigorously against all claims in this complaint. However, 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 March 31, 2013, the Company issued 1,924,973 warrants to consultants in exchange for services.

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. 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.

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 issued were 4,250,000.

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.

Table of Contents

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

Table of Contents

ITEM 6. EXHIBITS

Exhibit No.	Description
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.
May 9, 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)

18

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description
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.