

PROVECTUS PHARMACEUTICALS INC  
Form 10-Q  
November 08, 2011  
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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 September 30, 2011

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

For the transition period from            to

Commission file number 000-09410

**PROVECTUS PHARMACEUTICALS, INC.**

(Exact name of registrant as specified in its charter)

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

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

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

**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 September 30, 2011 was 109,640,858. The number of shares outstanding of the issuer's 8% convertible preferred stock, par value \$.001 per share, as of September 30, 2011 was 3,848,332.

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## PROVECTUS PHARMACEUTICALS, INC.

(A Development-Stage Company)

## CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2011 (Unaudited)	December 31, 2010 (Audited)
Assets		
Current Assets		
Cash and cash equivalents	\$ 10,812,580	\$ 8,086,200
Prepaid expenses and other current assets	42,415	
Total Current Assets	10,854,995	8,086,200
Equipment and furnishings, less accumulated depreciation of \$415,179 and \$409,442	21,730	21,320
Patents, net of amortization of \$5,950,597 and \$5,447,257, respectively	5,764,848	6,268,188
Other assets	27,000	27,000
	\$ 16,668,573	\$ 14,402,708
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable - trade	\$ 147,163	\$ 418,477
Accrued compensation and payroll taxes	231,893	781,262
Accrued consulting expense	71,000	110,000
Other accrued expenses	40,000	40,000
Total Current Liabilities	490,056	1,349,739
Warrant liability	4,012,396	2,353,396
Total Liabilities	4,502,452	3,703,135
Stockholders' Equity		
Preferred stock; par value \$.001 per share; 25,000,000 shares authorized; 3,848,332 and 5,389,998 shares issued and outstanding, respectively, liquidation preference (in aggregate \$2,945,714 and \$4,122,245, respectively)	3,848	5,390
Common stock; par value \$.001 per share; 200,000,000 authorized; 109,640,858 and 91,297,883 shares issued and outstanding, respectively	109,641	91,298
Paid-in capital	114,385,423	96,952,908
Deficit accumulated during the development stage	(102,332,791)	(86,350,023)
Total Stockholders' Equity	12,166,121	10,699,573
	\$ 16,668,573	\$ 14,402,708

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 Ended September 30, 2011	Three Months Ended September 30, 2010 (As Restated Note 8)	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010 (As Restated Note 8)	Cumulative Amounts from January 17, 2002 (Inception) Through September 30, 2011
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	3,442,344	3,622,238	6,971,816	6,545,521	36,257,314
General and administrative	3,860,755	3,649,782	9,568,240	8,780,834	55,131,241
Amortization	167,780	167,780	503,340	503,340	5,950,597
Total operating loss	(7,470,879)	(7,439,800)	(17,043,396)	(15,829,695)	(97,314,611)
Gain on sale of fixed assets					55,075
Loss on extinguishment of debt					(825,867)
Investment income	529	592	898	910	651,241
Gain on change in fair value of warrant liability	1,027,554	531,332	1,059,730	2,034,079	3,199,375
Net interest expense					(8,098,004)
Net loss	(6,442,796)	(6,907,876)	(15,982,768)	(13,794,706)	\$ (102,332,791)
Dividends on preferred stock	(59,465)	(111,484)	(193,623)	(10,328,119)	
Net loss applicable to common shareholders	\$ (6,502,261)	\$ (7,019,360)	\$ (16,176,391)	\$ (24,122,825)	
Basic and diluted loss per common share	\$ (0.06)	\$ (0.09)	\$ (0.16)	\$ (0.32)	
Weighted average number of common shares outstanding basic and diluted	109,100,408	80,156,864	104,277,935	75,796,432	

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 Stock		Common Stock		Paid in capital	Accumulated Deficit	Total
	Number of Shares	Par Value	Number of Shares	Par Value			
<b>Balance, at January 17, 2002</b>		\$		\$	\$	\$	\$
Issuance to founding shareholders			6,000,000	6,000	(6,000)		
Sale of stock			50,000	50	24,950		25,000
Issuance of stock to employees			510,000	510	931,490		932,000
Issuance of stock for services			120,000	120	359,880		360,000
Net loss for the period from January 17, 2002 (inception) to April 23, 2002 (date of reverse merger)						(1,316,198)	(1,316,198)
<b>Balance, at April 23, 2002</b>		\$	6,680,000	\$ 6,680	\$ 1,310,320	\$ (1,316,198)	\$ 802
Shares issued in reverse merger			265,763	266	(3,911)		(3,645)
Issuance of stock for services			1,900,000	1,900	5,142,100		5,144,000
Purchase and retirement of stock			(400,000)	(400)	(47,600)		(48,000)
Stock issued for acquisition of Valley Pharmaceuticals			500,007	500	12,225,820		12,226,320
Exercise of warrants			452,919	453			453
Warrants issued in connection with convertible 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)
<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

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Issuance of stock pursuant to Regulation S	2,469,723	2,469	790,668	793,137
Issuance of stock and warrants pursuant to Regulation D	1,930,164	1,930	1,286,930	1,288,861
Beneficial conversion related to convertible debt			360,256	360,256
Issuance of convertible debt with warrants			105,250	105,250
Repurchase of beneficial conversion feature			(258,345)	(258,345)
Net loss for the year ended December 31, 2004			(4,344,525)	(4,344,525)
<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 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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<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

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Issuance of common stock and warrants pursuant to Regulation D			11,168,067	11,169	6,335,820		6,346,989
Issuance of preferred stock 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			275,000	275	268,225		268,500
Issuance of warrants for services					540,316		540,316
Exercise of warrants and stock options			6,685,522	6,685	6,497,524		6,504,209
Issuance of common stock and warrants pursuant to Regulation D			9,840,789	9,841	6,757,500		6,767,341
Preferred stock conversions into common stock	(1,541,666)	(1,542)	1,541,664	1,542			
Employee compensation from stock options					3,368,950		3,368,950
Net loss for the nine months ended September 30, 2011						(15,982,768)	(15,982,768)
<b>Balance, at September 30, 2011</b>	<b>3,848,332</b>	<b>\$ 3,848</b>	<b>109,640,858</b>	<b>\$ 109,641</b>	<b>\$ 114,385,423</b>	<b>\$ (102,332,791)</b>	<b>\$ 12,166,121</b>

See accompanying notes to condensed consolidated financial statements.

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## PROVECTUS PHARMACEUTICALS, INC.

(A Development-Stage Company)

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010 (As Restated Note 8)	Cumulative Amounts from January 17, 2002 (Inception) through September 30, 2011
<b>Cash Flows From Operating Activities</b>			
Net loss	\$ (15,982,768)	\$ (13,794,706)	\$ (102,332,791)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation	5,737	6,772	438,180
Amortization of patents	503,340	503,340	5,950,597
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	3,368,950	3,759,650	14,214,701
Compensation through issuance of stock			932,000
Issuance of stock for services	268,500	584,863	8,532,761
Issuance of warrants for services	540,316	1,050,388	4,279,743
Issuance of warrants for contractual obligations			985,010
Gain on sale of equipment			(55,075)
Gain on change in fair value of warrant liability	(1,059,730)	(2,034,079)	(3,199,375)
Change in assets and liabilities			
Prepaid expenses and other current assets	(42,415)	(24,625)	(42,415)
Accounts payable	(271,314)	(125,097)	143,518
Accrued expenses	(588,369)	320,812	492,523
Net cash used in operating activities	(13,257,753)	(9,752,682)	(60,812,582)
<b>Cash Flows From Investing Activities</b>			
Proceeds from sale of fixed assets			180,075
Capital expenditures	(6,147)		(74,035)
Proceeds from sales of investments			37,010,481
Purchases of investments			(36,637,186)
Net cash (used in) provided by investing activities	(6,147)		479,335
<b>Cash Flows From Financing Activities</b>			
Net proceeds from loans from stockholder			174,000
Proceeds from convertible debt			6,706,795

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Net proceeds from sales of preferred stock and warrants		8,908,131	8,908,131
Net proceeds from sales of common stock and warrants	9,486,071	5,751,239	37,750,079
Proceeds from exercises of warrants and stock options	6,504,209	1,900,650	20,958,912
Cash paid to retire convertible debt			(2,385,959)
Cash paid for deferred loan costs			(747,612)
Premium paid on extinguishments of debt			(170,519)
Purchase and retirement of common stock			(48,000)
Net cash provided by financing activities	15,990,280	16,560,020	71,145,827
Net change in cash and cash equivalents	\$ 2,726,380	\$ 6,807,338	\$ 10,812,580
Cash and cash equivalents, at beginning of period	8,086,200	3,237,178	
Cash and cash equivalents, at end of period	\$ 10,812,580	\$ 10,044,516	\$ 10,812,580

Supplemental Disclosure of Noncash Investing and Financing Activities:

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

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 nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ended December 31, 2011. The Company has evaluated subsequent events through the date the 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 September 30, 2011 and 2010, respectively, relate to 24,575,302 and 27,717,064 from warrants, 15,390,956 and 12,540,955 from options, and 3,848,332 and 7,446,663 from convertible preferred shares.

**4. Equity Transactions**

(a) During the three months ended March 31, 2011, the Company issued 75,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$67,000. During the three months ended June 30, 2011, the Company issued 75,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$80,250. During the three months ended September 30, 2011, the Company issued 125,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$121,250.

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(b) During the three months ended March 31, 2011, the Company issued 641,500 warrants to consultants in exchange for services. Consulting costs charged to operations were \$389,172. During the three months ended March 31, 2011, 1,497,328 warrants were exercised for \$1,400,001 resulting in 1,497,328 common shares being issued. 2,048,671 warrants were exercised in December 2010 and the corresponding cash of \$1,915,509 was received in January 2011 and common shares of 2,048,671 were issued in January 2011. During the three months ended March 31, 2011, 193,333 warrants were forfeited. During the three months ended June 30, 2011, 2,322,857 warrants were exercised for \$2,171,801 resulting in 2,322,857 common shares being issued. During the three months ended September 30, 2011, the Company issued 293,500 warrants to consultants in exchange for services. Consulting costs charged to operations were \$151,144. During the three months ended September 30, 2011, 66,500 warrants were forfeited.

(c) In January 2011, we directed Lincoln Park Capital Fund, LLC to purchase 50,000 shares of our common stock for an aggregate purchase price of \$44,665. The Company issued 2,233 common shares to Lincoln Park at a fair market value of \$1,995 as commitment shares in consideration for Lincoln Park to enter into the purchase agreement. In addition to the foregoing investment, under the purchase agreement, we may, in our sole discretion, direct Lincoln Park to purchase up to an additional \$29,950,000 of our common stock over the 30-month term of the purchase agreement at no less than \$0.75 per share. However, under a securities purchase agreement that we entered into in January 2011, we have agreed not to draw down on the Lincoln Park purchase agreement until on or after November 16, 2011. On January 13, 2011, the Company and certain investors entered into a securities purchase agreement, pursuant to which the Company agreed to sell in a registered direct public offering an aggregate of 5,454,550 shares of its common stock and warrants to purchase a total of 7,527,279 shares of its common stock to such investors for aggregate gross proceeds of \$5,100,004. The warrants consist of the following: Series A Warrants to purchase up to 40% of the shares of common stock, Series B Warrants to purchase up to 70% of the shares of common stock, and Series C Warrants to purchase up to 28% of the common stock. The Series A Warrants and the Series C Warrants have an exercise price of \$1.12 per share, subject to adjustment, and expire five years after their issuance. The Series B Warrants have an exercise price \$0.935 per share, subject to adjustment, and expire 150 days after their issuance. The Series C Warrants are only exercisable to the extent that the Series B Warrants are exercised and only in the same percentage that the Series B Warrants are exercised. At March 31, 2011, 1,497,328 of the Series B Warrants were exercised resulting in 598,931 of the Series C Warrants becoming exercisable. The Series A Warrants and Series C Warrants contain additional anti-dilution provisions such that, subject to customary exceptions, in the event of an issuance or deemed issuance by the Company of common stock or securities convertible into common stock at a price per share less than the then applicable exercise price, the then applicable exercise price will be reduced to the new issuance price. The Company determined that these warrants should be classified as liabilities in accordance with Financial Accounting Standards Board Accounting Standards Codification 815-40-15-5 (ASC 815), Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock, because the warrants in question contain exercise price reset features that require the exercise price of the warrants be adjusted if the Company issues certain other equity related instruments at a lower price per share. The value of the warrant liability was determined based on the Monte-Carlo Simulation model at the date the warrants were issued. The Series B Warrants do not contain exercise reset provisions. However, the Series B Warrants required the Company to deliver registered shares of common stock and if the Company was not in a position to do so when the shares are exercised, it is assumed they would have to settle the shares in cash. As a result, the Series B Warrants were recorded as a liability in accordance with ASC 815 and recorded at fair value on the date of issuance using a Black-Scholes option pricing model. The warrant liability initially recorded on January 13, 2011 for all three series of warrants was \$3,204,197. During the three months ended March 31, 2011, 1,497,328 of the Series B Warrants were exercised. The Company determined the fair value of the warrants exercised on the date of exercise and adjusted the related warrant liability for this amount, resulting in a gain of \$188,509. The adjusted fair value of the Series B Warrants exercised of \$211,569 was reclassified into additional paid-in capital. At March 31, 2011, the warrant liability for the remaining warrants was revalued resulting in a loss on change in fair value of warrant liability of \$10,306. During the three months ended June 30, 2011, the remainder of the Series B Warrants were exercised which was a total of 2,320,857. The Company determined the fair value of the warrants exercised on the date of exercise and adjusted the related warrant liability for this amount, resulting in a gain of \$272,077. The adjusted fair value of the Series B Warrants exercised of \$273,898 was reclassified into additional paid-in capital. At June 30, 2011, the warrant liability for the remaining warrants was revalued resulting in a gain on change in fair value of warrant liability of \$138,995 for the three months ended June 30, 2011. At September 30, 2011, the warrant liability for the remaining warrants was revalued resulting in a gain on change in fair value of warrant liability of \$497,455 for the three months ended September 30, 2011.

On April 20, 2011, the Company completed a private offering of common stock and warrants to accredited investors for gross proceeds of \$4,615,300. The Company accepted subscriptions, in the aggregate, for 4,120,803 shares of common stock, one year warrants to purchase 2,060,402 shares of common stock, and five year warrants to purchase 2,060,402 shares of common stock. Investors received one year warrants and five year warrants, in each case, to purchase up to 50% of the number of shares purchased by the investors in the offering. The warrants have an exercise price of \$1.25 per share. The purchase price for each share of common stock together with the warrants was \$1.12. 223,214 of the 4,120,803 common shares sold were committed to be issued but not outstanding at June 30, 2011. These shares were subsequently issued in July 2011. The Company is using the proceeds, after

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

(d) The Company determined that warrants issued in March and April, 2010 with the 8% convertible preferred stock should be classified as liabilities in accordance with ASC 815 because the warrants in question contain exercise price reset features that require the exercise price of the warrants be adjusted if the Company issues certain other equity related instruments at a lower price per share. The value of the warrant liability was determined based on the Monte-Carlo Simulation model at the date the warrants were issued. The warrant liability is then revalued at each subsequent quarter. For the three months ended March 31, 2011 there was a loss recognized from the revaluation of the warrant liability of \$989,298. For the three months ended June 30, 2011 there was a gain recognized from the revaluation of the warrant liability of \$432,199. For the three months ended September 30, 2011 there was a gain recognized from the revaluation of the warrant liability of \$530,099.

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 2011, the Company issued 82,169 shares of common stock in dividends on preferred stock in lieu of cash dividends due as of January 15, 2011. At March 31, 2011, the Company recognized dividends of \$69,934 which are included in dividends on preferred stock on the consolidated statement of operations. During the three months ended March 31, 2011 there were 500,001 shares of the Company's redeemable preferred stock that converted into 499,999 shares of the Company's common stock. In April 2011, the Company issued 67,991 shares of common stock in dividends on preferred stock in lieu of cash dividends due as of April 15, 2011. At June 30, 2011, the Company recognized dividends of \$64,224 which are included in dividends on preferred stock on the condensed consolidated statement of operations. During the three months ended June 30, 2011 there were 671,665 shares of the Company's redeemable preferred stock that converted into 671,665 shares of the Company's common stock. In July 2011, the Company issued 63,043 shares of common stock in dividends on preferred stock in lieu of cash dividends due as of July 15, 2011. At September 30, 2011, the Company recognized dividends of \$59,465 which are included in dividends on preferred stock on the condensed consolidated statement of operations. During the three months ended September 30, 2011 there were 370,000 shares of the Company's redeemable preferred stock that converted into 370,000 shares of the Company's common stock. In October 2011, the Company issued 64,273 shares of common stock in dividends on preferred stock in lieu of cash dividends due as of October 15, 2011.

**5. Stock-Based Compensation**

On July 6, 2011, the Company issued 250,000 stock options to its re-elected members of the board. On July 12, 2011, the Company issued 50,000 stock options to a newly appointed member of the board. On September 6, 2011, the Company issued 4,000,000 stock options to its employees. All of the stock options issued in 2011 vest on the date of grant and have an exercise price equal to the fair market price on the date of issuance.

The compensation cost relating to stock options issued in 2011 is measured based on the fair value of the stock options issued. For purposes of estimating the fair value of each stock option on the date of grant, the Company utilized the Black-Scholes option-pricing model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected volatility factor of the market price of the Company's common stock (as determined by reviewing its historical public market closing prices). Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee and board member stock options. Included in the results of operations for both the three and nine months ended September 30, 2011 is \$3,368,950 of stock-based compensation expense which relates to the fair value of stock options. Included in the results of operations for the three and nine months ended September 30, 2010 is \$3,505,501 and \$3,759,650, respectively, of stock-based compensation expense which relates to the fair value of stock options.

One employee of the Company exercised 133,333 options at an exercise price of \$0.75 per share of common stock for \$100,000 during the three months ended March 31, 2011. One employee of the Company exercised 350,000 options at an exercise price of \$1.00 per share of common stock for \$350,000 during the three months ended June 30, 2011. Another employee of the Company

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exercised 133,333 options at an exercise price of \$0.75 per share of common stock for \$100,000 during the three months ended June 30, 2011. One employee of the Company exercised 100,000 options at an exercise price of \$1.00 per share of common stock for \$100,000 and 100,000 options at an exercise price of \$0.93 per share of common stock for \$93,000 during the three months ended September 30, 2011

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

The Company paid one non-employee member of the board \$105,000 for consulting services performed as of July 12, 2011, the day of his resignation from the board. The Company paid two other non-employee members of the board \$123,000 for consulting services performed as of September 30, 2011.

### **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.



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In determining the appropriate levels, the Company performs a detailed analysis of the assets and liabilities that are measured and reported on a fair value basis. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. The fair value of derivative instruments is determined by management with the assistance of an independent third party valuation specialist. The warrant liability is a derivative instrument and is classified as Level 3. The Company used the Monte-Carlo Simulation model to estimate the fair value of the warrants except for the Series B Warrants. Significant assumptions used at March 31, 2011 for the 2010 warrants include a weighted average term of 4.0 years, a 5% probability that the warrant exercise price would be reset, volatility of 70.7% and a risk free interest rate of 2.24%. Significant assumptions used at June 30, 2011 for the 2010 warrants include a weighted average term of 3.7 years, a 5% probability that the warrant exercise price would be reset, volatility of 67.7% and a risk free interest rate of 1.29%. Significant assumptions used at September 30, 2011 for the 2010 warrants include a weighted average term of 3.5 years, a 5% probability that the warrant exercise price would be reset, volatility of 66.92% and a risk free interest rate of 0.69%. Significant assumptions used at March 31, 2011 for the 2011 warrants include a weighted average term of 4.8 years, a 5% probability that the warrant exercise price would be reset, a volatility range between 70.65% and 70.67% and a risk free interest rate range between 1.99% and 2.24%. Significant assumptions used at June 30, 2011 for the 2011 warrants include a weighted average term of 4.5 years, a 5% probability that the warrant exercise price would be reset, volatility of 67.7% and a risk free interest rate of 1.76%. Significant assumptions used at September 30, 2011 for the 2011 warrants include a weighted average term of 4.3 years, a 5% probability that the warrant exercise price would be reset, volatility of 66.92% and a risk free interest rate of 0.96%. For the Series B Warrants, the Black-Scholes method was used to estimate the fair value of the warrants resulting in a warrant liability of \$757,542 at March 31, 2011. As of June 30, 2011, there was no warrant liability for the Series B Warrants because they had all been exercised.

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 September 30, 2011	\$ 4,012,396	\$	\$	\$ 4,012,396
Warrant liability at December 31, 2010	\$ 2,353,396	\$	\$	\$ 2,353,396

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

Balance at January 1, 2011	\$ 2,353,396
Issuance of warrants	3,204,197
Net gain included in earnings	(1,059,730)
Exercise of warrants	(485,467)
Balance at September 30, 2011	\$ 4,012,396

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

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

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

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The Company determined its quantitative valuation of the Warrants using a Monte-Carlo Simulation model. Management of the Company believes that the Monte-Carlo Simulation model is appropriate because it is a dynamic model, which accommodates variable inputs.

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

\* \* \* \* \*

**Condensed Consolidated Statement of Operations**

**for the Three Months Ended September 30, 2010**

	As Previously Reported	Adjustments	As Restated
Total operating loss	\$ (7,439,800)	\$	\$ (7,439,800)
Gain on change in fair value of warrant liability		531,332	531,332
Net loss	(7,439,208)	531,332	(6,907,876)
Dividends on preferred stock	(111,484)		(111,484)
Net loss applicable to common shareholders	(7,550,692)	531,332	(7,019,360)
Basic and diluted loss per common share	(0.09)		(0.09)

**Condensed Consolidated Statement of Operations**

**for the Nine Months Ended September 30, 2010**

	As Previously Reported	Adjustments	As Restated
Total operating loss	\$ (15,829,695)	\$	\$ (15,829,695)
Gain on change in fair value of warrant liability		2,034,079	2,034,079
Net loss	(15,828,785)	2,034,079	(13,794,706)
Dividends on preferred stock	(11,059,101)	730,982	(10,328,119)
Net loss applicable to common shareholders	(26,887,886)	2,765,061	(24,122,825)
Basic and diluted loss per common share	(0.35)		(0.32)

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

#### **Plan of Operation**

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

We intend to proceed as rapidly as possible with a licensure of our dermatology drug product candidate (PH-10) on the basis of our Phase 2 atopic dermatitis and psoriasis results, which are in process of being further developed. We intend to also proceed as rapidly as possible with a majority stake asset sale and subsequent licensure of our OTC products that can be sold with a minimum of regulatory compliance and with the further development of revenue sources through a majority stake asset sale and subsequent licensing of our existing medical device, imaging, and biotech intellectual property portfolio. We commenced the process to facilitate this as specified in Form 8-K filed September 19, 2011. Although we believe that there is a reasonable basis for our expectation that we will become profitable due to both the licensure of PH-10 and the asset sale of a majority stake via a spin-out transaction of the wholly-owned subsidiaries that contain the non-core assets and subsequent licensure of our non-core products, we cannot assure you that we will be able to achieve, or maintain, a level of profitability sufficient to meet our operating expenses.

Our current plans include continuing to operate with our four employees during the immediate future, but we have added two additional consultants to the two we already had, and anticipate adding additional personnel if necessary in the next 12 months. Our current plans also include minimal purchases of new property, plant and equipment, and increased research and development for additional clinical trials.

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

#### **Results of Operations**

##### **Comparison of Three and Nine Months Ended September 30, 2011 and September 30, 2010**

###### *Revenues*

We had no revenue during the three and nine months ended September 30, 2011 and 2010.

###### *Research and Development*

Research and development costs of \$3,442,344 for the three months ended September 30, 2011 included payroll of \$2,843,840, consulting and contract labor of \$469,051, legal of \$41,162, insurance of \$55,359, lab supplies and pharmaceutical preparations of \$16,475, rent and utilities of \$14,497, and depreciation expense of \$1,960. Research and development costs of \$3,622,238 for the three months ended September 30, 2010 included payroll of \$2,833,303, consulting and contract labor of \$613,357, legal of \$48,316, insurance of \$53,253, lab supplies and pharmaceutical preparations of \$55,259, rent and utilities of \$16,667, and depreciation expense of \$2,083.

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Research and development costs of \$6,971,816 for the nine months ended September 30, 2011 included payroll of \$4,998,364, consulting and contract labor of \$1,685,162, legal of \$97,669, insurance of \$84,606, lab supplies and pharmaceutical preparations of \$50,339, rent and utilities of \$49,939, and depreciation expense of \$5,737. Research and development costs of \$6,545,521 for the nine months ended September 30, 2010 included payroll of \$5,162,138, consulting and contract labor of \$936,607, legal of \$139,472, insurance of \$78,253, lab supplies and pharmaceutical preparations of \$172,759, rent and utilities of \$49,520, and depreciation expense of \$6,772. The increase of approximately \$700,000 in consulting and contract labor is primarily the result of an increase in manufacturing preparation, characterization and specifications for PV-10 and PH-10, as well as an increase in intellectual property related consulting expense. Additionally, there was an increase in consulting and contract labor due to the completion of both the Liver Phase 1 study as well as the Psoriasis Phase 2C study.

### *General and Administrative*

General and administrative expenses increased by \$210,973 in the three months ended September 30, 2011 to \$3,860,755 from \$3,649,782 for the three months ended September 30, 2010.

General and administrative expenses increased by \$787,406 in the nine months ended September 30, 2011 to \$9,568,240 from \$8,780,834 for the nine months ended September 30, 2010. The increase resulted primarily from additional investor relations and conference expenses.

### *Investment Income*

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

## **Liquidity and Capital Resources**

Our cash and cash equivalents were \$10,812,580 at September 30, 2011, compared with \$8,086,200 at December 31, 2010. The increase of approximately \$2,700,000 was due primarily to proceeds from the sale of common stock as well as the exercise of warrants and stock options.

At our current cash expenditure rate, we believe our cash and cash equivalents on hand at September 30, 2011 will be sufficient to meet our current and planned operating needs until well into 2013 without consideration being given to additional cash inflows that might occur from the exercise of existing warrants or future sales of equity securities.

We are seeking to improve our cash flow through both the licensure of PH-10 on the basis of our Phase 2 atopic dermatitis and psoriasis results, and the majority stake asset sale and licensure of our OTC products as well as other non-core assets. However, we cannot assure you that we will be successful in either licensing PH-10 or selling a majority stake of the OTC and other non-core assets via a spin-out transaction and licensing our existing non-core products. Moreover, even if we are successful in improving our current cash flow position, we nonetheless plan to seek additional funds to meet our long-term requirements in 2013 and beyond. We anticipate that these funds will otherwise come from the proceeds of private placements, the exercise of existing warrants outstanding, or public offerings of debt or equity securities. While we believe that we have a reasonable basis for our expectation that we will be able to raise additional funds, we cannot assure you that we will be able to complete additional financing in a timely manner. In addition, any such financing may result in significant dilution to shareholders.

## **Critical Accounting Policies**

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

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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 September 30, 2011. We are currently leasing on a month-to-month basis.

## **Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains forward-looking statements as defined under U.S. federal securities laws. These statements reflect management's current knowledge, assumptions, beliefs, estimates, and expectations and express management's current views of future performance, results, and trends and may be identified by their use of terms such as anticipate, believe, could, estimate, expect, intend, 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/A for the year ended December 31, 2010, and elsewhere in this Quarterly Report on Form 10-Q), and the following:

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

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

our determination whether to license 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 PV-10 on our own.

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

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

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

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**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 September 30, 2011, the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective.

(b) Changes in Internal Controls. There has been no change in our internal control over financial reporting that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting other than the following related to properly recording certain complex financial instruments.

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

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS.**

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

**ITEM 1A. RISK FACTORS**

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

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

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

During the three months ended June 30, 2011, the Company issued 75,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$80,250. On April 20, 2011, the Company completed a private offering of common stock and warrants to accredited investors for gross proceeds of \$4,615,300. The Company accepted subscription, in the aggregate, for 4,120,803 shares of common stock, one year warrants to purchase 2,060,402 shares of common stock, and five year warrants to purchase 2,060,402 shares of common stock. Investors received one year warrants and five year warrants, in each case, to purchase up to 50% of the number of shares purchased by the investors in the offering. The warrants have an exercise price of \$1.25 per share. The purchase price for each share of common stock together with the warrants was \$1.12. 223,214 of the 4,120,803

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common shares sold were committed to be issued but not outstanding at June 30, 2011. These shares were subsequently issued in July 2011. The Company intends to use the proceeds, after deducting offering expenses estimated to be \$25,000, for working capital and other general corporate purposes. Network 1 Financial Securities, Inc. served as placement agent for the offering. In connection with the offering, the Company issued five year warrants to purchase 649,518 shares of common stock with an exercise price of \$1.12 to Network 1 Financial Securities, Inc., which represents 20% of the total number of shares of common stock sold to investors solicited by Network 1 Financial Securities, Inc.

During the three months ended September 30, 2011, the Company issued 125,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$121,250. During the three months ended September 30, 2011, the Company issued 293,500 warrants to consultants in exchange for services, consisting of warrants to purchase 65,000 shares at an exercise price of \$1.12 per share with a two year term, warrants to purchase 4,500 shares at an exercise price of \$1.12 per share with a three year term, warrants to purchase 200,000 shares at an exercise price of \$1.12 per share with a three year term, and warrants to purchase 24,000 shares at an exercise price of \$1.12 per share with a three year term. Consulting costs charged to operations were \$151,144.

The issuances of the securities were exempt from the registration requirements of the Securities Act of 1933 by virtue of Section 4(2) and Regulation D.

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

None.

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

**ITEM 5. OTHER INFORMATION.**

None.

**ITEM 6. EXHIBITS**

**Exhibit**

<b>No.</b>	<b>Description</b>
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) (Section 302 Certification).
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) (Section 302 Certification).
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 (Section 906 Certification).
101	Interactive Data Files.*

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



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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.

November 9, 2011

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

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**EXHIBIT INDEX**

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